FACTORS AFFECTING BUDGET PREPARATION: A CASE STUDY OF USIU-AFRICA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A project Report submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University for academic credit.

Sign: ___________________________ Date: ___________________________

Mwasi Roselyne Mkanjala (ID 645496)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ___________________________

Prof. Amos Njuguna

Signed: ___________________________ Date: ___________________________

Dean, Chandaria School of Business
The study intended to determine the factors that influence budget preparation and it was guided by the following research objectives. To determine the external factors that influence budget preparation, to determine the internal factors that influence preparation of Organizational budgets, to investigate the challenges in budget preparation and to determine what can be done to enhance budget preparation.

The study used a descriptive survey and the population under study staff of United States International University of Africa based in all the departments. The study therefore focused on about 38 departments with knowledge on budget preparation however only 30 responded giving a 79% response rate. Data was collected through the administration of questionnaires to the relevant people. Data was first input and coded in excel before exporting into SPSS for analysis, the result was presented in figures and tables.

The study established that inflation, inflationary levels, taxation and product pricing affected budget preparation. On the other hand, most respondents were neutral on whether inclusion of supply chain management, Receipt of Funding, Politics and incremental Budgeting affected budget preparation at USIU-A. It was also noted that availability of financial resources was a major factor in budget preparation while staff involvement improves accountability. The correlation findings revealed that the receipt of funding in foreign currency r(28)=0.713, p<0.05; inflation in the funded countries r(28)=0.623, p<0.05; taking into account variances caused by inflationary levels r(28)=0.438, p<0.05; had a significant impact on budgeting.

The study established the challenges in budget preparation as lack of Budget preparation skills, lack of training, rigid and non-adaptable budgetary planning and control systems and failure to respond to environmental changes, To Improve budgeting, USIU-A should allocate more resources to the activities or departments that generate more profit. A Pearson correlation done revealed that availability of financial resources r(28)=0.400 p<0.05; The managers skill in presentation of budgetary and financial information r(28)=0.584 p<0.05; Lack of enough skilled manpower r(28)=0.461 p<0.05; managers’ Participation in budgeting r(28)=0.408 p<0.05; and continuous budget monitoring r(28)=0.757 p<0.05 had a significant impact on the budgeting process.
It was revealed that to enhance budget preparation training of personnel involved in the budgeting process will help enhance budget preparation. A correlation done revealed that Training of personnel involved in the budgeting process $r(28)=-0.631 \ p<0.05$, and adoption of flexible budgets $r(28)=-0.421 \ p<0.05$ significantly affected Budgeting.

The study concluded that internal factors in USIU-A have the potential of influencing budgeting, such include continuous monitoring, lack of Budget preparation skills and lack of training in budget preparation. It was also concluded that when firms undertakes the necessary training of personnel it enhance budget preparation, and there is a need to adopt flexible budgets which will help enhance the budgeting.

The study recommended that it is essential for the institution to plan well and devise ways of mitigation. Such could include putting up inflation allowance and making prompt payments where applicable. USIU-A needs to device other ways of generating revenues to avoid shortage of financial resources. The firm also needs to undertake regular periodic evaluation to deter mismanagement. The organization needs to consider equipping its employees with budget preparation skills through offering training in budget preparation. For further studies there is a need for a similar study to be undertaken across other private university so as to be able to generalize the findings. There is also a need to access the exact training needs required in the organization.
ACKNOWLEDGEMENT

I thank the Almighty God for his enduring love, Grace and Providence which enabled me to undertake this study.

I am grateful to my supervisor, Prof. Amos Njuguna for his guidance, instructions and encouragement during the research.

I wish to express my gratitude to my family who sacrificed a lot to allow me conclude the project.
DEDICATION

This project is dedicated to my Husband Danson Gitari, my lovely daughter Elsie, my mother and sisters for all the inspiration and encouragement they have given me all through my MBA studies.
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CHAPTER ONE

1.0 INTRODUCTION
1.1 Background of the Problem

The ability to predict, develop and manage budget is an important skill for every manager in an institution. Therefore, every management level in an organization holds some degree of responsibility towards budget management. In the context of a learning institution, the professionals involved in budget management need to have deep knowledge on budget and relevant skills essential in preparation, managing the challenges and issues related to budgets. This ensures that there exists competency required to realize administrative success. Higher learning institutions both private and public undergo evolution linked to discovery and capture monetary resources required for supporting learning activities (Breneman, 2012). As a matter of fact, the larger fiscal scope involves issues which had been influenced by 2008 to 2009 recession that impacted on higher learning institutions funding (Breneman, 2012). This led to competition increase for both public and private economic sectors; regulation increase; increase in staff and faculty competition; increased student competition; focus on the consistent increase in higher education cost for students as well as their families; as well as increase in the cost of buying products in the country.

Callahan, & Waymire (2007) define a budget as a standard device where calibration and comparison of actual performance is presented. This is an essential device as it becomes a means through which top management in an organization communicate their expectations to the staff and managers. In accordance with David (1988), the budget process ensures that there exist coordination and planning among diverse functional sub departments in the organization. Flamholtz(1983) conquers with Davids’s view by contending that budget needs organization management to give clarity on the cash outflows and inflows, sales, as well as costs incurred while providing effective measures involved in organization control and planning.

Budgets are developed with the vision of quantifying institutional plans within a specific period and to be in a position to control organizations’ movement so as to limit its operation within a given limit (Blocher, Chen & Li, 2002) Therefore, the budget is a representation of the organizational goals indicated in terms of finance. In addition, planning function linked to budget targets at quantifying as well as analytically coordinating essential
information regarding institutions goal. According to Searforce & Monczka (2015) in their article “perceived participation in the budget process and motivation to achieve the budget”, the process of setting goals can be perceived as creation of the desired institutional state and the institutional components. In Schick (1999) view, budget is a device for controlling and planning the utilization of the scarce resources in finance targeting at realizing the institutional mission and vision. Therefore, the budget will finally create performance targets for the elements in terms of revenues, production, or costs while providing the management with a more realistic performance goals towards coordinating various targets (Little, Nace & Welker, 2002).

The presence of a stable organizational plan and goals lead to budget control function where variances between desired and actual performance are calibrated over a given period. The budget therefore, provides the organizational management with a mechanism to carry out performance evaluation of managers (Searforce & Monczka, 2015). In this aspect, realizing the budget goal becomes an essential management target, due to the fact that a manager is situated in a position of making comparison between to actual performance and the budget.

