

AN EVALUATION OF BUDGETING PROCESSES IN PARASTATALS

(A CASE OF KENYA REVENUE AUTHORITY)

BY

FRANK MARAGA WASHE

D61/9050/2006

**A MANAGEMENT RESEARCH PROJECT REPORT SUBMITTED IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI**

OCTOBER, 2011

DECLARATION

This management research project is my original work and has not been presented for examination in any other university.

Signed.....

Date.....

FRANK MARAGA WASHE

D61/9050/2006

This management research project has been submitted for examination with my approval as university supervisor.

Signed.....

Date.....

MR. JOSEPH BARASA

Lecturer,

School of Business

University of Nairobi

ACKNOWLEDGEMENTS

I would like to acknowledge the following persons who in one way or another enabled me to successfully complete of this project.

First, I thank the Almighty God for giving me the skills, knowledge and good health which enabled me to complete this project and the degree of Master of Business Administration.

Secondly, I give special thanks to my supervisor Mr. Joseph Barasa, for always being available for consultations and providing invaluable guidance throughout the study.

Thirdly, I thank my employer, Kenya Revenue Authority and all the staff who participated in this study without whose support this project would not have been a success.

Finally, I owe my gratitude to a great pool of people who in one way or another contributed towards completion of this project. To all of you, I say a big THANK YOU!

DEDICATION

Dedicated

To

My dear wife

Charity Muthoni

and our loving daughters

Martha and Cynthia

ABSTRACT

The Kenya Revenue Authority has undertaken various reforms and modernization programmes aimed at improving service delivery to its customers. In this regard the Authority has re-engineered its internal business processes and restructured its departments in line with its core business of revenue collection. However for the organization to realize the desired results from these initiatives it is imperative that financial management practices, such as budgeting processes be in conformity with best practice.

The objective of this study was to evaluate budgeting processes at the Kenya Revenue Authority to determine if they are in conformity with best practice and to determine the extent to which budgeting processes at the Kenya Revenue Authority have achieved their objectives.

The present study used a descriptive survey design. The target respondents of this study were 39 employees of Kenya Revenue Authority based at Times Tower. The respondents consisted of employees in management positions only. Data was obtained from primary sources. Data on extent of compliance with best practice and extent of achievement of budgeting objectives was collected through a questionnaire. Data was analyzed using descriptive statistical techniques.

The study found that budgeting processes at KRA had achieved their objectives. With respect to extend of achievement of budget planning objectives, an average mean of 3.61 was recorded. On the extent of achievement of budget implementation objectives, an

average mean of 3.66 was recorded. Finally on the extent of achievement of budget control and performance evaluation objectives, a mean of 3.74 was recorded.

The study also found that the budgeting processes at the KRA were in conformity with best practice. The budget planning process at KRA was found to be in conformity with best practice with an average mean score of 3.62. The budget implementation process at KRA was also found to be in conformity with best practice with an average mean score of 3.78. Finally the budget control and performance evaluation process at KRA was also found to be in conformity with best practices with an average mean score of 3.98. The study concludes that the budgeting processes at KRA have achieved their objectives. The study also concludes that the budgeting processes at KRA are in conformity with best practices.

The study recommends that certain aspects of the budgeting processes in KRA be reviewed with a view of improving the processes in the future. For instance KRA management should ensure that systems are put in place to facilitate preparation of budgets which can adapt easily to changes in business environment.

KRA management should also ensure that all budget proposals are subjected to cost benefit analysis test. This is important as it will ensure that only those budget proposals that add value are approved. The management of KRA should also consider sensitizing managers on the budgeting process to ensure that they clearly understand the quantifiable parameters used to judge their performance.

The budget control and performance evaluation process at the organization needs to be enhanced, so as to provide managers with a deeper understanding of the key cost drivers for their departments.

LIST OF ABBREVIATIONS

KRA	KENYA REVENUE AUTHORITY
NSE	NAIROBI STOCK EXCHANGE
PPBS	PLANNING, PROGRAMMING, BUDGETING SYSTEM
ZBB	ZERO BASE BUDGETING

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENTS	iii
DEDICATION.....	iv
ABSTRACT.....	v
LIST OF ABBREVIATIONS	viii
TABLE OF CONTENTS	ix
LIST OF TABLES	xii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.2 Kenya Revenue Authority	3
1.2 Statement of the Problem.....	4
1.3 Objectives of the Study	6
1.4 Value of the Study	6
CHAPTER TWO	8
LITERATURE REVIEW	8
2.2 Theoretical Framework.....	8
2.2.1 Concept of Budgeting.....	8
2.2.2 Theories of Budgeting	11
2.3 Empirical Studies	16
2.4 Budgeting Processes	22
2.4.1 Budget Planning	22
2.4.3 Budget Implementation	25
2.4.4 Budget Control and Performance Evaluation.....	26
2.5 Conclusions from Literature Review	29

CHAPTER THREE	31
RESEARCH METHODOLOGY	31
3.1 Introduction.....	31
3.2 Research Design.....	31
3.3 Data Collection	32
3.4 Data Analysis	32
CHAPTER FOUR.....	34
DATA ANALYSIS, RESULTS AND DISCUSSIONS	34
4.1 Introduction.....	34
4.2 Characteristics of Respondents	34
4. 3 Budgeting Processes and Budgeting Objectives.....	36
4.4 Evaluation of budgeting processes at KRA against best practice	40
4.4.1 Budget planning.....	41
4.4.2 Budget implementation	42
4.4.3 Budget control and performance evaluation.....	44
4.4.4 Factor Analysis	45
4.5 Suggestions on improving budgeting processes at K.R.A	51
CHAPTER FIVE	52
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	52
5.1 Introduction.....	52
5.2 Summary	52
5.3 Conclusions.....	53
5.4 Recommendations.....	53
5.5 Limitations of the Study.....	54

5.6 Suggestions for Further Research	54
REFERENCES.....	56
APPENDICES	64
Appendix I: Letter of Introduction to Respondents	64
Appendix II: Questionnaire.....	65
Appendix III: Rotated Component Matrix.....	71
Appendix IV: Leter of Approval to conduct Research at KRA.....	72

LIST OF TABLES

Table 1: Response Rate.....	35
Table 2: Department of respondents	35
Table 3: Respondent's Level in management.....	36
Table 4: Budget Planning Objectives	37
Table 5: Budget Implementation Objectives	38
Table 6: Budget Control and Performance Evaluation Objectives	39
Table 7: Evaluation Budget planning at KRA against best practices	41
Table 8: Evaluation of Budget implementation at KRA against best practice	43
Table 9: Evaluation of Budget Control and Performance Evaluation	44
Table 10: Indicators of best practice in budgeting at KRA	45
Table 11: Communalities	47
Table 12: Correlation Matrix	48
Table 13: Factor scores of budgeting best practice indicators in KRA	49
Table 14: Component Transformation Matrix	51

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Bremser, (1988) defines a budget as generally a list of all planned expenses and revenues. A budget can simply be defined as a financial plan. In this regard it outlines the major sources of revenue and how such revenues are to be expended. At the national level, the budget is a statement that shows the receipts and outlays, and how these are to be financed in the interest of all citizens. While sharing some functional similarities with personal and household budgets, the national budgets are usually easy to outline and organize, since they do not involve any laid down procedures or regulations. The need and spread of accountability for such budgets is equally limited. It provides a time frame for decisions about the services and activities and indications of revenue flows and it is therefore by extension a plan for saving and spending. The purpose of budgeting is to provide a forecast of revenues and expenditures, that is, construct a model of how business might perform financially if certain strategies, events and plans are carried out and enable the actual financial operation of the business to be measured against the forecast, (Srinivasan, 2000). The basic functions of the budget therefore entail: collection and allocation of scarce resources to priority sectors; provision of public goods and services by government; and re-distribution of incomes (Klammer, 1973).

Available literature on budgeting suggests that budgets form an important basis for financial control (Sullivan and Steven, 2003). Most budgeting studies focus on the positive relation between participation and its effects, such as its impact on better budgets

and decision making (Jones, 2006). There is a shortage of research involving surveys of budgetary practices in developing countries. Most of the research in this area has focused on the developed countries (Anderson and Lanen, 1999).

The budgeting process comprises of two main phases: the planning phase and the control phase (Douglas, 1994). The planning phase identifies the goals to be attained during the fiscal year and the financial plan necessary to achieve them. The control phase focuses on the actual performance towards achieving the plan. It involves implementation, monitoring and control functions. The control phase puts emphasis on a comparison between the budgeted revenue and expenses against the actual revenue and expense activity. When the actual revenues and expense vary from the plan articulated by the budget, the control phase will then include corrective action. The corrective action may include adjusting the budget to reflect the actual financial activity, adjusting the revenue projections or adjusting expenditures. (Premchand, 2004)

Parastatals in Kenya are required to prepare annually a three year forward budget for approval by the parent ministry and the Treasury. The forward budgets should cover both capital and operating (recurrent) budgets. Proposed financing from the exchequer and/or external donor agencies must be contained within their respective parent ministry's budget ceiling. The accounting officers are required to submit recommendations of the parastatals budgets to the investment division of the Treasury by 31st January each year for consideration and approval by the Treasury before the preparation of annual budgets.

The researcher's choice of KRA among the various government parastatals was influenced by several factors. The unique nature of KRA's operations was one of the

considerations in making this choice. KRA is the central body for assessment and collection of revenue on behalf of the government of Kenya. The core business of KRA is revenue collection. KRA is also charged with the responsibility of administration and enforcement of laws relating to revenue collection. Secondly, KRA is among the parastatals that have embraced private sector like practices in its operations and has undertaken various reforms and modernization programs to improve efficiency in service delivery. It is therefore of importance to find out if KRA's budgetary process are also in line with best practice. Lastly many aspects of KRA have been studied but none of these studies has focused on budgeting processes.

1.1.2 Kenya Revenue Authority

The Kenya Revenue Authority was established by an Act of Parliament on July 1st 1995 Cap. 469 for the purpose of enhancing the mobilization of Government revenue, while providing effective tax administration and sustainability in revenue collection. The Board and Management of Kenya Revenue Authority have since its inception spent time and resources setting up systems, procedures and the adoption of new strategies aimed at enhancing the operational efficiency of the Authority's processes.

A Board of Directors, consisting of both public and private sector experts, makes policy decisions to be implemented by Kenya Revenue Authority Management. The chairman of the Board is appointed by the President of the Republic of Kenya. In terms of revenue collection and other support functions, the Authority is divided into the following Departments: Customs Services Department, Domestic Taxes Department, Large Taxpayers Department, Roads Transport Department, Support Services Department and

Investigations & Enforcement Department. Each Department is headed by a Commissioner.

In addition to these departments the Authority has seven service divisions that enhance its operational efficiency. These are as follows: Human Resource, Finance, Board Corporate Services & Administration, Internal Audit, Information & Communication Technology, Research & Corporate Planning and Marketing & Communication division. Each of these service divisions is headed by a Senior Deputy Commissioner.

1.2 Statement of the Problem

Budgeting has been at the core of economic reform programs in most nations around the world, Srinivasan (2000). They have also been the principal instruments of transformation and restructuring of public sector organizations. The success of the budgeting process is based on the extent of participation of both individuals and communities in the process. The divergent views on budgeting as a management control tool have provided the major motivation for the present study. Despite the recognized importance of budget implementation and its suggested links to organizational structure, there has been little empirical exploration of how public sector budgeting processes have developed within increasingly decentralized frameworks of governance.

