THE EFFECT OF BUDGETARY CONTROL ON EFFCTIVENESS OF NON GOVERNMENTAL ORGANIZATIONS IN NIGERIA

CHAPTER ONE

CHAPTER TWO

ABSTRACT

Budgeting involves the establishment of predetermined goals, the reporting of actual performance results and evaluation of performance in terms of the predetermined goals. Budgetary control systems are universal and have been considered an essential tool for financial planning. This study examined the budgetary control in Non-Governmental Organizations and its effects on their performance. The research target population consisted of 7,127 Non-Governmental Organizations. Thirty Non-Governmental Organizations were selected using convenience judgmental sampling technique, both local and international organizations with headquarters in Abuja. A descriptive survey (questionnaires) was used in the data collection. The statistical package for social sciences version 17.0 was used to analyze the data using descriptive statistics, including means and standard deviation. The relationship between budgetary controls and performance of the NGOs was analyzed using correlation and regression analysis.The research findings established that there is a weak positive effect of budgetary control on performance of Non-Governmental Organizations in Nigeria measured by R square at 14.3%. The purpose of budgetary control is to provide a forecast of revenues and expenditures this is achieved through constructing a model of how our business might perform financially speaking if certain strategies, events and plans are carried out. Most firms use budget control as the primary means of corporate internal control, it provides a comprehensive management platform for efficient and effective allocation of resources. Budgetary control enables the management team to make plans for the future through implementing those plans and monitoring activities to see whether they conform to the plan ,effective implementation of budgetary control is an important guarantee for the effective implementation of budget in the organization. The research recommends that employees need to be sensitized on budgetary controls and the effect on performance of the organization. It also recommends that other factors that influence performance apart from budgetary controls should be investigated by organizations. It also suggests that further research should be done on the same area but a larger sample should be used.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In the business world today, organizations have developed a variety of processes and techniques designed to contribute to the planning and control functions. One of the most important and widely used of these processes is budgeting. Budgeting involves the establishment of predetermined goals, the reporting of actual performance results and evaluation of performance in terms of the predetermined goals. Budgetary control systems are universal and have been considered an essential tool for financial planning. The purpose of budgetary control is to provide a forecast of revenues and expenditures this is achieved through constructing a model of how our business might perform financially speaking if certain strategies, events and plans are carried out (Churchill, 2001).Most firms use budget control as the primary means of corporate internal controls, it provides a comprehensive management platform for efficient and effective allocation of resources. Budgetary controls enable the management team to make plans for the future through implementing those plans and monitoring activities to see whether they conform to the plan, effective implementation of budgetary control is an important guarantee for the effective implementation of budget in the organization (Carr and

Joseph, 2000). Most organizations have adopted broad budgetary control that ensures that the entire budget system is a control system, which it is the formation of a prior, during and after the whole process of control system through the budget preparation, budget evaluation, reward and punishment by monitoring of budget execution. With a narrow budgetary control, an organization can prepare a good budget as a basis for performance management and standards on a regular basis in order to compare actual performance with the budget to analyze differences in the results and take corrective measures, which mainly involves the process of budget implementation, evaluation and control (Hokal and Shaw, 2002).

Budgetary control is the process of developing a spending plan and periodically comparing actual expenditures against that plan to determine if it or the spending patterns need adjustment to stay on track. This process is necessary to control spending and meet various financial goals. Organizations rely heavily on budgetary control to manage their spending activities, and this technique is also used by the public and the private sector as well as private individuals, such as heads of household who want to make sure they live within their means (Dunk, 2009). Budgetary control is a system of management control in which the actual income and spending are compared with planned income and spending, so that the firm can make decisions if plans are being followed and if those plans need to be changed in order to make a profit. Budgetary control is the one of best technique of controlling, management and finance in which every department's budget is made with estimated data. Then, the management conducts a comparative study of the estimated data with original data and fix the responsibility of employee if variance will not be favorable.

Organizations can use budgetary control in forecasting techniques in order to make plan and budget for the future (Epstein and McFarlan, 2011).

The management of the organizations implements budgetary control to prevent losses resulting from theft, fraud and technological malfunction. These instructions also help management to ensure that expenses remain within budgetary limits. The importance of budgetary control is that it can be implemented by three departments in an organization to enhance effectiveness. These departments are accounting department, statistical department and management department. Accounting department provides old data. Statistical department provides the tools and techniques of forecasting like probability, time series other sampling methods. Management department uses both department services to estimate the expenditures and revenue of business under the normal conditions of business (Suberu, 2010).