There have however been criticisms about the budgets from early times with ancient writers like Argyris’ (1953) stating that budget gaming is one of the most criticized weakness of budgets. Budget gaming emanates from individuals carrying out counterproductive actions to attain their own personal goals as opposed to the organizations goals. According to (McNally, 2002) budgets are not useful in today’s uncertain business environment. The budgeting process of budgeting is expensive and also time consuming and as a result by the time the budget is approved, the budget may no longer be accurate because of the highly dynamic business environment.

Budgets involve a lot of approximation and guesswork and have caused a lot of wrangles between the management and the subordinates as the management seeks to attain the maximum from their staff as the subordinates seek to build in slack so as to make the budget numbers attainable (Prendergast, 2000). Budgets also put into jeopardy the future of the company by putting so much emphasis on short term profits at the expense of long-term goals like customer satisfaction. Stewart (1990) also agrees with McNally and Prendergast in stating that experts criticize budgets as not being effective. As a conclusion, in as much as budgets have their own challenges, they can be considered as a very important tool in the business world (Ahmad, Suleiman et al., 2003).
The process of budgeting in an organization function is a key element in both control and planning. According to Thomas (2000), the budget involves formulating future plans, implementing the set plans, and monitoring the set activities to identify its coherence with the plan. On the other hand, a budget according to Lucey (2002), can be termed as a quantitative statement given within a specified period involving assets, planned revenues, cash flows, and liabilities. This definition is shared by Horngren, Foster, Sakar, Datar and Howard, (2005) who elaborates that budget is a quantitative reflection of future action plan by organization management hence aiding coordination as well as implementation of targets. Lucey (2002) emphasizes that so as to achieve the organization plan, the top management in an institution requires supporting, collaborating, as well as motivating both the middle managers and their staffs while ensuring existence of a well-structured reporting system. Therefore, the process of budgeting in institutions includes activities that initiate development, operationalizing, and plan evaluation for assets and services provision in the organization (Drury, 2000).

An effective budget process usually involves a long term approach pegged on institutions mission and vision, while targeting budget decision on feedback and enhancing effective stakeholder’s communication. Mawathe (2008) concludes that the budget therefore should be strategic in context rather than only focus on balancing expenditure and revenues annually. This budget is usually periodically revised each year in line with the new data. The reviewing process of budget repositions the structure of involvement of staffs in the process of its implementation hence initiating every employee in the organization (Drury, 2000).

Lucey (2002) defines variance as the dissimilarity between budget amount and the actual findings in an organization, hence acting as a bench mark for a firms operation. As a matter of fact, Lucey (2002) adds that variance assists organization managers to acquire more knowledge on the reason there exist a difference between planned performance and the actual findings thus leading to well thought decision making in control and planning in organizations. Therefore, the actual amount allocated to the organization plan enables the institution to realize its goal through implementation of various activities while focusing on the potential element of the plan to be transformed into effective findings. This is achieved through involvement of several budget books transformation into actual output delivery and effective realization of objectives set in an organization. However, the road map to realizing these organization goals is not that easy as managers experience various
challenges in project formulation and implementation. This, according to Garrison (1985), could have been necessitated by challenges in communication expressed through organization plans towards realizing the organizations’ objective. Variance is therefore effectively used in predetermining performance in organization expressed through effectiveness and efficiency of organizations plan implementation.

Budget deficit is realized when there is a mismatch in the organizations income, where expenditure surpasses received income. Nonprofit making organization management model is quiet similar to the model used by profit making institutions to manage their finances. This according to Kavoi (2011) is reflected where no profit making organization goal is to ensure availability of desirable social needs to the society on daily basis rather than focusing on maximizing the value of its shareholders. Moreover, the nonprofit making institutions notably lack the financial muscle which builds commercial focused organizations. This is due to the fact that the nonprofit oriented institutions rely on resource funders that are not geared towards profit making; hence the institution has to uphold effective management of donor funds meant for specific project. The purpose for the funding is mostly outlined by the funding organization or rather in the mission statement of the nonprofit making institution.

Stewardship in budgeting is ensured through ensuring that both the staffs and faculty indirectly or directly involved in resource management take accountability. However, the major challenge experienced in fund use in accounting system is realized especially when the organizational restriction is pegged on external financial statements. Therefore, Hansen, Otley & Stede (2003). indicates that control of financial management should take into account aspects such as; ensuring existence of systematic measures toward realizing required performance guidelines in line with planned objectives, designing information feedback mechanism, making a comparison between actual performance with anticipated guidelines while taking required action that ensure every institution’s resources are utilized in the best efficient and effective possible way.

USIU-Africa is a nonprofit institution of higher learning and as (Breneman, 2012) stated the 2008-2009 recession largely impacted the higher learning institutions. This in turn led to such organizations seeking funding from other sources as the government donations and grants reduced drastically. One of the sources explored by higher learning institutions USIU–Africa included is donor funding. It is therefore essential for institutions such as United States International University of Africa to possess deep knowledge on the reporting of
organization's funding and administrative prerequisites prior to initiating application process. This is because funds disbursement relies mostly on financial and narrative reporting within the donor favored format. Kavoi (2001) notes that organization in some situation may lack sufficient capability to meet some requirements, however, this should not apply particular in donor funding context.

Institution grant proposal ought to involve a comprehensive data presentation in accordance with funding organization's specifies format and every relevant backing documents. An institutions' proposal such as USIU-Africa ought to present every aspect in the vision and plan while elaborately analyzing the problem or need being addressed in the proposal. This aspect according to Kavoi (2001) do vary from various donors requirements, therefore, institutions usually becomes more familiar with fund raising requirement where proposal writing and project designs process are part of donor prerequisites and expectation. The vast experienced gained in the process of looking for funding helps organizations in nurturing a mutual relationship with donor agencies. Long term development sustainability is ensured through fund raising, an element which should not be focused by institutions as an end to itself but as a way of acquiring funds essential to ensure organizations strategic plan is realized and assist organizations to achieve their strategic objectives.

In any organization, all the decisions made result in affecting the budgets in the organization bringing up the need to find another balance between the revenues and expenditures. USIU being a higher education institution with several departments has each department coming up with its annual budget which is later consolidated to make up the organizational budget.