With the growing challenges posed by financial mismanagement in developing countries, the need for enhanced budgeting processes and innovative financial management techniques are increasingly being felt in the Kenyan public sector. The Kenya Revenue Authority has implemented various reforms and modernization programs aimed at improving efficiency and service delivery. These reforms include re-engineering of

internal business processes and restructuring of revenue and service departments. However for these initiatives to yield desired results, financial management practices such as budgeting processes must be in line with best practice.

Most studies on budgeting practices have been conducted in the advanced countries and the focus has mainly been on the positive relationship between participation and its effects, such as its impact on better budgets and decision making (Maher, 2005; Premchand, 2004). Available literature on budgeting suggests that budgets form an important basis for financial control (Claessens et al, 2002).

Local studies on budgeting include; Ndiritu, (2007) who studied the effectiveness of cash budgeting in public institutions, Kadondi, (2002) did a survey of capital budgeting techniques used by companies listed at the NSE, Muleri (2001) carried out a survey of budgeting practices among the major British nongovernmental organizations in Kenya, Biwott (1987) did a study on the budgetary allocation process in public sector institutions, while Wamae (2008) did a study on challenges of budgeting at National Social Security Fund.

To the best of the researcher's knowledge, no previous study had been done on evaluation of budgeting processes in Kenyan government parastatals. It is in this light that the research aims to evaluate the budgeting processes in the government parastatals in Kenya with specific reference to the Kenya Revenue Authority. The main objective of this study will be to evaluate the budgeting processes in the government parastatals in Kenya with specific reference to the Kenya Revenue Authority. The study will strive to answer to the following research questions: To what extent have the budgeting processes

used at KRA achieved budgeting objectives? To what extent are the budgeting processes in the Kenya revenue authority in conformity with best practice?

1.3 Objectives of the Study

The main objective of this study will be to investigate the budgeting processes in the government parastatals in Kenya with specific reference to the Kenya Revenue Authority.

Further, the study will be guided by the following specific objectives:

- i. To determine the extent to which budgeting processes at the Kenya Revenue Authority have achieved budgeting objectives.
- ii. To evaluate budgeting processes at the Kenya Revenue Authority by comparing actual processes against best practice.

1.4 Value of the Study

The study is invaluable to the following:

To the Kenya Revenue Authority, the research would be invaluable to the KRA's management in that it would provide an insight into the various approaches towards budgeting and enable management identify aspects of the budgeting processes which require improvement.

To the government, the research would be useful in policymaking regarding regulatory requirements of KRA. The findings of the research would provide some insights to the regulatory body and the government at large on how the budgeting process within the

parastatals can be improved and hence enable making of timely and appropriate interventions as may be required.

To the academicians, the research would provide a useful basis upon which further studies on budgeting in the government parastatals could be conducted. This research would make a contribution to the academic literature on the field of budgeting in Kenya where very little is known about its structure and application.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered in this chapter are Concept of budgeting, theories of budgeting, empirical Studies, budgeting processes and summary of literature review.

2.2 Theoretical Framework

2.2.1 Concept of Budgeting

A budget can act as a motivator and communicator, as well as a tool for functional co-ordination and performance evaluation of an organization (Dominiak and Louderback, 1998). According to Garrison et al (2008) there are four major advantages of budgeting. First, it gives planning top priority; second, it provides managers with a way to finalize their planning efforts; third, it overcomes potential bottlenecks before they occur; and last, it co-ordinates the activities of the entire organization by integrating the plans and objectives of the various parts.

There are four main aspects to budget: the motivations aspect; the co-ordination of resources for their best use; setting benchmarks for performance; and as a cost control mechanism (Sheridan, 1987). Review of literature on budgeting reveals that operational budgets serve dual purposes of planning and control. The budgeting process and the end result, the budget, comprise two essential elements i.e. planning and control. Planning is

the primary function of the budgeting process and the result, the budget, provides the basis for subsequent monitoring and control of activities (Douglas, 1994). Characteristics of good budgeting are defined to include: managers' involvement; a clear definition of long-term goals; the rational allocation of resources; control processes that lead to continuous improvement in the business; and all of these attributes is supported by sound accounting information systems. (Campbell, 1985).

Flamholtz (1983) developed a mechanism for effective planning and control aspects of budgets. He argues that process of exercising control in an organization is significantly more complex than conventional managerial accounting theory suggests and that budgeting and even accounting system cannot be viewed as a control system per se, rather, they must be seen as part of a carefully designed total system of organizational control. Abernethy and Stoelwinder, (1991) argue that budgets can be used as a control mechanism to regulate the behavior by specifying the means to produce a unit of output.

The budget expresses how resources will be allocated and what measures will be used to evaluate progress. Budget development is more effective when linked to overall corporate strategy. Linking the two gives all managers and employees a clearer understanding of strategic goals. This understanding, in turn, leads to greater support for goals, better coordination of tactics, and, ultimately, to stronger companywide performance. (Holland, 2000)

Traditionally, budgets were seen as the primary planning document (Alam and Lawrence, 1994). Budgets are used to communicate organization's expectations to its clients. The budgeting process provides for coordinated planning among different functional areas.

The budget outlines the recurrent and development expenditure on the one hand, and the different sources of financing for these expenditures on the other. Recurrent expenditure comprises the costs of running the services of the government such as salaries and wages for the public service. Development expenditure, on the other hand, refers to the costs of implementing longer term projects. (Ramsey and Ramsey, 1985)

Budgeting process involves planning for budget preparation and setting out goals and timelines for its production (Premchand, 2004). This is followed by communicating the same to person preparing the budgets. Information gathering starts after the briefing of staff about the requirements. There after the information is compiled and revised accordingly awaiting the committee review. Budgeting lies at the foundation of every financial plan. Budgeting is not all about restricting what one spends money on rather it is really understanding how much money one has, where it goes, and then planning how to best allocate those funds, (Burns and Scapens, 2000).

The budget cycle is a crucial process in all organizations. However, in the public sector, it is overlooked as a tool for improving the efficiency of the organization as a whole. In public bodies the budget has a special significance as a public statement of how the organization intends to spend its public funding in the year ahead, and has an important role as a control mechanism (Sullivan et al, 2003).

2.2.2 Theories of Budgeting

The Incremental Budgeting Model

The model was developed by Aaron Wildavsky. The model was set forth in the early 1960s, after over a decade of slow, steady growth in the federal budget in the USA. According to this model, public budgeting is incremental. Taking last year's budget as given, political leaders concentrate only on how the increment to this base should be allocated. The attractiveness and durability of incremental budgeting are due to its intellectual, political, and ethical advantages. First, incremental budgeting minimizes the intellectual task of creating a new budget each year. Eliminating the necessity of rethinking everything simplifies the analytical task and makes annual budgeting a manageable undertaking. Second, incremental budgeting facilitates the political task of adopting a budget. Accepting last year's base as sacred greatly eases budgetary negotiations, for no interest feels vulnerable to a raid upon its hard-won turf. Thus, the political task of building a coalition to support the current year's new budget reduces to a much simpler assignment of allocating this year's increment so as to give a majority of the political interests a stake in the whole. Finally, incremental budgeting also appears ethical. The overall equity of the entire budget is never examined, and few ask why the balance that was struck ten years ago has any ethical (or political) relevance today. There is a superficial sense of equity in both the protection of the base and the broadly distributive allocation of the increment. Implementation of this incremental process is accomplished easily through the decentralized committee structure used by legislatures. Substantive choices are fragmented among various specialized committees that take responsibility for allocating a part of the increment according to the traditional,

legislative norms. A consensus is built around the current year's package, paying due attention to historical patterns and without making too many long-term commitments. As experience is built up and precedent established, new increments are absorbed in a repetitive, routine, predictable manner. In general Wildavsky's incremental model has explained a lot about both budgetary decision making and budgetary outcomes and has also provided a normative justification of this budgetary process. (Behn,1985).

Performance Budgeting Model

The system of performance budgeting attempts to add a new dimension to management in that it enables a determination of the specific programme goals, selection of the most desirable programme, a structure of budget display that would serve the managerial requirements and, finally, an information process designed for each programme that at once facilitates a review of the progress and also builds up a logical relationship between the financial outlays and the actual physical achievement. It thus ensures greater accountability in terms of what is achieved and in terms of control, it indicates the cost of the achievement. Performance budgeting is essentially a process which, through its structure, indicates the total operations of an enterprise in terms of programmes and activities, and through a three-dimensional presentation, shows the outlays under these programmes, outlays on an object-wise basis, and source-wise distribution of fund groups, whether they are drawn from revolving funds, operating revenues, government loans or equity capital. Further, the programme structure enables an assignment of work, organizational and financial responsibilities to the various levels of the unit and to the various units themselves. The basic questions it seeks to answer are: what is the

programme of action for the next year and beyond? , and what is the budgetary support needed for each segment of the proposed action? The performance budget has three essential ingredients: a programme classification that represents the range of work of each unit, a framework of specified objectives for each programme, and a stipulation of the work or achievements, suitable work load factors, productivity and performance ratios that justify the financial requirements of each programme. The programme classification in turn should have features such as clearly definable and measurable objectives, amenability to compilation and computation of costs, consideration of alternative courses of action for reaching a specified goal, and sensitivity to cost benefit analysis treatment. The programmes so formulated have to be supported by detailed workload and other supporting data that seek to fix the targets for each programme. A two-way approach is adopted as an integral part of performance budgeting. From the efficiency measurement angle, standards are set up against which comparisons and assessment could be made. Along with these, productivity ratios also need to be established. From the cost angle, data are provided to assist in directing, controlling and reviewing the operations. Broadly, thus, the performance budgets provide a basis for proper estimation, facilitate the fixation of physical targets and the related outlays, serve managerial purposes by enabling a monitoring of the progress made at the lower levels, facilitate the assignation of responsibilities for all hierarchical levels, enable a more appropriate phasing of construction work and expenditure, facilitate the assessment of the schedule of fulfillment or slippages, and analyze the cost implications and the care taken to maintain costs and, in cases of variations, find out the factors that contributed to the variation.(Premchand,1969).

Zero Base Budgeting Model

Zero base budgeting was brought to popular attention by P. A. Phyrr in an article appearing in the November-December 1970 issue of the Harvard Business Review and later in a book entitled Zero Base Budgeting. Phyrr argues that, in the past, businesses and government agencies have performed many of their budgeting procedures using a historical perspective. The use of zero-base budgeting does not allow this to happen. Administrators must justify from base zero all of their departmental or agency budgeted expenditures. Nothing is taken for granted or simply continued at some previous level. Everything must be justified or discontinued through the use of cost-benefit analysis. This justification or discontinuing is done through a process of compiling decision packages which contain various and specific activities, ranking these decision packages into some type of preferred order, and then establishing some cutoff point for which those below will be rejected. According to this model the budget process takes the following steps: determine functional areas, set up activities within each functional area, design and prepare decision packages, submit decision packages up through organization hierarchy, ranking of all expenditures in order of importance, final budget document prepared from ranked priorities. (Phyrr, 1970)

There are several reasons for ZBB's popularity in industry. In recent years, some industrial companies have realized a decrease in profit margins and attempted to increase profitability by reducing indirect costs. This factor, with others, has encouraged companies to develop improved methods of integrating corporate planning with budgeting. Recently, firms have found that ZBB is a useful management tool in linking the managerial functions of planning, programming, and budgeting. Furthermore, ZBB

users have been better able to constrain the growth in expenses than nonusers, and to elicit the participation of more line managers in the budget process. Zero-Base Budgeting is a planning and budgeting process which requires managers to justify their entire budget request in detail from the ground up. Each manager is required to justify why he should spend any money at all, as well as how he can operate his unit more efficiently and effectively with the available funds (Dean & Cowen, 1979).