NGOS have a role to play in implementation and proper utilization of the allocated budget. To achieve effectiveness in budget utilization most NGO's ensures that estimated budget. The resources of NGOS' should be managed effectively and efficiently to achieve its purpose. This implies that the organization should be able to achieve its objectives by minimizing cost. Thus managing implies co-ordination and control of the efforts of the organization for achieving organizational objectives. The process of managing is facilitated when management charts its future course of certain objectives in advance, and takes decision in a professional manner, utilizing the individual and group efforts in a coordinated rational manner (Drury, 2006). One systematic approach for attaining effective management performance is budgeting. Budgets are monetized expressions of target to be accomplished in a given year by an individual, organization or nation. It is a deliberate attempt to achieve superior targets over time with available and expected resources. Such targets are influenced by the experiences of the past and expectation of the future (Douglas, 2004).With a well formulated budget, the management of NGO's can effectively to plan, coordinate, control and evaluates its activities.

It is a device intended to provide greater effectiveness in achieving organizational efficiency. To be effective, however, the functional aspects must outweigh the dysfunctional aspects. Because a budget plan exists, decisions are not merely spontaneous reactions to stimuli in an environment of unclassified goals. It is pertinent to note that management activities are the driving force behind every organization and of course necessarily unavoidable. These activities planning, organizing, directing and controlling of economic resources, are schematized to reflect the nature and objectives of the organization and must be tailored towards the attainment of the overall organization's predetermined objectives. This must be achieved effectively to ensure successful budget implementation (Donald, 2008).

Budgetary control involves the preparation of a budget, recording of actual achievements, ascertaining and investigating the differences between actual and budgeted performance and taking suitable remedial action so that budgeted performance may be achieved effectively (Controllers report, 2001). Budgetary control is the system of controlling costs through budgets. It involves comparison of actual performance with the budgeted with the view of ascertaining whether what was planned agrees with actual performance. If deviations occur reasons for the difference are ascertained and recommendation of remedial action to match actual performance with plans is done (Coates, 2005). To achieve effectiveness in budget preparation the management team of the firm should ensure the budgets for the allocated projects are implemented with the stipulated time and costs to enhance efficiency (NGO's, 2013). The basic objectives of budgetary control are planning, coordination and control. It's difficult to discuss one without mentioning the other (Arora, 1995). A budget provides a detailed plan of action for an organization over a specified period of time.

By implementing proper budgetary control planning, the firm is able to reduce costs and improve on quality of its services based on its budgetary allocations. This helps to reduce on costs and achievement of goals is enhanced and thus organizational effectiveness (Mathis, 1989). By budgeting, managers coordinate their efforts so that objectives of the organization harmonize with the objectives of its parts. Control ensures that objectives as laid down in the budgets are achieved (Churchill, 2001).

Most nongovernmental organizations are funded by international donors to implement and deliver various projects in different areas for example health, road construction, disaster responses management (Cherington and Cherington, 2003).To achieve efficient utilization of the allocated funds, proper control measures should be implemented to ensure that the management team account for the allocated funds through minimization of efficient utilization of allocated funds. NGO's in Nigeria use the budget as a tool by which managers compare costs and benefits of activities and select options that allocate resources appropriately. The management of the organization should develop policies that allow proper budgetary control procedures and processes (NGO's, 2009) To facilitate effective implementation of budgetary control, the management should define proper budgetary control processes, this is achieved through planning, monitoring and control and evaluation (Carr and Joseph, 2000).Effective implementation of budgetary control highly impacts on the performance of NGO's in Nigeria. In most cases budgetary control processes are not linked with considerations of labor controls (Hokal and Shaw, 2002).

Budgetary control is used by most organizations as a tool for proper management of resources in the organization and its activities. A firm with well formulated budgetary controls easily assigns its managers the responsibility for the use of designated financial resources to achieve their assigned operational objectives. Budget controls provides comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors, this is essential is reducing inefficiencies and poor budget practices leading to efficient allocation of scarce resources (JoshiandAbdulla, 1996).

Most NGO's in Nigeria have shifted focus to budgetary control as a way of enhancing effectiveness in their services. Recognizing the role of budget and budgetary control has gained attention which has led some organizations to establish departments for implementation. This has attributed budget monitoring and project implementation committees as an integral part of the administrations to most nongovernmental organizations in Nigeria (NGO's, 2013). Studies have been done in relation to budgetary control globally and locally: Carolyn, et al. (2007) examined the association between effects of budgetary control on performance using a sample of large US cities Financial Bonds and found that effective level of budgetary control is significantly and positively related to bond rating. Dunk (2007) carried out a study in Europe on budgetary participation and managerial performance in non profit making firms and concluded a positive correlation between budgetary participation and managerial performance in non profit making organizations. Epstein and McFarlan (2011) carried out a study in Denmark on measuring efficiency and effectiveness of a non profit‘s performance, it was found that budgetary control was one of the important tools in achieving efficiency of in non profit making organizations. Nyageng'o (2014) carried out a study to identify determinants to effective budget implementation among local authorities in Nigeria. The results of the study revealed that effective budgetary controlled to improved performance of local authorities. Serem (2013) established that there is a weak positive effect of budgetary control on performance of Non-Governmental Organization's in Nigeria measured by R square at