1.2 Problem Statement

According to Premchad (2004), the process involved in budgetary preparation lacks punctuality as well as there exists counter productivity in budget works due to presence of unachievable goals. In addition, the institutions may lack excellent performance culture, an element which enhances inability of system complexity towards developing a uniform fact version. This leads to fully missing the operation synergy between accountability and the processes involved thus leading to the budget not realizing its goal as a key mechanism used to control organizations. Muleri (2001) analysis on nonprofit making organization operation in Kenya found out that budgeting process is in a position to moderate corruption and funds misappropriation among institutions.
In Ndiritu’s (2007) study on cash budget effectiveness in Telkom Kenya, the major device identified as important is the process of budgeting cash management. In his analysis Nderitu realized that despite the fact that Telkom Kenya had initiated cash management as an important device towards control and management, the tool was not sufficient in enhancing cash management. In the same perspective, Mawathe’s (2008) analysis focused on challenges experienced by Commercial Banks based in Kenya in implementing budget with an aim of identifying whether banking sector fully adopted budgets as well as factors surrounding budget process. The findings realized that there were enough challenges presented in the banking sector. Moreover, public sectors ability in preparation and implementing budgets was also carried out by Muthinji (2009) focusing on Higher Education Commission unveiling the same findings as the counterparts.

It is notable that no studies have so far been done in relation to factors affecting budgeting in Higher learning institutions focusing on the external and internal factors affecting budgeting, the challenges of budget preparation and what can be done to enhance budget preparation. This study therefore focused on the factors affecting budget preparation in USIU-Africa. The findings will assist institutions in knowing how effective is the budget process in enhancing development within the organization and challenges linked to budget management.

1.3 Purpose of the Study

The study intended to determine the effects of budget preparation on budget variance, a case study of USIU-Africa.

1.4 Research Questions

1.4.1 To determine the external factors that influence budget preparation
1.4.2 To determine the internal factors that influence preparation of Organizational budgets
1.4.3 To investigate the challenges in budget preparation
1.4.4 To determine what can be done to enhance budget preparation

1.5 Justification of the Study

This study will be useful to various institutions and stakeholders in the country;
1.5.1 The Learning institutions management

The higher learning organization composed of top management, vice chancellors, managers, and staffs will have substantial knowledge on financial management in factors affecting budget preparation. Learning institutions management such as USIU management will benefit from this study as they will see the need to come up with policies that will clearly stipulate the responsibilities of every individual in the budgeting process so reduce the challenge of lack of community participation. Management will also need to device other ways of generating revenues to avoid shortage of financial resources and to undertake regular periodic evaluation to deter mismanagement. This study will enable them to make a decision on whom to task with the obligation of the preparation, implementation and the reporting of budget variances to the management as well as implement policies that will enhance the budgeting process.

1.5.2 Scholars

Lectures and other scholars will be in a position to make reference on the findings in the study to identify the factors affecting budget preparation particularly in higher learning institutions like USIU-A. This study will also elevate student knowledge on various ways of running institution in a safe way toward relaxing fee increment in higher learning institution. This study will shed more light on this unsolved issue and increase knowledge that will form basis for further studies.

1.5.3 Government and policy makers

The study will assist the government on how to best support the higher learning institutions while not compromising the education standards in this institution. This therefore, will enable initiation of workshop or provide guidelines for every learning institution to follow to avoid project halt, and increase in variance in budget preparation.

Various policy makers in the government institutions linked to higher learning, finance, and other departments will be in a position to develop policies which are fit to consider growth of institution in hard economic times.
1.6 Scope of the Study
This study was carried out in the United States International University (USIU). USIU is a tertiary institution located in USIU ROAD off Thika Super Highway, Nairobi, Kenya. According to The Commission for University Education, there were 22 fully accredited public universities as at 30th June, 2013. There were 9 public university constituent colleges, 17 chattered private universities (USIU being one of them), 5 private university constituent colleges, 12 private universities with a Letter of Interim Authority (LIA) and 2 registered private universities. This study was conducted amongst the staff of USIU during spring 2017. The study focused on the budget preparation in USIU from 2008 when economic crisis set in to 2017. This period saw the government and grants reducing to some recognizable level in the country hence impacting on the financial capacity of most universities who now needed to efficiently manage their funds as well as opted for donor funded research.

1.7 Definition of Terms

1.7.1 Budget
A budget is a device for controlling and planning the utilization of the scarce resources in finance targeting at realizing the institutional mission and vision (Shieck, 1999).

1.7.2 Budget Variance
Budget variance is the dissimilarity between budget amount and the actual findings in an organization (Lucey, 2002).

1.7.3 Budgeting
Budgeting is a means for facilitating and enabling the process by which resources are acquired, allocated among subunits and consumes in the achievement of organizational objectives (Swieringa & Moncur, 2003)

1.7.4 External Factors in Budgeting
External factors in budgeting can be defined in terms of markets or technology, or incorporating their extent and effects as one constituent within a single measure of environmental uncertainty that an organization has no control over (Ezzamel, 1990)
1.7.5 Internal Factors in Budgeting

Internal factors in budgeting can be defined in terms of the factors that an organization has control over (Ezzamel, 1990)

1.8 Chapter Summary

In this chapter, the study has focused on the background of the research question, the problem statement, the purpose of the study, the objectives that guided the research paper. Moreover, the study has also brought out the contribution of the study in the society in future. This study will be important to different stakeholders as it has been highlighted in this chapter.

In chapter two, the literature review will show how budget preparation and implementation affects the budget variances. The Research methodology will be discussed in chapter three. The results and Findings will be discussed in chapter four and chapter five will discuss the conclusion, discussion and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature related to determine the external factors that cause the budget variances, to determine the internal factors that cause budget variances, to investigate the challenges of budget preparation and to determine what can be done to enhance budget preparation. It provides a deeper understanding of the research topic. The literature has been compiled from various sources ranging from books, journals, articles and internet.

2.2 External Factors that Influence Budget Preparation

According to Offei-Nyako, Tham, Bediako, Adobor, and Asamoah (2016) cost approximation is specifically very challenging as it usually result to substantial deviations. This may be experienced in capital projects where deviation forms about approximately 28% of the initial cost estimate. As Offei-Nyako et al. (2016) identifies, there exist diverse factors which cause the variances between the contract sum and the final accounts. This phenomenon has been a major focus in the contemporary society to organization managers. These factors are identified as price fluctuation, market demand fluctuation, changes in scope of work, and changes in design.

2.2.1 Economic Conditions

Economic environment in a country may lead to presence of budget variance. This is experienced where the country currency is much stronger than the donor funding country in which case the organization in question gets all or a portion of its funding from other countries hence reducing the budget target (Kasidi and Mwakanemela, 2013). The situation is also realized in situations where inflation rate increases in a funded country hence impacting on the prices of products within the country pushing up wages, salaries, and cost of goods in a country hence creating a budget variance in the donor funded project.

The impact in movement in exchange rates in the international institutions usually affects the project implementation cost, cash flow, and reporting due to the fact that the institutions are not profit oriented. Jacque (2013) therefore notes that so as to reduce the financial loss
possibility, it is prudent for organizations with exposure to foreign exchange to identify mechanism to manage the risk involved effectively.