Planning, Programming, Budgeting system

The planning, programming, budgeting system is designed to provide more effective information and analyses for decision making at all levels. PPBS places major emphasis on identification of program objectives and the measurement of results or output in quantitative terms. The proponents of the PPBS system believe it will improve decision making in the government. PPBS represent an evolution and strengthening of the existing budgeting systems. PPBS bring together the various elements of decision making something which the old budgeting system fails to do. PPBS is expected to lead to an improvement in the quality of the data and of the justifications that are submitted in support of the budget. (Hooper, 1968)

The essential activities involved in the application of PPBS are the following: identification of objectives, organization of activities into programs designed to achieve these objectives, and analysis of alternative system design to develop the final resource allocation. (Dyer, 1970)

Under the old system of budgeting, budgets have been organized at the highest levels by executive departments. These budgets have usually been projected only one year ahead

and emphasis has been on such things as personnel, supplies, and equipment. These budgets are input oriented in that they focus on the people and supplies or other inputs that must be brought together if the programs and activities of a department or agency are to be achieved. This old system has proved satisfactory for relatively simple repetitive operations where no serious questions exist about the purposes of government activities and the value of their accomplishments. However, the old system is not well suited to decisions in a complex environment. There is too little emphasis placed on the methods by which programs are chosen. In short, the old system gives little help in determining whether we are spending the proper amount of money on the right things or not. (Hooper,1968)

PPBS recognize the hard choices which must be made. Those who advocate PPBS do so with the belief that with more information, with better information, with alternative programs or goals spelled out, and with alternative ways of meeting these goals, some of the decisions of the future will hopefully be better decisions. PPBS ought to help whenever possible to derive the maximum benefit for every dollar spent or per man day paid. PPBS is, simply the application of the principles of problem solving and decision making in managerial economics to the problems of running the governmental apparatus (Hooper,1968)

2.3 Empirical Studies

Merchant (1981) conducted a study to investigate how differences in corporate-level budgeting systems are related to corporate size, diversity, and degree of decentralization, and how different choices in system design and use are related to organizational

performance and manager motivation and attitudes. A model was developed from related findings in research in accounting and organizational behavior, and the expectations in the model were explored with data gathered from 19 firms in the electronics industry. The results generally support the model. They show that budgeting, as part of the corporate control strategy, is related to the corporate context. Larger firms tend to make relatively high use of more formal administrative, as opposed to interpersonal, controls. In all firms, the more formal and elaborate budgeting processes are generally received well by the managers, but in larger firms they appear to be more positively linked with performance.

Botner (1985) conducted a survey to determine the extent of use and the perceived effectiveness of several sophisticated budgeting/management tools by state governments in the USA. Additional objectives of the study were to identify trends in state budgeting and to assess the role played by legislatures in the budgeting and appropriations process. Questionnaires were mailed to the budget officers of the 50 states, and follow-up mailings were subsequently conducted. Replies were received from all of the 50 states. The results of the survey show that state governments are making extensive use of sophisticated budgeting/management tools. More than half of the states employ program budgeting, computerized management information systems, performance measurement, reporting, and monitoring, program analysis, program evaluation and forward year projections of expenditures and revenues. Further a high percentage of the states which use these techniques report that they have found them to be either effective or somewhat effective.

Chenhall (1986) conducted a study on the influence of authoritarianism on subordinate attitudes to the job and budgets if both subordinate and superior authoritarianism are considered together. The sample of the study consisted of departmental managers and supervisors drawn from nine manufacturing organizations within a single industry, each of which employed more than 250 individuals. Questionnaires were given to participants during a short introductory interview where the confidentiality of the research was assured. Supervisors received questionnaires dealing with authoritarianism, participation in budgeting, job satisfaction, and satisfaction with budgets. Managers were asked to complete the authoritarianism questionnaire only. Three hypotheses were developed. The hypotheses were tested using regression analysis. The results of the regressions and the nonparametric statistics are consistent with rejection of all three hypotheses. The analysis supports the view that participation alone exerts an influence on attitudinal factors of job satisfaction and satisfaction with budgets. The dyadic configurations of authoritarianism between subordinate and superior were related to both outcomes, with homogeneous dyads producing higher values. In addition, the moderating effect of the dyadic configurations on effective participation was demonstrated for both outcome variables in the predicted direction. The study concluded that budgetary participation is important in its own right and the homogeneous authoritarian dyads are positively associated with subordinate outcomes. Moreover, participation is more strongly associated with subordinate job satisfaction and budgetary attitudes in the homogeneous than in the heterogeneous dyad.

Frucot and Shearon (1991) conducted a study to determine whether cultural differences affect the interrelationship of individual locus of control and participation in the

budgeting process as it impacts managerial performance and satisfaction. The questionnaires were personally distributed to the 86 managers involved in the study who kept them to complete on their own time. The responses of 83 Mexican managers to survey instruments were reanalyzed using regression to test the interrelationship of locus of control and budgetary participation and their impact on managerial performance and job satisfaction. While the results of this study are generally consistent with previously reported findings for managerial performance, the impact of locus of control on managerial satisfaction was not significant, reflecting an ostensible difference in culture. In addition, the effect of locus of control on the performance of high-level managers was significantly stronger than its impact on the performance of lower-level managers. Finally, contrasting significantly to other Mexican managers, the performance of those Mexican managers employed in 100 percent foreign-owned firms was not discernibly affected by either budgetary participation or locus of control.

Fisher, Frederickson and Pfeffer (2000) conducted a study to examine how budgets and economic consequences of the budget setting process differ when budgets are set through a negotiation process compared to when set unilaterally. The study also considers factors associated with negotiations and agreements and the relation between agreement and the economic consequences of negotiated budgets. The economic consequences examined in the study are budgetary slack and subordinate performance thus allowing the study to address the trade-offs between the planning and motivational aspects of budgets. The research design used was a laboratory experiment. The subjects of the study were 185 undergraduate students enrolled in intermediate accounting, and they were assigned to one of six treatments based on time availability. The findings of the study were that both

the budgets and the economic consequences of the budget setting process differ when budgets are set through a negotiation process where superiors have final authority in the event of negotiation impasse versus when set unilaterally by superiors. Further, negotiation agreements significantly affect the economic consequences of negotiated budgets. Budgets set through a negotiation process ending in agreement contain significantly less slack. A failed negotiation followed by superiors imposing a budget has significant detrimental effect on subordinate performance.

Abdel-Kader and Luther (2006) conducted a study in British food and drinks industry. Respondents were asked to indicate the frequency of use of 38 management accounting practices using a five point Likert-type scale (1 indicating "never" and 5 indicating "very often"). They were also asked to rate the importance of each technique/practice using either "not important", "moderately important" or "important". Among those 38 management accounting practices, 7 were about budgeting. The results of this survey demonstrated that budgeting is either "often" or "very often" used for planning and for controlling costs by an impressive 84 percent and 73 per cent respectively. Taken together, budgeting for planning and control was considered either "important" or "moderately important" by more than 90 per cent of respondents. Furthermore, 27 per cent of respondents consider flexible budgeting "unimportant" and 29 per cent never use it. The rest of the respondents use flexible budgeting at least rarely. "What if" analysis is clearly very important, but is only applied from time to time. Activity-based budgeting is considered either "moderately important" or "important" by the majority of respondents (63 per cent). However, only 19 per cent of respondents were using it "often" or "very often". Zero-based budgeting is seen to be unimportant and never used by 58 per cent and

52 per cent of respondents respectively. Finally 83 per cent considers budgeting as an important input of their long-term strategic planning; they use it from times to time.

Srinivasan (2000) conducted a survey of 402 US companies, which included manufacturing, and service companies. The study revealed multiple roles and uses of budgets, especially in successful firms. Cress and Pettijohn (1997) conducted a survey of budgetary control used in large manufacturing UK companies, and they concluded that budgetary controls are intimately linked with considerations of labor controls. In a survey of Fortune 500 companies in the USA, Garrison et al (2008) concluded that formal strategic planning contributed to decisions that were important, risky, global, and involved divestments. Similarly, in another study, Abernethy and Stoelwinder (1991) found that a majority of firms employed sophisticated corporate planning and corporate financial plans in their budgeting system.

Powell (1992) found that strategic planning was important in the US companies but depended on the type of industry. A study by Weisenfeld and Tyson (1990) found that 95 percent of the Japanese companies and 83 percent of the Australian companies do prepare long-range plans. Furthermore, Chenhall and Smith (1998) found that more than 90 percent of the respondent companies adopted long range planning and long range forecasting in Australia. Klammer (1973) found that Indian companies were using strategic formal planning and long range forecasting techniques in budget planning.

Douglas (1994) used a case study approach and found that budgeting places a high importance on the budget-to-actual comparison for performance evaluation purposes both at the corporate and the subsidiary levels. Anderson (1993) also supported this view,

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

Most of the local literature available so far has studied budgeting in the private sector and public sector dealing with budgeting practices and challenges of budgeting. Simiyu (1977) studied the problems associated with budgeting at supervisory level in manufacturing firms in Kenya. Biwott (1987) studied the budgetary allocation process in public sector institutions. Muleri (2001) studied budgeting practices among major British non-governmental organizations in Kenya. Ndiritu (2007) conducted a study on the effectiveness of cash budgeting in public institutions. Wamae (2008) conducted a study on challenges of budgeting at the National Social Security Fund in Kenya. Siaya (2009) studied the challenges of budgeting at the City Council of Nairobi, while Gathige (2009) studied budgeting practices and challenges in dairy co-operative societies in Kenya.

2.4 Budgeting Processes

2.4.1 Budget Planning

The first step in the budgeting process is planning for budget preparation and setting out goals and timelines for its production (Premchand, 2004). Budgeting in public organizations is normally a hierarchical process which starts at the subunit level and ends

at the apex of the hierarchy, which may be outside the organization itself. Often, therefore, there are several tiers between these two levels of the budgetary hierarchy. According to Lewis (2005) the basic reason for requiring estimates from subordinate officials is that higher officials do not have enough detailed information, time or specialized skills to prepare the plans themselves. It is the decision maker at the subunit level who has the relevant facts to effectively classify activities into various categories according to their importance. It is also at this level, that projects and activities requiring attention and hence financial support can be identified and prioritized.

According to Gwilliam and Shalizi (1999) two key factors influence budgeting process namely, the level of local revenues collected and the availability of external resources to bridge the gap occasioned by shortfall in revenues. When revenues fall short of the projected level then budget implementation is affected to the extent that the expenditures have to be reduced and some projects and programmes postponed altogether. External resources in the form of loans and grants are also factored into the budget following commitment by donors. Pollitt and Bouckaert, (2004) pointed that the funds may however not be available at all as they may be released late into the financial year as the budgeted amount may be reduced or a result of some donor refusing to release funds as result of the non-fulfillment of donor conditions.