14.3%. Mwaura (2010) concluded that budgetary participation affects return on capital employed, return on assets to a great extent. Gacheru (2012) in her study of the effects of the budgeting process on budget variance in NGOs in Nigeria found out that budget preparation, budgetary control and budget implementation significantly influence budget variance. From the review of past research most studies have concentrated on budgetary control and how it affects organizational performance in both the public and private sectors. This study is determined to fill this gap by trying to establish whether there is any relationship between budgetary control and effectiveness of NGO's in Nigeria. To achieve this objective this study attempted to answer the following research question: what is the effect of budgetary control on effectiveness of NGO's in Nigeria?

1.2 Statement of the Problem

As any organisation NGO's undergoes the Budgeting process at the beginning of every project, where by the budget Committee members draft the budgets according to the activities of the project and these budgets are usually on annual basis unless the funder has a different set up (Carter, McDonald and Cheng, 1997). The Grants department takes lead in Budgeting and budgetary control by tracking the budgets for all the organisational projects which are approximately 30 projects that are not easy to monitor closely and in some instances, project budgets are overrun. According to some NGO Financial reports, some project budget lines were getting exhausted before the end of budget period there by creating negative variances. This could be due to over spending on some activities or spending on unbudgeted for activities causing budget deficits hence affecting the cash flows. The above if not checked would affect the performance of the organisation in the long run and therefore the motivation to understand more about budgeting and budgetary control since the organisation relies more on budgets in performing all its activities.

1.3Aim and Objectives of the study:

This study sought to examine the effect of budgetary controls on the effectivenessof Non-Governmental Organisations in Nigeria

The specific objectives were:

iTo establish the effect of monitoring and evaluation on effectiveness of nonGovernmental Organizations in Nigeria;

ii To determine the effect of cost reductions on effectiveness of Non-Governmental Organizations in Nigeria

iii To determine the effect of availability of financial resources on effectiveness of Non-Governmental Organizations in Nigeria.

1.4 Research questions:

The study was guided by the research questions:

i. What is the budgeting process in NGOS?

ii. Which are the benefits of budgets and budgetary controls?

iii. What are the challenges associated with budgeting and budgetary controls?

iv. What are the effects of budgetary control on NGO's

1.5 Scope of the Study

1.7.1. Subject Scope:

The Study focused on budgeting and budgetary control in terms of perceived grant income and expenditure at NGO's

1.7.2. Time Scope

The study focused on period from 2018-2020 as the period ensured that the current information about budgeting and budgetary control was obtained.

1.8 Significance of the study:

Other firms can benefit from the findings of this study by adopting proper measures of budget control to ensure efficient and effective utilization of available budget. The study, having examined the principle of budgeting; preparation, implementation and control, the other firms was in a better positioned in dealing with budgets and budgetary control matters. The findings of this study will provide more insights to the government and other policy makers in setting policies that encourage other firms to use budgets as a performance evaluation tool. Researchers and academicians interested in this area or other related topics can use the findings of this study to serve as a good source for further research. In addition, an examination of the various prerequisites of the budgeting system will enable the reader to better appreciate the use of budget in evaluating performance in relation to predetermined set goals of the organization. Furthermore, an exploration of the dangers and problems associated with budget will also enhance the reader s knowledge in the use of budget as a performance standard. The study enhanced the researcher's knowledge in conducting research as well as added to the existing body of knowledge about Budgets and Budgetary control.

1.9.Definition of Terms;

Budget is a financial plan for a defined period, often one year. Its also the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposals for how to meet them.

BudgetaryControl is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability.

Implementationis the carrying out, execution, or practice of a plan, a method, or any design, idea, model, specification, standard or policy for doing something.

Effectiveness is the capability of producing a desired result or the ability to produce desiredoutput.

Finance is a term for matters regarding the management, creation, and study of money and investments.

Planningis the fundamental management function, which involvesdecidingbeforehand, what is to be done, when is it to be done, how it is to be done and who is going to do it.

NGO Organizations which are independent of government involvement

PBBSPerformance-Based Budgeting System

SACCOS Savings and Credit Cooperative Societies