The process of foreign exchange risk management is an essential element towards providing secure and effective management to every institution or firms that is exposed to foreign currencies. Adler and Dumas (1984) notes that the process initiates effective management of the position of foreign currency so as to gain full control within the outlined guidelines towards controlling exchange rate impact on institutions financial position. This element is a special kind of financial management challenge which exposes institutions to risks in 3 distinct operation areas.

The first element is realized in Contractual or Transaction risk. This element majorly focuses on the risk involved in cash flow as well as the impact of movement in exchange rate on exposure to transactional accounts linked to receivables, also known as export contract, import contract(payables), or as well dividends repatriation. Kembe (2013) notes that the risks involved when the value of local currency falls on receipt of foreign currency or when the value of foreign currency payments at local level increase between contract fixing and the payment date or on payment receipt. In this context, a shift in exchange rate in currency denomination in any given contract will lead to direct transaction in the risk in firms’ exchange rate. As a result, exposure to transaction occurs where a firm’s future cash operations is affected by fluctuations in exchange rate. This element emerges where transaction exposure involves losses and gains which may occur from transactions settlement where agreement conditions is outlined in foreign exchange (Eiteman and Stonehill, 1979 in Kember, 2013).

The other aspect is seen in Accounting or Translation risk. The accounting exposure concept emerges from the urgency in translating those dominant foreign currency accounts into the national currency as per the reported entity in line with essential accounting principles. The risk in translation is visible in multinational institution’s interest where Allaynnnis and Ofek (1997) indicate that the firm’s consideration may absolutely be irrelevant with various national incorporated firms. The risk perceives the sensitivity of the firm to its value linked to foreign exchange rate fluctuation. This occurs in situation where the institution is linked to foreign affiliates and its books is kept within the various local currency, however, for the consolidation and reporting purposes the firms account has to be translated into account in line with the contract donor currency or as well parent institution currency.
The final aspect is presented in the economic risk. This according to Walker (1978) refers to any effect in fluctuation of exchange rate on the future institution’s cash flows. Economic risk brings out the likelihood that there exist dominance by the parent currency on the current net cash flows value which is adversely affected by movement in exchange rates (Walker, 1978). This kind of risk differs with transaction exposure in that it is a long term approach which not only concentrates on equivocation of receivables or payable currency but as well act as determinant on how every firm’s cash flows will be impacted on by possible movement of exchange rates (Miller and Reuer, 1998). According to Jacque (2013), Management of economic exposure should be focused on neutralizing the unexpected changes in exchange rates on the net cash flows linking the revenue and the cost side.

According to Atkinson (1993), one of the most visible and highly publicized economic challenges facing the implementation of operational budget is the decline in the purchasing power of an institution. Due to budget pressure, a lot of organizations are forced to rethink their current service delivery and develop strategies to reduce costs and increase efficiency.

### 2.2.2 Inflationary Measure

Balancing the current issues and the anticipated issues is the major challenge presented by intergenerational equity Flamholtz, (1983). The fact is the environment is challenging to ensure balance sustainability in spending muscle in current terms while preserving future endowment value. In this context, the liabilities as well as ease in achieving endowment investment usually impacts on the future price standards which may differ from the budgeted amount.

The current perception on macroeconomic indicates predictability and permanent transformation in the inflation rate which is may be impartial at the long run. This sometimes lacks substantial impact on the real activities as indicated in the budget preparation and donor funding. However, consistent high inflationary rates may have extreme implication on real economic development which may impact on donor funding in the long run. Therefore, high inflationary rates cause challenges in financial managers who controls donor funding. According to Kasidi and Mwakanemela (2013), the rate of inflation within a country become challenging in budget preparation when it surpasses 40 percent mark hence affecting the real activity level in a donor funded project. When the inflationary rate surpasses a specific level then there is possibility for challenges in financial
management in donor funded projects. However, Boyd, Levine & Smith (2001) criticizes that further inflation in a donor funded country may impact on financial sector.

The budget preparation usually does not take into account the variances which may be caused by inflationary levels within a country that causes increase in commodity prices. This increase in commodity prices impacts on the donor fund budget allocation as the funds shrinks. Therefore, financial managers ought to take into consideration the element of inflationary impact on both organizations and donor funded projects so as to ensure effective completion of the project. Madhukar and Nagarjuna (2011) notes that inflation levels have in the contemporary world been dominating in comparing the rate of growth hence increase inflation is reflected in increase in demand of budgeted commodity.

2.2.3 Market Demand Fluctuation

Substantial challenges realized by managers in supply chain may originate from demand fluctuation as reflected in inflationary period. Factors that result to demand fluctuation involves global range of business operations, taxation, seasonality, pricing, and product availability. Therefore, an institutional interest in a commodity reflects variance over a given period while focusing on the budgetary allocation for supply chain activities towards enhancing supply stability. Therefore institutions such as United States International University of Africa should initiate supply chain management in their budget preparation towards ensuring stability in budget procedures and processes involved in supply chain management. According to Odundo (2002), there are several non-economic factors like politics and social orientation that have an effect on the budget process by altering the demand and supply in a market. This could in turn but the future of the company in jeopardy calling for a clear presentation of facts in the budgeting process (Mbaru, 2005).

2.2.4 Technology

Information Technology is becoming an increasingly important component of projects undertaken by the International Development Organization (Mousa & Shware 2009). Technology transfer has long been identified as a key and issues within the developed process with the realization that transfer is problematic. Technology is more than just equipment and also incorporates a surrounding shell of infrastructural requirements, technical and managerial skills that are needed in order to operate it. Lind (2006), for
example cites a case in Zambia in which computing equipment remained unused due to a lack of necessary systems development skills within the recipient organization.

Porter (2008) outlines the challenges of budgeting as emanating from the approach to budgeting where incremental budget increases lead to; budgets that are not focused on the schools system’s current technology requirements, inadequate account management can result in expenditures that are unrelated to the items in the budget approved by the Board of Education, technical staff may not have needed skills causing excess reliance on contracted services staff training may not match systems priorities and no technology refreshment plan.

2.2.5 Donor Policies

While this might be a spurious relationship caused by the fact that aid-dependent countries are also poor and have weaken institutions it still raises an interesting question about the role of donor agencies in supporting and promoting budget transparency and accountability. In countries where donor funding is high, aid represents a sizable share of public resources; in some cases donor contributions are greater than the government’s domestic revenues. Where aid has such important role, how it is given inevitably has an impact on budget transparency and accountability practices. It is also interesting those countries that receive a sizable share of their aid as direct budget transparency than countries where aid mostly comes in the form of project assistance (Putting Aid on Budget. Synthesis Report, 2008).