Budget planning also involves communicating the process, responsibilities, timelines and assumptions to all participants. Information gathering starts after the briefing of staff about the requirements. After all the relevant information has been gathered, the information is compiled and reviewed for consistency. A draft budget is then prepared and forwarded to the finance committee. The finance Committee then reviews the draft

budget and key assumptions and makes recommendations. Finally a board meeting is held and budget proposal is presented for approval. Once the budget is approved the implementation phase starts.

Participation by employees in the budgetary process has received considerable attention in the academic literature (Brownell, 1982 and Milani, 1975). For budgetary participation to occur, a person must become actively involved in the setting of budget goals by exchanging information and influencing outcomes (Hassel, 1993).

A number of previous studies have treated participation as a one-dimensional construct, however there is evidence that it may be at least two-dimensional (Brownell, 1982 and Milani, 1975). First, there is the extent that communication occurs within the budgetary process and, second, the extent that a participant feels that he or she influences the budget finally allocated. Hassel and Cunningham (1993) have argued, while a manager may have considerable communication with more senior management over budget allocations, the degree of influence over the final allocation may be minimal.

It is argued that, if budget allocations are to gain any support within an institution, communication within the budgetary process will be critical. This communication is needed if those responsible for budgeting outcomes are to have any knowledge of proposed budgetary practices and procedures, budget rationale, and intended budget goals (Katz and Kahn, 1978). As Brownell and Dunk (1991) have stated, budgetary communication provides an important information exchange role.

2.4.3 Budget Implementation

Implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available. Budget implementation should include the following; identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate. (Premchand, 1994)

According to Premchand (2004) the budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work. First an allocation system under which expenditure is controlled by release of funds is put in place. Secondly there is supervision of the acquisition of goods and services to ensure value for the money spent. Thirdly an accounting system that records government transactions and provides a framework for an analysis of their implications is implemented. The final phase involves a reporting system that permits a periodic appraisal of the actual implementation of policies.

Budget appropriation accounting consists of tracking and registering operations concerning appropriations and their uses. It should cover appropriations, apportionment, any increase or decrease in appropriations, commitments/obligations, expenditures at the verification/delivery stage and payments. Budgetary accounting is only one element of business accounting system but it is the most crucial for both formulating policy and supervising budget implementation. In particular, weaknesses in budgetary accounting and recording make quality analysis of the performance, outputs or outcomes impossible (Hope and Fraser, 2003).

Most large organizations keep registers for their transactions at each stage of the expenditure cycle, or at least at the obligation stage and the payment stage. Many small and medium enterprises keep similar registers, either at the spending department level or through centralized control procedures. In practice, in some of these organizations budgetary accounting covers only payments. On the other hand, where control procedures are centralized, sometimes information on budget execution concerns operation steps that do not correspond to the stages in the expenditure cycle (Fanning, 1999). A budget is a fundamental strategic tool for delegating authority throughout an organization. It ensures that managers clearly understand the quantifiable parameters used to judge their performance and it alerts managers to areas requiring corrective action

2.4.4 Budget Control and Performance Evaluation

Public sector organizations are concerned with the provision of public goods to members of the society. Their budgets are therefore mainly intended for authorizing actions and providing ceilings for management actions (Horngren, 1983). This is unlike the private sector where organizations are profit motivated. Their budgeting reflects a conscious effort to plan for certain desirable results and controls to maximize the chances of achieving those results.

The control phase focuses on the actual performance towards achieving the plan. The control phase puts emphasis on a comparison between the budgeted revenue and expenses against the actual revenue and expense activity. When the actual revenues and expense vary from the plan articulated by the budget, the control phase will then include corrective action. The corrective action may include adjusting the budget to reflect the

actual financial activity, adjusting the revenue projections or adjusting expenditures.(Premcahand,2004)

The reporting of spending against budget targets is a crucial aspect in demonstrating accountability and stewardship to the public. Because of this, the focus has tended to be on a fixed one-year planning horizon, within-year monitoring and the reporting of financial results after the close of the financial year. This is a somewhat linear set of discrete processes. The financial environment is now moving towards medium-term three-year settlements for public services, with pressure for faster closing, and a greater emphasis on efficiency, performance outcomes and value for money. According to Ramsey and Ramsey (1985) the budget and reporting cycle, therefore, needs to adapt as a tool to support these developments.

Combining financial trends with performance output trends allows an overall integrated picture to be presented. Through frequent reforecasting, managers are encouraged to develop their skills and remain engaged with planning what the future will look like (Lyne, 1998). By linking trend analysis for expenditure and income with patterns in key performance indicators, they will gain a deeper understanding of the key cost drivers and variables for their business. Klammer (1973) argues that this process also helps to streamline the year-end close, because financial results have been prepared for each quarter.

The quarterly revision of the financial plan offers the opportunity to redirect resources at frequent intervals. If a spending programme is not capable of using its allocated funds these can be redirected. For the organization's leaders, the forecasts act as a tool for

relating funds with the outcomes they buy. Because the financial and performance trends lie side by side, the organization is better able to assess value for money. A substantial proportion of the cost base in public service organizations is fixed in the short term and by introducing 18-month forecasts rolling forward, the impact of changes in the cost base can be reflected (Muleri, 2001).

Similarly, events that may only have a minimal impact on the current financial year are captured and their impact and implications in the future clearly mapped. This 18-month rolling approach is a continuous process, not an isolated activity. The potential benefits are that managers will constantly scan for issues, which pose challenges or offer opportunities for the business. Likewise it will encourage the organization's leaders to review regularly the future sustainability of the business and its finances. The organization will be constantly challenged to understand and review the outcomes and outputs which its current resources are delivering and to consider how adverse variations can be managed, and favorable variations maximized (Ndiritu, 2007).

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing. According to Cook (1968), feedback is generally positively associated with budget performance. Feedback focuses on the extent to which employees have achieved expected levels of work during a specified time period. Budgets being a standard for performance are also used to evaluate managerial performance (Srinivasan, 1987). Similarly, Douglas (1994) used a case study approach and found that budgeting places a high importance on the budget-to-actual comparison for performance evaluation purposes both at the corporate and the subsidiary levels. Anderson (1993) also supported this view, stating that in most US companies the

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

Hirt and Lowy (1990) found that difficult goals generate higher performance than setting specific moderate goals, specific easy goals, and general goals. Research has indicated that the perceived budget goal difficulty and performance are strongly related (Ezzamel, 1990). In particular, Kenis (1979) believed that a tight but attainable budget approach is the most effective way to motivate managers to perform better. Easily attainable goals do not generate incentives for managers to pursue a higher level of performance, because they fail to create job satisfaction (Mia, 1989). Dunk (1994) found that the availability of slack diminished the detrimental effect of high task difficulty on performance. Moreover, when the organizational commitment of managers is high, participation is likely to result in a reduction of slack. In contrast, if commitment is low, participation is likely to enhance the budgetary slack creation.

2.5 Conclusions from Literature Review

This section is a summary of literature review on various aspects of budgeting namely; Concept and theories of budgeting and empirical studies on budgeting. It is worth noting that most of studies reviewed both local and global have focused on the uses or roles of

budgets in organizations, the effects of participation in the budgeting process on budget performance and the challenges faced by organizations in the budgeting process. The studies have revealed that whereas traditionally budgets were viewed as a planning tool, in practice budgets are used for various other purposes. These include financial control, performance evaluation, communication, authorizing actions among others. To the best of the researcher's knowledge none of these studies has attempted to evaluate the budgeting processes of government parastatals.

The various models of budgeting reviewed under theoretical framework have attempted to explain the basis upon which budgetary decisions are made. For instance the Zero based budgeting model requires that budget requests have to be justified afresh from scratch every year while incremental budgeting model considers last year's budget as the base upon which an increment is allocated to arrive at the current year's budget. Performance budgeting model puts emphasis on the programme of action for the next year and beyond and the budgetary support needed for each segment of the proposed action. The planning, programming, budgeting system places major emphasis on identification of program objectives and the measurement of results or output in quantitative terms.

From the literature review the researcher was able to identify three main stages in the budgeting process which are considered critical for the budgeting process to be successful. These are budget planning, budget implementation and budget control and performance evaluation. These three stages have formed the basis upon which the researcher will evaluate the budgeting processes of government parastatals in Kenya with specific reference to Kenya Revenue Authority.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research questions. This stage covers decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the researcher identifies the procedures and techniques that were used in the collection, processing and analysis of data. The following subsections are included; research design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This study used descriptive survey. A descriptive study attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction as indicated by Cooper and Schindler (2003). Descriptive research is more rigid than an exploratory research and seeks to describe uses of a product, determine the proportion of the population that uses a product, or predict future demand for a product, Orodho (2004). The choice of the descriptive survey research design was made based on the fact that in the study, the researcher was interested on the state of affairs already existing in the field and no variable was manipulated.

3.3 Data Collection

The respondents in this study comprised the management staff working in Kenya Revenue Authority. Thus the study concentrated on the top, middle and supervisory level management KRA staff based at Times Tower (KRA headquarters) since they are the ones conversant with the budgeting processes at the institution. In addition all departments including revenue and support divisions are represented at headquarters. The target respondents of this study were 39 staff consisting of three (3) management staff involved in the budgeting process from each of the thirteen (13) departments and support divisions of the KRA.

Primary data was collected using a questionnaire with close ended questions administered to the management staff of the Kenya Revenue Authority based at Times Tower. The questionnaire was divided into two parts. The first part dealt mainly on the background information, while the second part was on budgeting and budgeting process at the Kenya Revenue Authority.

The questionnaires were self administered. The researcher sent them through hand delivery to the respondents and asked them to complete the questionnaires themselves. The researcher then followed up on the respondents and closely monitored the administration of the questionnaires.

3.4 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then be coded to enable the responses to be grouped into various categories. Tables were used to summarize responses for further

analysis and facilitate comparison. Data analysis was done using SPSS software and Microsoft Excel. Data for this study was quantitative hence descriptive data analysis techniques were be employed. Descriptive statistics, in particular, arithmetic mean, standard deviation, percentages and frequencies were used to analyze responses to the questionnaires. Factor analysis technique was employed to identify relationships between the indicators of extent of compliance with best practices in budgeting processes at KRA. The findings were presented using tables and graphs.

The researcher controlled for validity of data collection instrument by conducting a pilot test on a randomly selected sample of ten respondents. This enabled the researcher to confirm that the respondent's interpretation of the data collection instrument was consistent with the expectations of the researcher. The respondents were also asked to raise issues of concern and suggest ways of improving on the questionnaire. Their input was used to improve on the questionnaire. The researcher carried out reliability test to confirm that there was internal consistency of data. The Cronbach's Alpha co-efficient was used to test for internal consistency of data.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The study was designed to evaluate budgeting processes in parastatals with specific reference to Kenya Revenue Authority .To achieve this objective, data was collected from respondents drawn from top, middle and supervisory level management of the Kenya Revenue Authority. This chapter is organized as follows: first, the chapter presents the profiles of the respondents. This is followed by the results on extent of achievement of budgeting objectives at KRA. A presentation on the KRA compliance with best practices in budgeting is shown next. And finally, factor analysis on indicators of conformity with best practices in budgeting at KRA is presented.

4.2 Characteristics of Respondents

The study targeted 39 respondents. Thus a total of 39 questionnaires were distributed to the respondents in the 13 departments and support divisions of the KRA. Of these, 35 questionnaires were successfully completed and collected by the researcher, giving a response rate of 89.7%, a figure considered substantially sufficient for the study. This commendable response rate was made a reality after the researcher made personal visits to remind the respondent to fill-in and return the questionnaires. The results are shown in the table 1 below.

Table 2: Response Rate

Response	Frequency	Percentage
Responded	35	89.7
Not responded	4	10.3
Total	39	100.0

Source: Survey Data, 2011

The departments of the respondents were also analyzed in order to establish the composition of respondents in the organization in terms of their departments. These results are shown in Table 2.

The study found the composition of respondents from different K.R.A departments to be as follows: Custom services 8.6%, Support services 8.6%, Large tax payers office 8.6%, Road transport 8.6%, Domestic revenue 8.6%, Human resource 8.6%, Finance 8.6%, Board corporate service and Administration 8.6%, Research and corporate planning 8.6%, Investigation and Enforcement 5.7%, Internal audit 5.7%, Information and Communication Technology 5.6% and finally from Marketing and Communication 5.6%.

Table 2: Department of respondents

Department	F	%
Custom services	3	8.6
Support services	3	8.6
Large tax payers	3	8.6
Road transport	3	8.6
Domestic revenue	3	8.6
Human resource	3	8.6
Finance	3	8.6
Board corporate service and administration	3	8.6
Research and corporate planning	3	8.6
Investigation and enforcement	2	5.7
Internal audit	2	5.7
Information and communication technology	2	5.6
Marketing and communication	2	5.6
Total	35	100

Source: Survey Data, 2011

The level in management of the respondents was also analyzed in order to establish the composition of respondents in terms of their level in management. The study found that 37% of the respondents were middle level managers while 37% were supervisory level managers and 26% were in senior management. These results are shown in Table 3.

Table 3: Respondent's Level in management

Category of Respondent	Frequency	Percentage
Top Management	9	26
Middle level Management	13	37
Supervisory Level Management	13	37
Total	35	100

Source: Survey Data, 2011

4. 3 Budgeting Processes and Budgeting Objectives.

This section presents the results of the study on the extent to which budgeting processes at KRA have achieved their objectives. The responses were made on a five-point likert scale. The results are interpreted in terms of mean scores and standard deviations.

The mean and standard deviation of the items were computed and are as indicated in Tables 4,5 and 6. The items are anchored between 1 to 5; where 1=Extremely no extent and 5=Very great extent. A mean score on the scale above 3.5 would indicate that the respondents are of the opinion that the specific objective has been achieved, while scores below 2.5 would indicate that the respondents are of the opinion that the objective has not been achieved. A score of between 2.5 to 3.5 indicates that the respondent was undecided. The study found that all departments and support divisions in KRA participate in the budgeting process. The study further found that all departments and support

divisions in KRA participate in preparation of both capital and recurrent expenditure budgets.

Table 4: Overall mean response rate on Budget Planning Objectives

No.	Statement	Mean	Std dev
1	Ensure all requests for budget allocation are fully justified and are subjected to cost benefit analysis test	2.3022	0.81155
2	Ensure funds are allocated according to the budgetary support needed for each programme of action for the next year and beyond	4.5016	0.76722
3	Ensure budget preparation and approval are done within set timelines	4.7567	0.51706
4	Ensure budget development is linked to corporate strategy	4.5638	0.54512
5	Ensure staff participation in the budgeting process to enhance staff commitment towards achievement of organizational goals	3.4492	0.76524
6	Ensure that the budget can adapt swiftly and effectively to changes in business direction and structure	2.3132	0.62163
7	Ensure budgeting process is communicated effectively to all concerned officers	3.4100	0.51914
Total		25.30	4.55
Average		3.61	0.65

Source: Survey Data, 2011

The study found that the budgeting processes at KRA have achieved budgeting planning objectives. The average mean rate was 3.61, this indicates that majority of the respondents are of the opinion that budget planning objectives at KRA have been achieved. The study also shows that the budgeting process at KRA considers the budgetary support needed for each program of action when allocating funds (4.50). In addition the study shows that budget preparation and approval are done within set timelines (4.75). However, the study also found that the budget requests are not fully

subjected to cost benefit analysis (2.30) and that budgets at the organization cannot adapt swiftly and effectively to changes in business direction (2.31).

The study also sought to find out the extent to which budget implementation objectives have been achieved at KRA. The respondents were asked to indicate their level of agreement or disagreement on the extent of achievement of budget implementation objectives at KRA. The table 5 below presents a summary of the findings in terms of means and standard deviations.

Table 5: Overall mean response rate on Budget Implementation Objectives

No	Statement	Mean	Std dev
1	To clearly identify and enumerate budget implementation tasks	4.1720	0.58445
2	To ensure that the accounting system in place records all transactions and provides a framework for their analysis.	4.4267	0.64382
3	To report periodically an appraisal of actual implementation of policies.	3.8561	0.70509
4	To ensure that there is adequate supervision on acquisitions of goods and services to ensure value for money spent.	2.5513	1.29741
5	To control expenditure by having an allocation system for release of funds to units/departments	4.7444	0.36540
6	To ensure managers clearly understand the quantifiable parameters used to judge their performance	2.2371	0.75912
Total		21.99	4.355
Average		3.66	0.73

Source: Survey Data, 2011

From table 5 above it can be seen that the overall mean response rate on extent of achievement of budget implementation objectives in KRA is 3.66 which depicts that majority of the respondents were in agreement that budget implementation objectives at KRA have been achieved. The study also found that budget implementation tasks are

clearly identified and enumerated (4.17) and that expenditure is controlled by having a system for release of funds to units and departments (4.74). However the study found that managers do not clearly understand the quantifiable parameters used to judge their performance (2.24). In addition the respondents were neutral as to whether there is adequate supervision on acquisitions of goods and services to ensure value for money spent (2.55).

Lastly the study sought to find out to what extent budget control and performance evaluation process in KRA has achieved its objectives.

Table 6: Overall mean response rate on Budget Control and Performance Evaluation Objectives

No	Statement	Mean	Std dev
1	Ensure all transactions are recorded at obligation and payment stage.	4.1427	0.42382
2	Ensure that managers incur only that expenditure that is within their budget allocation.	4.8722	0.23488
3	Provide management with reports on actual spending against budget to facilitate decision making	4.3621	0.77551
4	Facilitate reallocation of funds from those programmes that are not capable of using allocated funds to those that require funds	3.3671	0.32112
5	All adverse variances are investigated and corrective action taken	4.3691	0.63240
6	To provide feedback on the extent of achievement of expected level of performance during specified period	4.4618	0.53220
7	To provide basis for evaluation of managerial performance	3.6333	0.55417
8	To provide managers with a deeper understanding of the key cost drivers for their business	2.0492	0.99524
9	To determine effectiveness of budgeting process at the organization	3.0333	0.61163
10	To provide feedback on how the budgeting process in the organization can be improved in subsequent periods	3.1231	1.15412
Total		37.41	5.081
Average		3.74	0.51

Source: Survey Data, 2011

On whether the budget control and performance evaluation process at KRA has achieved its objectives ,the study found out that majority of the respondents were of the opinion that budget control and performance evaluation objectives have been achieved (3.74).In addition the study found that management was provided with reports on actual spending against budget to facilitate decision making (4.36) and that the budget control process provided feedback on the extent of achievement of expected level of performance during a specified period (4.46).However majority of the respondents are in the view that the budget control process at KRA fails to provide managers with a deeper understanding of the key cost drivers and variables for their business (2.04).

4.4 Evaluation of budgeting processes at KRA against best practice

This section presents the results of the study on the extent to which budgeting processes at KRA are in conformity with best practice. The responses were made on a five-point likert scale. The results are interpreted in terms of mean scores and standard deviations. Factor analysis was carried out to identify relationships between indicators of best practices in budgeting at KRA.

The mean and standard deviation of the items were computed and are as indicated in Tables 7,8 and 9 The items are anchored between 1 to 5; where 1=Strongly disagree and 5=strongly agree. A mean score on the scale above 3.5 would indicate that the respondents are in agreement with the statements on the scale, while scores below 2.5 would indicate that the respondents disagree with the statements. A score of between 2.5 to 3.5 indicates that the respondent was undecided.

4.4.1 Budget planning

The study sought to find out to what extent budget planning process at KRA is in conformity with best practice. The respondents were asked to indicate their level of agreement or disagreement with statements on budget planning at KRA.

Table 7: Overall mean response rate on Evaluation of Budget planning at KRA against best practices

No	Statement	Std	
		Mean	Dev.
1	Budget planning at KRA embarks on allocating resources to various areas by comparing the cost and benefit of each activity	2.6655	1.55297
2	Budget planning at KRA involves clearly identifying organizational goals to be attained during the year	4.7705	0.60177
3	Budget planning at KRA involves setting goals and timelines for production of budget.	4.7541	0.51279
4	The budgeting process at KRA focuses budget decisions on results and outcomes	2.5902	1.21865
5	The budget process at KRA establishes linkages to broad organizational goals	4.3607	1.27845
6	Staff at KRA are properly briefed on budgeting process, timelines and assumptions	3.1803	0.58649
7	The budgeting process at KRA involves and promotes effective communication with all stakeholders	3.5787	0.57195
8	Budget planning at KRA results in budgets that can accommodate changes in business environment	2.3393	0.48361
9	Budget planning at KRA ensures budget is consistent with the strategic plan	4.3333	0.61631
Total		32.57	7.42
Average		3.62	0.82

Source: Survey Data, 2011

The results indicate that the respondents are in agreement that the budget planning process at KRA is in conformity with best practice (3.62).The respondents were in agreement that the budget planning in KRA involves clearly identifying organizational goals to be attained during the year(4.77) and that budget planning involves clearly identifying organizational goals to be attained during the year(4.75).The respondents were also in agreement that the budget planning process at KRA establishes linkages to broad organizational goals (4.36) and that budget planning in the organization ensures budgets are consistent with the strategic plan (4.33). However the study found that the budget planning process at KRA does not result in budgets that can accommodate changes in business environment (2.33).The respondents were undecided as to whether cost and benefit of each activity is considered when allocating resources (2.66). The respondents were also undecided as to whether the budget planning process at KRA focuses budget decisions on results and outcomes (2.59).

4.4.2 Budget implementation

The study sought to find out to what extent budget implementation process at KRA is in conformity with best practice. The respondents were asked to indicate their level of agreement or disagreement with the statements on budget implementation at KRA. The statements are indicators of best practices in budget implementation process.

Table 8: Overall mean response rate on Evaluation of Budget implementation at KRA against best practice

No	Statement	Mean	Std Dev.
1	Budget implementation at KRA involves identification and enumeration of the implementation tasks.	4.5517	0.34711
2	An accounting system that records transactions and provides a framework for an analysis of their implications is implemented	3.9423	0.44015
3	A reporting system that permits a periodic appraisal of the actual implementation of policies is in place	4.1427	0.42382
4	An Allocation system under which expenditure is controlled by release of funds is in place	4.8662	1.23488
5	The process of budget implementation is facilitated by personnel with specialized skills	3.2621	0.77551
6	There is supervision of the acquisition of goods and services to ensure value for the money spent	2.3856	1.32112
7	KRA budget implementation greatly relies on efficient accounting systems	3.3336	0.63240
Total		26.48	5.175
Average		3.78	0.740

Source: Survey Data, 2011

The results indicate that the budget implementation process at KRA was in conformity with best practice (3.78). The study found that the budget implementation tasks are identified and enumerated (4.55) and that an accounting system that records transactions and provides a framework for analysis of their implications is implemented (3.94). The study also found that A reporting system that permits a periodic appraisal of the actual implementation of policies is in place (4.14) and that an allocation system under which expenditure is controlled by release of funds is in place (4.86). However the study found that the budget implementation process in KRA fails in supervision of the acquisition of goods and services to ensure value for the money spent (2.38). The respondents were undecided as to whether the KRA budget implementation greatly relies on efficient

accounting systems (3.33) and whether the process of budget implementation is facilitated by personnel with specialized skills (3.26).