There are four ways in which bilateral and multilateral donor organizations can affect budget transparency and accountability in aid-recipient countries. The first is by influencing recipient government’s capacity and commitment to make budgets more transparent. The second is by supporting other actors in making better use of available budget information. The third and most direct way is by changing their own practices with regard to transparency and accountability. Finally, the fourth is by conducting additional analysis on the ways in which aid affects budget transparency and accountability in poor budgets (Survey on Monitoring the Paris Declaration Making Aid More Effective by 2010:2008)
2.3 Internal Factors that Influence Preparation of Organizational budgets

2.3.1 Adequate Availability of Financial Resources

Adequate availability of financial resources is one of the determinants of effectiveness. To achieve an effective budget, the organization must ensure that it has adequate access to financial resources in order to finance its projects and to carry out its activities. The management team should plan and come up with a budget before implementing projects (Dunk, 2001).

The organization must allocate adequate financial resources and other structures that facilitate effective implementation of projects and other organizational objectives for example adequate allocation for funds to facilitate effective budget implementation. These resources should be both financial and physical resources (Hope & Fraser, 2003).

As stressed earlier, budget preparation is an interactive process between the Finance and other departments. Therefore, it is a combination of a top-down approach, with Finance giving guidelines or communicating instructions to other departments, and a bottom-up approach, with other departments presenting requests for budget allocation to the finance. Either approach followed in isolation would have adverse effects: “A budget created from the bottom-up may lead to excessive spending and instability if not carefully organized and subject to re-established limits. By contrast, a highly centralized exercise introduces rigidities and loses the vision of those who are close to the service recipients (Prendegast, 2000). The articulation of the top-down and bottom-up approach is crucial since it determines how priorities and fiscal targets will be taken into account over the budget preparation process.

2.3.2 Competence of Human Resource

Competence of human resource is another determinant of effectiveness. To successfully execute its activities the organization should ensure that it has competent human resource with knowledge and skills on efficient and effective means of budgetary control processes and procedures (Horngren, Bhimani, Datar & Foster, 2005).

2.3.3 Managerial Factors

The level of effectiveness in organizations is dictated by elements such as the capacity of the management in managing human resource within the budget implementation level.
According to Armid (2000) the manager in charge of the project funded by donor’s chain may have insufficient knowledge in the area of foreign funds management, budgeting as well as accounting. Lack of potential financial management skills result to insufficient understanding in the protocol involved in donor expenditure leading to ineligible expenditures hence possibility of halting or denial of more funding. As noted by Armid, (2000) the skills equipping preparedness by managers may be impacted by timeliness and quality in liquidation documents complicating quick release of the needed funds to complete the project hence spilling over to effectiveness in donor funds.

Todryk (1990) identifies that a well-trained organization manager enhances the success of project as the individual is in a position to work with the other staffs as a team. The skills will enhance project to be delivered in the right time.

Managers’ Participation in budgeting has a number of positive behavioral outcomes, such as reduced stress, improved motivation and job commitment, and enhanced performance. Conversely, managers’ inadequate Participation in budgeting may cause dysfunctional behavior, which may lead to anxiety, stress and low performance (Reid, 2002)

Many seemingly healthy non-governmental organizations have died because managers could not identify problem in advance or because they failed to monitor and adjust budgets to changing conditions (Horngren, Forster and Dater, 2005)

2.3.4 Participation of both Staff and other Stakeholders

The organization should be well equipped with knowledgeable and skilled employees who are well conversant with budgetary control measures to effectively implement the budgetary control processes and allocation. Employees play an integral role in the process of planning, monitoring control and evaluation processes of budget implementation this highly contributes to monitoring budget expenditures and accountability in the use of the budget (Srinivasan, 1997).

All individuals responsible for achieving results should be consulted in the formulation of budgets. No system of budgetary control can succeed without the mutual understanding of superiors and subordinates. The organisation should communicate the outcome of budget decisions to all the relevant staff. Budgets have an important part to play in the communication of objectives, targets and responsibilities throughout the organization.
Carried out properly, this can have considerable benefits in promoting co-operation at all levels (Callahan and Waymire, 2007).

Participation assures full co-operation and commitment for making budgets successful. Participation also makes budgets realistic and workable (Simiyu, 2002). To ensure that the process of implementing the budget is successful, the management and the employees should work together to ensure that the interests of all stakeholders are fully represented when making key decisions involving budgetary allocations in key projects.

Ambetsa (2004) in his study on budgeting control practices by commercial airlines operating at Wilson Airport, Nairobi findings revealed that lack of full participation of staff and staff, lack of top management support and budget evaluation are examples of challenges that commercial airlines faces during budget preparation. Participation of employees and stakeholders in budget preparation will increase trust and sense of control hence leading to commitment on budget decision making.

According to a study done by Wamae (2008) on challenges of budgeting at National Social Security fund (NSSF). The aim of the study was to establish the challenges of budgeting process and the challenges faced when drawing up a budget to be used by an organization and how organization can effectively face the budgeting challenges. Data was collected using questionnaire, observation, and interviews were used to collect data. Findings revealed that that lack of commitment, head of departments not taking budgeting seriously are examples of challenges that NSSF faces when preparing budget. It was recommended that NSSF should ensure that every department in the organization are involved in the preparation of the budget and enough time should also be allocated.

Melek (2007) in his study on the impact of budget participation on managerial performance via organizational commitment in Turkey. A regression analysis was done. Findings revealed that there was a there was a positive and significant relationship between budget preparation and organization commitment on managerial performance. According to Maurer and Lippstreu (2008) participation of managers and their subordinates in budget preparation will enable subordinated accept and be committed in achieving their goals. Furthermore, employees are able to gather, exchange, and share relevant information to facilitate decision making (Lins & Changa, 2005).

Gachithi (2010) in his study on challenges facing budget implementation in public institutions, a case study of the University of Nairobi. The research concluded that the
university budget preparation procedures are not efficient especially because lower level staff do not take ownership

2.3.5 Proper Planning

Bodie and Merton (2000) budgeting planning (budget-setting or budget preparation) is the process of developing organizational goals and preparing various budgets. In order to carry out budgetary control, it is necessary to formulate a fully co-ordinated detailed plan in both financial and quantitative terms for a forthcoming period. The duration of the period is usually one year. The plan needs to be in line with the long term development strategy of the organization, although in the shorter term of a budget year, conditions may prevail which could dilute this aim. For example a depressed economy could lead to a temporary departure from the long term plans. Therefore, before formulating the budgets, the policy to be pursued during the forthcoming trading period needs to be established (Dunk, et al, 2001).