4.4.3 Budget control and performance evaluation.

The study sought to find out to what extent budget control and performance evaluation process at KRA is in conformity with best practice. The respondents were asked to indicate their level of agreement or disagreement with the statements on best practices in budget control and performance evaluation.

Table 9: Overall mean response rate on Evaluation of Budget Control and Performance Evaluation at KRA against best practice

No	Statement	Mean	Std Dev.
1	A register of transactions is kept at obligation stage and payment stage	4.2148	0.49634
2	Budgets are used to authorize actions and provide ceilings for management actions	4.5551	.960421
3	Budget control reports are used as a basis for evaluating managerial performance	3.7547	1.07384
4	A system for reporting of actual expenses and revenues against budgeted expenses and revenues is in place	4.1148	0.52860
5	A system for re-allocation of funds from programmes with surplus funds to those that require funds is in place	3.0164	1.36005
6	Variance analysis is done and adverse variances investigated promptly	3.8852	1.15612
7	Corrective action is taken promptly on adverse variances	3.7869	1.05063
8	A feedback mechanism is in place to determine extent of achievement of expected level of performance	4.5344	0.28930
Total		31.86	6.92
Average		3.98	0.87

Source: Survey Data, 2011

The study found that the budget control and performance evaluation process at KRA is to a great extent in conformity with best practice (3.98). The study also found that a register

of transactions is kept at obligation stage and payment stage (4.21), budgets are used to authorize actions and provide ceilings for management actions (4.55), a system for reporting of actual expenses and revenues against budgeted expenses and revenues is in place (4.11) and a feedback mechanism is in place to determine extent of achievement of expected level of performance (4.53). The respondents were undecided as to whether a system for re-allocation of funds from programmes with surplus funds to those that require funds is in place (3.01).

4.4.4 Factor Analysis

Factor analysis seeks to identify the underlying unobservable (latent) variables that are reflected in the observed variables (manifest variables). This section provides summary results of factor analysis on the indicators of extent of conformity with best practices in budgeting processes at KRA. Principle component and varimax rotation techniques were used to perform the data reduction.

Table 10: Indicators of conformity with best practice in budgeting at KRA

Factor	Budgeting Best Practices Indicators
F1	Allocating resources to various areas by comparing the cost and benefit of each activity
F2	Clearly identifying organizational goals to be attained during the year
F3	Budget planning involves setting goals and timelines for production of budget.
F4	The process focuses budget decisions on results and outcomes
F5	The budget process establishes linkages to broad organizational goals
F6	Staff are properly briefed on budgeting process, timelines and assumptions
F7	The budgeting involves and promotes effective communication with all stakeholders
F8	Budgeting results in budgets that can accommodate changes in business environment

Factor	Budgeting Best Practices Indicators
F9	Budget planning ensures budget is consistent with the strategic plan
F10	Budgeting involves identification and enumeration of the implementation tasks.
F11	An accounting system that records transactions and provides a framework for an analysis of their implications is implemented
F12	A reporting system that permits a periodic appraisal of the actual implementation of policies is in place
F13	An Allocation system under which expenditure is controlled by release of funds is in place
F14	The process of budget implementation is facilitated by personnel with specialized skills
F15	There is supervision of the acquisition of goods and services to ensure value for the money spent
F16	KRA budget implementation greatly relies on efficient accounting systems
F17	A register of transactions is kept at obligation stage and payment stage
F18	Budgets are used to authorize actions and provide ceilings for management actions
F19	Budget control reports are used as a basis for evaluating managerial performance
F20	A system for reporting of actual expenses and revenues against budgeted expenses and revenues is in place
F21	A system for re-allocation of funds from programmes with surplus funds to those that require funds is in place
F22	Variance analysis is done and adverse variances investigated promptly
F23	Corrective action is taken promptly on adverse variances.
F24	A feedback mechanism is in place to determine extent of achievement of expected level of performance

Source: Survey Data, 2011

Communalities

Communalities indicate the amount of variance in each variable that is accounted for. Small values indicate variables that do not fit well with the factor solution, and should possibly be dropped from the analysis and once they are dropped what remains will be the factors to be tested and thus the table below.

Table 11: Communalities

	FACTORS	Initial	Extraction
1	Budget planning embarks on allocating resources to various areas by comparing the cost and benefit of each activity	1.000	.995
2	Budget planning involves clearly identifying organizational goals to be attained during the year	1.000	.994
3	Budget planning involves setting goals and timelines for production of budget.	1.000	.850
4	The process focuses budget decisions on results and outcomes	1.000	.849
5	An accounting system that records transactions and provides a framework for an analysis of their implications is implemented	1.000	.760
6	A reporting system that permits a periodic appraisal of the actual implementation of policies is in place	1.000	.758
7	An Allocation system under which expenditure is controlled by release of funds is in place	1.000	.738
8	The process of budget implementation is facilitated by personnel with specialized skills	1.000	.707
9	Budgets are used to authorize actions and provide ceilings for management actions	1.000	.664
10	Budget control reports are used as a basis for evaluating managerial performance	1.000	.529
11	A system for reporting of actual expenses and revenues against budgeted expenses and revenues is in place	1.000	.377
12	A system for re-allocation of funds from programmes with surplus funds to those that require funds is in place	1.000	.146

Extraction Method: Principal Component Analysis.

Communalities in the column labeled extraction reflect the common variance in the data structure. Therefore 99.5% of the variance relating to the factor: budget planning embarks on allocating resources to various areas by comparing the cost and benefit of each activity is common variance. Similarly 99.4% of the variance relating to the factor: budget planning involves clearly identifying organizational goals to be attained during the year is a shared variance. It can be noted majority of the items have shared variances of more than 50%.

Table 12: Correlation Matrix

Factors	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	F12
F1	1.000	-.079	-.069	.365	.104	.269	.033	.047	-.098	.162	.113	.035
F2	-.079	1.000	.006	-.095	-.119	-.009	-.006	-.025	-.028	-.095	-.123	.000
F3	-.069	.006	1.000	.032	-.002	.002	-.014	-.011	.991	.000	-.024	-.027
F4	.365	-.095	.032	1.000	.438	.331	.022	.167	.025	.086	.078	.023
F5	.104	-.119	-.002	.438	1.000	-.056	.013	.159	.026	.172	.069	.033
F6	.269	-.009	.002	.331	-.056	1.000	-.013	-.013	-.033	-.035	.100	-.023
F7	.033	-.006	-.014	.022	.013	-.013	1.000	-.002	-.015	.135	.007	.706
F8	.047	-.025	-.011	.167	.159	-.013	-.002	1.000	.007	.011	-.007	-.011
F9	-.098	-.028	.991	.025	.026	-.033	-.015	.007	1.000	.047	.009	-.022
F10	.162	-.095	.000	.086	.172	-.035	.135	.011	.047	1.000	.549	.101
F11	.113	-.123	-.024	.078	.069	.100	.007	-.007	.009	.549	1.000	-.004
F12	.035	.000	-.027	.023	.033	-.023	.706	-.011	-.022	.101	-.004	1.000

Source: Survey Data, 2011

The table above shows that strong correlations (above 0.5) are between the factors: budgets are used to authorize actions and provide ceilings for management actions and the factor :budget planning involves setting goals and timelines for production of budget at 0.991.The factor; a system for re-allocation of funds from programmes with surplus funds to those that require funds is in place is and the factor: an Allocation system under which expenditure is controlled by release of funds is in place at 0.706, and between a system for reporting of actual expenses and revenues against budgeted expenses and revenues is in place and the factor :budget control reports are used as a basis for evaluating managerial performance at 0.549. These results suggest that a strong relationship exists between these factors.

Table 13: Factor scores of budgeting best practice indicators in KRA**Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.068	17.236	17.236	2.068	17.236	17.236	1.999	16.66	16.66
2	1.998	16.653	33.889	1.998	16.653	33.889	1.723	14.357	31.017
3	1.706	14.216	48.105	1.706	14.216	48.105	1.617	13.479	44.496
4	1.399	11.657	59.761	1.399	11.657	59.761	1.588	13.236	57.732
5	1.195	9.96	69.722	1.195	9.96	69.722	1.439	11.99	69.722
6	0.949	7.912	77.633						
7	0.863	7.189	84.822						
8	0.712	5.931	90.753						
9	0.415	3.461	94.214						
10	0.397	3.31	97.524						
11	0.291	2.428	99.952						
12	0.006	0.048	100						

Extraction Method: Principal Component Analysis.5 components extracted

Table 13 shows that the first five factors explain a total of 69.722% of the total variance and this shows their significance in the analysis. Since these five factors have all factors with eigen values greater than 1, they are used in further analysis. Rotation has the effect of optimizing the factor structure and one consequence for these data is that the relative importance of the five factors is equalized. For example factor one before rotation accounted for 17.236% of the variance and after rotation it accounted for 16.660% of the variance.

The rotation method was used to simplify the interpretation of factor analysis. The rotated solution identifies the variables that have large loadings for a particular factor or component. The variables that measure the same component can then be identified.

The following observations can be made from the rotated component matrix (see appendix III). Component 1 loads highly with the factors; Budget planning involves setting goals and timelines for production of budget and Budgets are used to authorize actions and provide ceilings for management actions.

Component 2 loads highly with: A system for re-allocation of funds from programmes with surplus funds to those that require funds is in place and An Allocation system under which expenditure is controlled by release of funds is in place.

Component 3 loads highly with the factors; Budget control reports are used as a basis for evaluating managerial performance and system for reporting of actual expenses and revenues against budgeted expenses and revenues is in place.

Component 4 loads highly with factors; A reporting system that permits a periodic appraisal of the actual implementation of policies is in place and factor: the process focuses budget decisions on results and outcomes and Budget planning embarks on allocating resources to various areas by comparing the cost and benefit of each activity.

Component 5 loads highly with the factors; the process of budget implementation is facilitated by personnel with specialized skills and an accounting system that records transactions and provides a framework for an analysis of their implications is implemented and the process focuses budget decisions on results and outcomes.

Table 14: Component Transformation Matrix

Component	1	2	3	4	5
1	-.389	.318	.510	.559	.418
2	.912	.048	.272	.177	.245
3	.067	.911	.035	-.339	-.221
4	.068	.256	-.814	.422	.297
5	.084	.024	.038	.602	-.793

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

4.5 Suggestions on improving budgeting processes at K.R.A

The respondents highlighted that there was need to automate the budgeting process to make it more efficient. This may include acquiring budgeting software to be used by the Authority. The respondents also suggested that the management should consider sensitizing staff on the budgeting process so as to improve on the level of staff participation in the process.

The respondents also suggested that a system be put in place to ensure all budget proposals are subjected to cost benefit analysis. The respondents further suggested that, budgeting should be made a dynamic process within strategic planning. The more your budgets can react to change, the closer budgeting will be to a value-added activity in the organization

The respondents further suggested that management hold cost centers responsible for meeting their budgets. This can force feedback from end-users for improvements in the budgeting process at the organization

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of research findings, conclusion of the study, recommendations for policy and practice, limitations of the study, and suggestions for further research.

5.2 Summary

The objectives of this study were to determine the extent to which budgeting processes at the Kenya Revenue Authority have achieved budgeting objectives and to evaluate budgeting processes at the Kenya Revenue Authority against best practice.

The study found that 37% of the respondents were middle level managers while 37% were supervisory level managers and 26% were senior managers. The findings further revealed that all departments and support divisions at KRA participate in the preparation of both development and recurrent expenditure budgets.

The study found that budgeting processes at KRA had achieved their objectives. With respect to extend of achievement of budget planning objectives, an average mean of 3.61 was recorded. On the extent of achievement of budget implementation objectives, an average mean of 3.66 was recorded. Finally on the extent of achievement of budget control and performance evaluation objectives, a mean of 3.74 was recorded.

The study also found that the budgeting processes at the KRA were in conformity with best practice. The budget planning process at KRA was found to be in conformity with

best practice with an average mean score of 3.62. The budget implementation process at KRA was also found to be in conformity with best practice with an average mean score of 3.78. Finally the budget control and performance evaluation process at KRA was also found to be in conformity with best practices with an average mean score of 3.98.

5.3 Conclusions

The study concludes that the budgeting processes at KRA have achieved their objectives to a great extent. This can be attributed to observance of best practices in budgeting at the organization.

The study also concludes that the budgeting processes at KRA are in conformity with best practices to a great extent. This can be attributed to the various reforms and modernization programmes undertaken by KRA which have resulted in the organization embracing best practices in its operations.

5.4 Recommendations

Whereas the study found that the budgeting processes at KRA were to a great extent in conformity with best practice, certain aspects of the budgeting processes in KRA need to be reviewed with a view of improving the processes in the future. For instance KRA management should ensure that systems are put in place to facilitate preparation of budgets which can adapt easily to changes in business environment.

KRA management should also ensure that all budget proposals are subjected to cost benefit analysis test. This is important as it will ensure that only those budget proposals that add value are approved. The management of KRA should also consider sensitizing

managers on the budgeting process to ensure that they clearly understand the quantifiable parameters used to judge their performance.

The budget control and performance evaluation process at the organization needs to be enhanced, so as to provide managers with a deeper understanding of the key cost drivers for their departments.

5.5 Limitations of the Study

There were a number of limitations that affected the outcome of the study. For instance, data was collected from only 35 respondents out of the total number of 39 respondents. This is because some of the senior managers were not able to complete the questionnaires on time. In addition the analysis covered one parastatal only. This may limit the applicability of the findings to all parastatals in Kenya.

The other limitation was time factor as it was not possible to collect data from more than three employees from each department within the time given to carry out the research. This may limit the applicability of the research findings to the other parastatals in Kenya.

Financial resources were another limitation. The research demanded a lot of printing, bindings, typesetting, and data collection. All these activities needed funding and this was a challenge to the researcher.

5.6 Suggestions for Further Research

The study has evaluated the budgeting processes of parastatals in Kenya, with specific reference to Kenya Revenue Authority. Parastatals in Kenya however differ in terms of their mandates, nature of operations, size and other attributes. This warrants the need for

similar studies on other parastatals in different sectors of the economy to determine if the results will still be the same.

A study should be carried out to determine factors that impact on achievement of budgeting objectives in parastatals in Kenya. Studies should also be carried out to investigate the factors that influence budget implementation in parastatals in Kenya.

In addition, studies need to be done to determine the effect of top management commitment on budget performance in Parastatals in Kenya. Further a study should also be carried out to investigate the impact of staff participation on budgeting processes in parastatals in Kenya.

REFERENCES

- Abdel-Kader & Luther, M.R.,(2006). Management Accounting Practices In The Food and Drinks Industry. *British Food Journal*, 108 (5), 336-357. 5.
- Abernethy, M.,& Brownell, P. (1999). The Role of Budgets in Organizations Facing Strategic Change: An Exploratory Study, *Accounting, Organizations & Society*, 24(3),189-205.
- Abernethy, M.A.,& Stoelwinder, J.U. (1991). Budget Use, Task Uncertainty, System Goal Orientation and Sub-Unit Performance: A Test of the Fit Hypothesis in Not-for-Profit Hospitals, *Accounting, Organizations and Society*, 16 ,105-20.
- Alam, M., Lawrence, S. (1994). A New Era in Costing and Budgeting: Implications of Health Sector Reform In New Zealand, *International Journal Of Public Sector Management*, 7 ,(6), 41-51.
- Anderson I. (1993). the role of budget data in the evaluation of managerial performance, *Accounting, Organizations and Society*, 14. (4), 325-35.
- Anderson, S.W., Lanen, W. (1999). Economic Transition, Strategy and the Evolution of Management Accounting Practices : The Case of India, *Accounting, Organizations and Society*, 24. (5), 379-412.
- Behn, R.D. (1985). Cutback Budgeting. *Journal Of Policy Analysis and Management*,4,(2),155-177.
- Biwott E.J. (1987). *The Budgetary Allocation Process in Public Sector Institutions: The Case Of The UON* .Unpublished MBA Project. University Of Nairobi.

- Bremser, W. (1988). *Budgeting by Department and Functional Area*, American Management Association, Watertown, MA,
- Brownell, P. (1982).The role of accounting data in performance evaluation,budgetary participation, and organizational effectiveness, *Journal of Accounting Research*, 20(1), 12-27.
- Brownell, P. & Dunk, A. (1991).Task uncertainty and its interaction with budgetary participation and budget emphasis: some methodological issues and empirical investigation, *Accounting, Organizations and Society*, 8,693-703.
- Botner,S.B.(1985).The Use Of Budgeting/Management Tools By State Governments. *Public Administration Review*, 45(5), 616-620.
- Burns, J., Scapens, R.W. (2000).Conceptualizing Management Accounting Change: An Institutional Framework, *Management Accounting Research*, 11, 3-25
- Campbell, I. J. (1985), Budgeting: is it a technical or behavioral process, *Management Accounting*, pp. 66-70
- Chenhall, R.H. (1986). Authoritarianism And Participative Budgeting: A Dyadic Analysis. *The Accounting Review*, 61(2), 263-272
- Chenhall, R.H., Smith, K.L. (1998), Adoption and Benefits of Management Accounting Practices: An Australian Study, *Management Accounting Research*, 9, 1-19.

- Claessens, J.P., Fan, P.H., & Wong, T.J. (2002), A study of the relationship between the independent director system and the operating performance of the business in Taiwan, working paper, .
- Cook, D. (1968).The effects of frequency of feedback on attitudes and performance: empirical research in accounting, selected studies, *Journal of Accounting Research*, Supplement, 6, 213-24.
- Cooper, D.R and Schindler, P.S. (2003) *Business Research Methods* (8th edn) McGraw-Hill: New York
- Cress, W.P., & Pettijohn, J.B. (1997), A Survey of Budget-Related Planning and Control Policies and Procedure, *Journal of Accounting Education*, 3, 61-78
- Dean, B.V. & Cowen, S.S. (1979), Use Of Zero Base Budgeting In Industry: Some Observations, *Interfaces*, 9,(4),55-60
- Dominiak, G.F., & Louderback, J.G. (1998), *Managerial Accounting*, PWS-Kent, Boston, MA, .
- Douglas, B.R. (1994). The Budgeting Process in a Multinational Firm, *Multinational Business Review*, 2, 59-63.
- Dunk, A.S. (1993). The effect of budget emphasis and information asymmetry on the relation between budgetary participation and slack, *The Accounting Review*, 16, 400-10.

- Dyer, J.S. (1970). The Use Of PPBS In a Public System Of Higher Education: Is It Cost Effective. *The Academy Of Management Journal*, 13 (3), 285-299.
- Ezzamel, M. Bourn K. (1990). The impact of environmental uncertainty, managerial autonomy and size on budget characteristics”, *Management Accounting Research*, September, 181-97.
- Flamholtz, E.G. (1983), Accounting, Budgeting and Control Systems in their Organizational Context: Theoretical and Empirical Perspectives, *Accounting, Organizations and Society*, 8 ,153-69.
- Fischer, J.G., Frederickson, J.R., & Pfeffer, S.A.(2000) An Experimental Investigation Of The Effects Of Negotiation. *The Accounting Review*, 75 (1), 93-114
- Frucot,V.,& Shearon,W.T. (1991).Budgetary Participation ,Locus Of Control , and Mexican Managerial Performance and Job Satisfaction. *The Accounting Review*, 66 (1), 80-99.
- Garrison, R.H., Noreen, E.W., Brewer, P.C. (2008). *Managerial Accounting*, 12th ed., McGraw-Hill Irwin, New York, NY.
- Githige.S.N (2009). *Budgeting Practices & Challenges In The Dairy Co-operative Societies In Kenya*.Unpublished MBA project.University Of Nairobi.
- Gwiliam, K. & Shalizi (1999) Road Funds, User Charges and Taxes, World Bank Research Observer 14(2), 159-85

- Hassel, L., & Cunningham, G. (1993). Budget effectiveness in multinational companies: an empirical examination of environmental interaction on cognitive and affective effects of two dimensions of budgetary participation, *Scandinavian Journal of Management*, 9 (4)
- Hirst, M.K. & Lowy, S.M. (1990). The linear additive and interactive effects of goal difficulty and feedback on performance, *Accounting, Organisations and Society*, 15 (5), 425-36.
- Holland, L (2000), Horsepower, *Management Accounting*, vol. 78, pp.24
- Hope, J. and Fraser, R. (2003). *Beyond budgeting: how managers can break free from the annual performance trap*. Boston, Mass, Harvard Business School.
- Hooper, J.F. (1968). Planning, Programming, Budgeting System. *Journal Of Range Management*, 21 (3), 123-125.
- Jones, T. (2006). Budgetary practice within hospitality, in Harris, P.J., Mongiello, M. (Eds), *Accounting and Financial Management: Developments in the International Hospitality Industry*, Butterworth-Heinemann/Elsevier, Oxford, pp.71-86.
- Kadondi E.A. (2002). *A Survey of Capital Budgeting Techniques used by Companies Listed at the NSE*. Unpublished MBA Project. University Of Nairobi.
- Katz A S and Kahn J R, (1978). The role of budget data in the evaluation of managerial performance, *Accounting, Organisations and Society*, 14 (4), 325-35.

- Kenis, I.(1979).Effect of budgetary goal characteristics on managerial attitudes and performance, *The Accounting Review*, 54, 707-21.
- Klammer, T. (1973) The association of capital budgeting and firm performance, *The Accounting Review*, 48, (2),353-64.
- Lewis C. W., (2005), *The Field of public Budgeting and Financial Management*, 1789-2004, CRC Press
- Locke, E. A. & D. M. Schweiger (1979), Participation in decision-making: One more look, *Research in organizational behavior*, 1,265-339.
- Lyne, S.R. (1998), The Role of the Budget in Medium and Large UK Companies and the Relationship with Budget Pressure and Participation, *Accounting and Business Research*, 18,(71),.195.
- Maher, M.W. (2005), *Activity-Based Costing and Management*, In Weil, R.L., Maher, M.W. (Eds),*Handbook Of Cost Management*, John Wiley & Sons, Hoboken, 217-41.
- Merchant, K.A.(1981). The design of corporate budgeting system: Influences on management behavior and performance. *The Accounting Review*,56,(4),813-829.
- Mia, L. (1989). The impact of participation in budgeting and job difficulty on managerial performance and work motivation: a research note”, *Accounting Organizations and Society*, 14,(4), 347-57.