Once budgets are operating throughout an organization, it is important that feedback is made available to the managers responsible for its operation. This is often done by means of monthly budget reports. These reports contain comparisons between the budget and the actual position and throw up differences which are known technically as variances. The budget plans must be properly co-ordinated in order to eliminate bottlenecks. Individual budgets should be co-ordinated with one another to ensure that the implementation process is conducted effectively in order to save time and costs (Horngren, Forster and Dater, 1997).

To facilitate proper planning, the management team should define the patterns of expenditure and revenue over the life of the project or the activity that the organization is undertaking. A predetermined budget of possible costs that was incurred carrying out the activities planned in a project should be made. Realistic planning of finances is key to the implementation of a project or programme (Joshi and Abdulla, 1996).

Muleri, (2001) in his study on budgeting practices in Non-governmental organization in Kenya. The aim of the study was to establish effectiveness of budgeting practices among British NGO’s in Kenya. Findings revealed that there is a limitation on budgeting process hence leading to cost. Kavoi, (2011) in his study on factors that influence the achievement of budget targets – A case of the University of Nairobi findings revealed that adequate planning, accurate projections, clear policies are examples of factors that influence the
achievement of budget. Mungai (2009) in his study on Relationship between budgeting practices and performance in Nairobi oil corporation (NOC) it was found that good budgetary practices are crucial for success of an organization. Mbugua (2013) in his study on the relationship between budgeting practices and performance of organizations in the water sector in Kenya. Cross-sectional study was used to collect data. Findings revealed that there is a positive relationship between budget planning and participation of members in budgeting.

Trentin (2004) non-governmental organizations have a good plan but fail to implement them fully hence denied any benefits from budgets.

2.3.6 Monitoring and Evaluation

Evaluation is a key determinant for effectiveness, through an evaluation plan, the firm can clarify what direction the evaluation should take based on priorities, resources, time, and skills needed to accomplish the evaluation. To enhance effectiveness and transparency the management team should be actively involved in the process of monitoring and evaluation of budgetary control processes and procedures (Hancock, 2009).

The process of developing an evaluation plan in cooperation with an evaluation workgroup of stakeholders will foster collaboration and a sense of shared purpose this highly contributes towards achieving an effective budgetary control (Simiyu, 2002). A bridge between the policy making process and the budget process is essential to make policy a breathing reality rather than a statement of wishes. For this purpose at least two clear rules must be established. The resource implications of a policy change should be identified, even if very roughly, before a policy decision is taken. Any entity proposing new policies must quantify their effects on public expenditure, including the impact both on its own spending and on the spending of other government departments. The Ministry of Finance should be consulted in good time about all proposals involving expenditure before they go into ministerial committee or to the centre of the government and certainly before any public announcements are made.

Monitoring and control of budget process is a determinant of effectiveness, once the budgets have been implemented they need to be monitored and controlled to ensure effectiveness in aligning budgets over a defined period of time (Horngren, Forster and Dater, 1997).
A professional and transparent approach to budget planning will help convince investors, development banks and national or international donors to make financial resources available if the organisation implements proper monitoring and control of budget process. This is achieved through ensuring that the estimated budget does not deviate from the actual outcome in order to take appropriate actions where necessary (Otley and Van der Stede, 2003).

### 2.3.8 Staff Motivation

By setting challenging but realistic targets well designed budgets can play a significant part in motivating managers. The targets must be clear and achievable, and the manager should participate in setting his or her own budget (Hansen, Otley, & Stede, 2003). The budget gives senior management a means of judging the performance of their teams. It must be remembered; however, that adherence to the budget alone cannot measure all aspects of a manager’s performance.

For an effective budget implementation, the budget plan should be more clear and accurate, the financial resources should be readily available and enough, both the staff and interested stakeholders should be involved in the budget process, the staff actively involved in the budget should be motivated to facilitate successful implementation of the budget process (Hansen et al., 2003).

Parkinson and Taggar (2000) in their study on impact of strategy, human resource management, budgeting and participation on Return on Assets research found that there is a positive association between budget participation and motivation.

### 2.4 Challenges in Budget Preparation

Implementation is an activity that takes place throughout the financial year and is a critical point for any institution to perform. Many problems have bedevils the donor funded project Budgeting. As such, they have not been able to meet their obligations of bringing the gains of lives transformation. The following are challenges of budget preparation and implementation.
2.4.1 Unskilled Manpower

Majority of donor funded project today are manned by personnel’s who do not possess the requisite leadership and managerial skills to deliver the gains of society transformation. The principle of education qualifications are not been followed and as such, made the donor funded project the dumping ground for illiterates (Powell, 2003). In recent time, training outlays are typically treated as expenses rather than investments (Hope and Frazer, 2003).

2.4.2 Lack of Community Participation

The level of participation by the targeted community is highly limited especially the donor funded project located at the rural areas. The reason is attributed to high illiteracy level and the poverty rate. Thus, the psyche of the people is very low. In addition, there is no law that encourages community participation in governance and also no access to information and participation. In the absence of this, the community, no matter how vibrant and enlightened, cannot achieve anything. (Ramsey, 2007).

2.4.3 Lack of Dynamic Structure

Present day economic environment demands that institutions adapt new structural practices. Given the new competitive realities, there is need for management to embrace flexible and adaptable budgetary planning and control system which has the ability to quickly respond to environmental changes and complexities (Douglas, 2004).

2.4.4 Lack of Budgetary Accuracy

Accuracy is critical to the effectiveness of performance management. Assessments of how well objectives are met depend on how realistic these objectives were from the start. Private institutions spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating department and organization unit budgets to ensure that the budget is consistent with their strategic objectives (Anderson, 1999). Institutions should allocate the right resources to the activities that will produce the highest returns (Jones, 2006).

2.4.5 Lack of Monitoring and Evaluation

Evaluation and monitoring go hand in hand. Monitoring provides the raw data to answer questions. But in itself, it is a useless and expensive exercise. Evaluation is where the
learning occurs, questions answered, recommendations made and improvements suggested (Bremner, 1998). A monitoring program should not be designed without clearly knowing how the data and information was evaluated and put to use.

2.5 Enhancing Budget Preparation

2.5.1 New Skills

Discussion should be held openly with the staff the kind of new skills that improve financial management systems will require and what training is available. Discuss new opportunities that could be pursued once the time dedicated to routine tasks is reduced. Review staff skills regularly and invest in training to keep skills level appropriate (The Manager Winter, 1999).

2.5.2 Staff Understanding of the Budget Process

Staff should be trained on how to interpret and analyze financial reports. Help program staff members understand how a good system will make it easier for them to understand and work with financial information (The Manager Winter, 1999).