- Milani, K. (1975). The relationship of participation, in budget-setting to industrial supervision performance and attitudes: a field study, *The Accounting Review*, 50,274-84.
- Muleri, A.M (2001). *A Survey of Budgeting Practices among the Major British Non Governmental Organizations in Kenya*. Unpublished MBA Project. University Of Nairobi.
- Ndiritu M. George (2007). *Effectiveness of Cash Budgeting in Public Institutions. A Case Study of Telkom Kenya*, Unpublished MBA Project. University Of Nairobi
- Orodho, J.A (2004) *Techniques of writing research proposals and reports in educational and social sciences*. Kanezuya HP Publishers. Maseno.
- Phyrr,P.A.(1970). Zero Base Budgeting, *Harvard Business Review*, Nov-Dec 1970,111-121.
- Pollitt, C. & Bouckaert, G. (2004). *Public Management Reform: A Comparative Analysis*, Oxford University Press, Oxford.
- Powell, T.C. (1992). Strategic Planning As Competitive Advantage, *Strategic Management Journal*, 13, 551-558
- Premchand A (2004). *Government Budgeting and Expenditure Controls: Theory and Practice* Published by International Monetary Fund.
- Premchand, A.(1969). Budgeting In The Public Sector, *Economic and Political Weekly*, 4,(8) .M13,M15,M17

- Ramsey, J.E., & Ramsey, I.L.(1985). *Budgeting Basics: How to Survive in Budgeting Process*, Franklin Watts, New York, NY.
- Sheridan, T. (1987), Making Budgets Mean Something Again, *Management Accounting*, No.November, Pp.26-7.
- Siaya,A.O (2009). *Challenges of budgeting at City Council of Nairobi*. Unpublished MBA project.University Of Nairobi.
- Simiyu,N.T (1977).*The Problems of budgeting and motivation at the supervisory level in manufacturing firms in Kenya*. Unpublished MBA Project. University Of Nairobi.
- Srinivasan, U. (2000), Current Budgeting Practices in US Industry, Quorum Books, New York, NY,
- Sullivan Arthur & Steven M. Sheffrin (2003) *Economics: Principles in action*. Upper Saddle River, New Jersey 07458: Pearson Prentice Hall. pp. 502. ISBN 0-13-063085-3.
- Wamae Martin M. K. (2008) *Challenges of Budgeting at National Social Security Fund*. Unpublished MBA Project. University Of Nairobi.
- Weisenfeld, L, & Tyson, T. (1990), How to Make Accounting a Positive Tool in Management's Hands, *Management Accounting (UK)*, November - December, Pp.19-20.

APPENDICES

Appendix I: Letter of Introduction to Respondents

University of Nairobi

School of Business

P.O BOX 30197-00100

Nairobi.

SEPTEMBER, 2011

Dear Respondent,

RE: COLLECTION OF MBA PROJECT DATA

I am a masters' program student at University of Nairobi, School of Business.

In order to fulfill the master's program requirements, I am undertaking a research project on **BUDGETING PROCESSES IN THE GOVERNMENT PARASTATALS IN KENYA; A CASE OF KENYA REVENUE AUTHORITY.**

Your department has been selected to form part of this study. Therefore, I kindly request you to assist me to collect data by responding to the interview questions.

The information provided will be used exclusively for academic purposes and will be held in strict confidence. Thank you.

Yours faithfully,

Frank Washe _____

Student

Joseph Barasa _____

Supervisor

Appendix II: Questionnaire

Kindly answer the following questions by ticking in the appropriate box or filling the spaces provided.

Part A: General Information

1. Department Name:

.....

2. What is your level in management within the organization? Kindly tick on one.

Top Management	
Middle level Management	
Supervisory Level Management	

PART B: BUDGETING OBJECTIVES AND BUDGETING PROCESSES

3. Does your department participate in the budgeting process within the organization?

Yes [] No []

4. Does your department participate in preparations of the following budgets? Kindly tick on all that applies appropriately

Type of budget	Yes	No
Recurrent expenditure (operating) budgets		
Development (Capital) expenditure budgets		

5. In your opinion, to what extent has budget planning process in KRA achieved the objectives listed below? Use a scale of 1 to 5 where:

1= Extremely no extent; 2= No extent; 3=Neutral; 4=Great extent; 5= Very great extent.

No.	Budget Planning Objectives	1	2	3	4	5
1	Ensure all requests for budget allocation are fully justified and are subjected to cost benefit analysis test					
2	Ensure funds are allocated according to the budgetary support needed for each programme of action for the next year and beyond					
3	Ensure budget preparation and approval are done within set timelines					
4	Ensure budget development is linked to corporate strategy					
5	Ensure staff participation in the budgeting process to enhance staff commitment towards achievement of organizational goals					
6	Ensure that the budget can adapt swiftly and effectively to changes in business direction and structure					
7	Ensure budgeting process is communicated effectively to all concerned officers					

6. In your opinion, to what extent has the budget implementation process in KRA achieved the objectives listed

below? Use a scale of 1 to 5 where:

1= Extremely no extent; 2= No extent; 3=Neutral; 4=Great extent; 5= Very great extent.

No.	Budget Implementation Objectives	5	4	3	2	1
1	To clearly identify and enumerate budget implementation tasks					
2	To ensure that the accounting system in place records all transactions and provides a framework for their analysis.					
3	To report periodically an appraisal of actual implementation of policies.					
4	To ensure that there is adequate supervision on acquisitions of goods and services to ensure value for money spent.					
5	To control expenditure by having an allocation system for release of funds to units/departments					
6	To ensure managers clearly understand the quantifiable parameters used to judge their performance					

6. In your opinion, to what extent has budget control and performance evaluation process in KRA achieved the objectives listed below? Use a scale of 1 to 5 where:
1= Extremely no extent; 2= No extent; 3=Neutral; 4=Great extent; 5= Very great extent.

No.	Budget Control and Performance Evaluation Objectives	5	4	3	2	1
1	Ensure all transactions are recorded at obligation and payment stage.					
2	Ensure that managers incur only that expenditure that is within their budget allocation.					
3	Provide management with reports on actual spending against budget to facilitate decision making					
4	Facilitate reallocation of funds from those programmes that are not capable of using allocated funds to those that require funds					
5	Ensure all adverse variances are investigated and corrective action taken					
6	To provide feedback on the extent of achievement of expected level of performance during specified period					
7	To provide basis for evaluation of managerial performance					
8	To provide managers with a deeper understanding of the key cost drivers and for their business					
9	To determine effectiveness of budgeting process at the organization					
10	To provide feedback on how the budgeting process in the organization can be improved in subsequent periods					

BUDGETING PROCESSES- BEST PRACTICES

BUDGET PLANNING

7. To what extent do you agree with the following statements about budget planning in the budgeting process at KRA? Use a scale of 1 to 5 where:

1= Strongly Disagree; 2= Disagree; 3=Mildly Agree; 4=Agree; 5=Strongly Agree

No.	Budget planning (Best practice)	5	4	3	2	1
1	Budget planning at KRA embarks on allocating resources to various areas by comparing the cost and benefit of each activity					
2	Budget planning at KRA involves clearly identifying organizational goals to be attained during the year					
3	Budget planning at KRA involves setting goals and timelines for production of budget.					
4	The budgeting process at KRA focuses budget decisions on results and outcomes					
5	The budget process at KRA establishes linkages to broad organizational goals					
6	Staff at KRA are properly briefed on budgeting process, timelines and assumptions					
7	The budgeting process at KRA involves and promotes effective communication with all stakeholders					
8	Budget planning at KRA results in budgets that can accommodate changes in business environment					
9	Budget planning at KRA ensures budget is consistent with the strategic plan					

BUDGET IMPLEMENTATION

8. To what extent do you agree with the following statements about budget implementation in the budget process at KRA? Use a scale of 1 to 5 where :

1= Strongly Disagree; 2= Disagree; 3=Mildly Agree; 4=Agree; 5=Strongly Agree

	Budget implementation (Best practice)	5	4	3	2	1
1	Budget implementation involves identification and enumeration of the implementation tasks.					
2	An accounting system that records transactions and provides a framework for an analysis of their implications is implemented					
3	A reporting system that permits a periodic appraisal of the actual implementation of policies is in place					
4	An Allocation system under which expenditure is controlled by release of funds is in place					
5	The process of budget implementation is facilitated by personnel with specialized skills					
6	There is supervision of the acquisition of goods and services to ensure value for the money spent					
7	KRA budget implementation greatly relies on efficient accounting systems					

BUDGET CONTROL AND PERFORMANCE EVALUATION

9. To what extent do you agree with the following statements about budget control and evaluation in the budgeting process at KRA? Use a scale of 1 to 5 where :

1= Strongly Disagree; 2= Disagree; 3=Mildly Agree; 4=Agree; 5=Strongly Agree

	Budget control and Performance evaluation (Best practice)	5	4	3	2	1
1	A register of transactions is kept at obligation stage and payment stage					
2	Budgets are used to authorize actions and provide ceilings for management actions					
3	Budget control reports are used as a basis for evaluating managerial performance					
4	A system for reporting of actual expenses and revenues against budgeted expenses and revenues is in place					
5	A system for re-allocation of funds from programmes with surplus funds to those that require funds is in place					
6	Variance analysis is done and adverse variances investigated promptly					
7	Corrective action is taken promptly on adverse variances.					
8	A feedback mechanism is in place to determine extent of achievement of expected level of performance					

10. Please suggest how the budgeting processes at KRA be improved

.....

.....

.....

THANK YOU

Appendix III: Rotated Component Matrix

QUESTION	Component				
	1	2	3	4	5
Budget planning embarks on allocating resources to various areas by comparing the cost and benefit of each activity	-.096	.044	.158	.693	.108
Budget planning involves clearly identifying organizational goals to be attained during the year	-.009	.034	-.281	-.015	-.255
Budget planning involves setting goals and timelines for production of budget.	.997	-.011	-.017	-.007	-.011
The process focuses budget decisions on results and outcomes	.059	.025	.033	.648	.559
An accounting system that records transactions and provides a framework for an analysis of their implications is implemented	.015	.030	.157	.067	.796
A reporting system that permits a periodic appraisal of the actual implementation of policies is in place	.021	-.042	-.049	.816	-.191
An Allocation system under which expenditure is controlled by release of funds is in place	-.003	.921	.039	.010	-.011
The process of budget implementation is facilitated by personnel with specialized skills	-.019	-.016	-.083	-.045	.606
Budgets are used to authorize actions and provide ceilings for management actions	.996	-.010	.034	-.050	.021
Budget control reports are used as a basis for evaluating managerial performance	.020	.132	.859	.011	.069
A system for reporting of actual expenses and revenues against budgeted expenses and revenues is in place	-.011	-.045	.859	.109	-.075
A system for re-allocation of funds from programmes with surplus funds to those that require funds is in place	-.016	.921	.010	.006	.004

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
A Rotation converged in 5 iterations.