2.5.3 Integrated Work Groups

According to the Manager Winter (2000) they should have clearly defined roles and responsibilities so that the financial staff feels committed to program outcomes and the program staff feels accountable for financial outcomes.

2.5.4 Adoption of Flexible Budgets

De Waal et al., (2011); Pollack and Zeckhauser, (1996); Ridgway, (1956) are some of the scholars that suggested that budget gaming is a concept most likely to occur in the event that an organization implements the traditional budgets characterized by rigidity and a specified time frame. Budget gaming typically occurs when the reporting information is distorted, creation of budget slack, provision of over or under estimates or postponing or accelerating investments, expenditures and revenues at the expense of profitability (Bart, 1988; Libby and Lindsay, 2003, 2010; Jensen, 2003; Merchant, 1985). As a result of this options of better budgeting techniques particularly rolling budgets, and the Beyond
Budgeting approach, have been deliberated as alternatives to increase budgeting flexibility and to mitigate the effects of budget games (Hope and Fraser, 2003).

2.5.5 Adoption of Rolling Budgets

According to Haka and Krishnan (2005) better budgeting techniques mostly rolling budgets and forecasts have been proven helpful in highly uncertain environments. Rolling budgets are usually prepared to cater for a period of up to 18 months but unlike traditional budgets they can be adjusted monthly, semi-annually or quarterly. These budgets are adjusted by taking into consideration the changes in the economic and financial environment which in turn affect the implementation of the projects (Lynn and Madison, 2004). Rolling budgets are better than traditional budgets as they allow rapid adaptation of changes in the initial plans, they relate to longer time frames and provide better quality short term forecasts. There has been criticism of rolling budgets as they increase administration work, reduction of the employee’s commitment to their work, and they are also uncertain.

2.5.6 Shift in Responsibility

Stress the focus on the shift in responsibility in the best positions to influence processes and outcomes. Accountability for financial outcomes such as budget control or meeting recovery projections must be clearly defined and accepted (The Manager Winter, 2000).

2.6 Chapter Summary

This chapter has reviewed literature in relation to the factors affecting budget preparation. The first section looked at the external factors that influence budget preparation the second section focused on internal factors that influence budget preparation, the third section focused on challenges in budget preparation and the last section looked at how to enhance budget preparation.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section is going to concentrate on the study methodology preferred in the study toward operationalizing the research process. Therefore the chapter is subdivided into research design, study population, population sample, sample procedure, and analysis of the procedure. Moreover, the section involves tools used in data collection and enhancing the study reliability, and validity while maintaining the research ethics.

3.2 Research Design

Cooper and Emory (1995) describes research design as a framework that give a specification on the link among diverse research variables, first initiating a plan for identifying the sources then followed by the type of data utilized to be in a position to provide solutions to the research questions. However, Lavrakas (2008) believes that, research design is an overall strategy or plan used to in a research process to provide analysis of explicit testable study research question of a researcher’s interest. The research focused on using descriptive survey. According to Shaw (1999) descriptive research is usually used in the initial stages of research due to its ability to unveil information which is updated with the current phenomena thus in coherence with existing variables as well as other environmental elements. This view is further emphasized by Judith (2003) analysis, noting that descriptive information attempts to give uncover as well as calibrate the relationship between the effect and cause in the study variables. The relationship is usually brought out using devices such as questionnaires to be able to present a status quo kind of description while at the same time giving presenting a correlation examination, effected via making comparison between variables and giving analysis that scrutinizes shift realized over the years of operation. Mugenda(2008) affirms that this kind of this method presents a large scope and exact information, that permits gathering as well as criticizing the available data, and presentation of the date over a given period.

Descriptive method being in a position to offer efficient and effective method of gathering data from a large population makes it a more preferable for this study. Mugenda and Mugenda (2003) analysis indicates that descriptive method is essential where data to be
gather is available within the surrounding of original gathered information focusing on a larger study population.

The research finding will benefit diverse institutions ranging from learning institutions, government institutions such as treasury, financial institutions, as well as nongovernmental organizations. The possible findings will be in a position to further enlighten organizations with existing knowledge on donor and budget preparation and variance within higher learning institutions such as USIU.

3.3 Population and Sampling Design

3.3.1 Population

Mugenda and Mugenda (2003) indicates that population is the sum total of set of elements, individual, or events sharing a common visible trait. Tull and Hawkins (2008) conquers with Cooper and Schindlers (2008) elaboration that population can be termed as a set of the whole characteristics where reliable deduction can be made by a researcher. In this regard, a population can be defined as the largest section in which verifiable observation where the least set is termed as a sample. Therefore, the population being studied here is the private higher learning institutions in Kenya within Nairobi County which is United States International University of Africa and its staff based in all the departments and project proposal individuals who have deep knowledge on budget preparation in organizations. The study therefore focused on about 38 departments with knowledge on budget preparation. The effectiveness of the approach used in analyzing the effectiveness of budget preparation and variance on private higher learning institutions such as USIU will be determined by feedback received from the experts involved in the process of budget preparation and implementation.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Densombe (1998) believes that a sample frame ought to initiate population list where researchers will depend on so as to make selection which is essential for the research. In the same capacity, Cooper and Schindler (2001) acknowledge that sampling frame should initiate general but dependable and unique list of population members. Therefore, because
of centrality of the study in United States International University of Africa, the study opted to revolve around staffs in Finance, the university departments and projects. Moreover, the prerequisite for picking a potential participant in the study is to have a deep knowledge on budget preparation in private learning institutions. Therefore the Sample Frame opted for in the study in the United States International University of Africa with vast experience in budget preparation, budget variance, in relation to private higher learning institutions.

3.3.2.2 Sampling Technique

The study opted for stratified sampling technique. As noted by Cooper and Schindler (2008) analysis, stratified technique of sampling brings in sub sets of population segmentation termed as strata where a special population sample is retrieved from different identified strata. The major population strata in focus ought to be presented in the sample being studied. Therefore, the USIU community was stratified into staffs in Finance, the university departments and projects where staff have existing knowledge on budget preparation, budget variance, and impact on the institutions’ operation. The study choice was limited to convenient sampling technique on the various staffs in the departments identified. This will assist in presenting the overall knowledge on the impact of budget preparation in United States International University.

3.3.2.3 Sample Size

Sample size can be termed as a total sum of a sampling unit accessible and in a position to be incorporated in sample under study (Mugenda and Mugenda, 2003). Therefore, a convenient a 30% allocation has to be accorded to each stratum within the study. Mugenda and Mugenda (2003) notes that 10-30% sample presentation of the general population presents a reliable number, hence population should be within the range of 10% to 30% thus the study opts for 38 respondents.

3.4 Data Collection Methods

Rouse (2017) states that information can be collected and measured from a variety of sources logically through a questionnaire. Primary data collection method was effected through administration of questionnaires to gather information from various staffs departments in USIU with the knowledge on budget preparation. The questionnaire
involved a likert scale callibration (1=Not at All, 2= Very Little, 3=Neutral, 4=To a Large Extent, 5=To a Very Large Extent). So as to enhance the questionnaires’ effectiveness, both structured and unstructured research questions were initiated in the process of gathering data.

The questionnaire was attached with an introductory letter introducing the researcher and the area of research. This ensured that the researcher is well identified and the participant is aware of the study advantage and disadvantages related with the study. The participant is therefore permitted to halt the process where he or she feels his or her rights are being infringed by the research procedure. This was outlined in the letter of introduction.

### 3.5 Data Analysis Methods

The collected data through questionnaire device will be subjected to coding and editing to ensure effectiveness in the data presented while considering participants privacy. The process of analysis will include quantitative data analysis method. The process of quantitative analysis in the study will be implemented through initiating description and making data summary while implementing information through descriptive statistics which will be employed in creation of meaningful description on scores description. In addition data in quantitative statistics will analyzed systematically to come up with reliable precise conclusions and recommendations.

The study focused on data analysis frequency in process of analysis so as to provide measurements of the data retrieved from the lowest to highest percentage. Central tendency measures like mean calculation, variances and mode will be employed in the process of data analysis where primary quality checks standards will be conducted at the level of data collection while secondary quality measure will be assessed at the data entry level. Moreover raw data will be encrypted into computer device for purpose of analysis by using a device known as SPSS (statistical package for social sciences) version 22. The results were presented in figures and tables.

### 3.6 Research Procedures

The study employed a data collection procedure which was achieved via pick and drop approach. The study was made successful through a letter of introduction from the United Stated International University of Africa to be presented at various targeted departments.
This enhanced fast collection of data from the focus group identified in the study and the participants to be initiated in the study were informed prior to the questionnaire delivery through a letter. The questionnaires were delivered to the participants in the structured sampled sections.

A pilot study was undertaken so as to measure the level of reliability to of the questionnaire. Mugenda and Mugenda, (2003) state that the pilot study is an instrument used to test the instrument of data collection before embarking on the research. Out of the 38 respondents, 10 were selected to respond to the pilot study and the results established revealed that all the questions were comprehensible and straight forward, after which the researcher proceeded to roll out the questionnaires to the respondents.

3. 7. Chapter Summary

This chapter focused on elaborating procedures to be used in enhancing information gathering towards realizing the already identified research objective. The primary data which is required to realize the objective in the study was achieved through using questionnaires distribution to various staffs departments in USIU with the knowledge on budget preparation. The results of the findings are discussed in chapter four.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the findings obtained from the analysis done on the data collected. The findings are organized in line with the objectives of the study which was to determine the external factors that influence budget preparation, to determine the internal factors that influence preparation of Organizational budgets, to investigate the challenges in budget preparation and to determine what can be done to enhance budget preparation.

4.1.1 Response Rate

A total of 38 questionnaires were distributed and only 30 were filled and returned giving a response rate of 79% as indicated in table 4.1 below. This was sufficient for the study.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filled and returned</td>
<td>30</td>
<td>79</td>
</tr>
<tr>
<td>Not returned</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2 General Information

This section represent the findings established from the general information and this include budget responsibility, level in the firm, work experience and involvement in budget preparation in donor funded projects.

4.2.1 Budget Responsibility

The study sought to establish the budget responsibility and the findings revealed that most of them attributed this task to donor funded projects (17%) and USIU budget department (60%) while 23% indicated that it was a function of both as indicated in figure 4.1
4.2.2 Level in the Organization

According to figure 4.2 majority of individuals who took part in this research were middle level managers and represented 60% of the respondents. Top management accounted for 17% while low level was 23% as indicated in figure 4.2. This indicate the nature of high ranking in the budget department as a motivation factor.
4.2.3 Years Worked

To establish the years worked, 43% indicated that they have been around for over 6 years while 37% had served for 4-6 years and only 20% were at the institution for 1-3 years as indicated on figure 4.3. This implies that the respondents have the necessary knowledge and experience in budgeting to answer the questions.

![Years Worked](image)

**Figure 4.3: Years Worked**

4.2.4 Duration for Review

Out of the 30 respondents only 5 deals with donor funded projects and out of whom 60% indicated that it takes 12 months to review the projects and 40% indicated 6 months as shown in figure 4.4
4.2.5 Budget Proposal Decision

It was revealed that 80% of the respondents indicated that budget proposal decision were made by donor finance managers, 12% indicated the budget committee and 8% indicated the board of directors as shown in figure 4.5, in addition all respondents indicated that they incorporated donors in budget preparation.
4.2.6 Effect of Donor Policies

The study sought to establish the effects of donor policies on budget preparation and the findings indicated that most of the respondents were uncertain on whether donor policies had impacted budget preparation (3.68) or whether it influenced the government capacity and commitment in making the budgeting process accountable and transparent (3.16) as shown in table 4.2

Table 4.2: Effect of Donor Policies

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor policies had impacted budget preparation</td>
<td>3.68</td>
<td>1.282</td>
</tr>
<tr>
<td>Donor policies influence government capacity and commitment</td>
<td>3.16</td>
<td>.374</td>
</tr>
<tr>
<td>in making the budgeting process accountable and transparent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valid N (listwise) 30</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3 External Factors That Influence Preparation of Organizational Budget

The first objective sought to determine external factors the influence preparation of organizational budget and to do so the respondents were asked a set of questions where they were to state the extent of their agreement to the statements with a scale of 1-5 where 1= Not at all; 2=very little; 3=Neutral; 4=To a large extent; 5=To a very large extent.

4.3.1 Economic Factors Influencing Preparation of Budget

The study established that to a large extent inflation (4.00), exchange rate risk (4.24), exchange rate fluctuations (4.00) affected budget preparation. While there was uncertainty on Receipt of Funding (3.48) as shown in table 4.3

Table 4.3: Descriptive of External Factors Influencing Preparation of Budget

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The receipt of funding in foreign currency has an impact on the budget</td>
<td>3.48</td>
<td>1.229</td>
</tr>
<tr>
<td>preparation in USIU</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation in the funded countries economy has an effect on the budget</td>
<td>4.00</td>
<td>1.118</td>
</tr>
<tr>
<td>preparation in USIU</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate risks affects budget preparation</td>
<td>4.24</td>
<td>.831</td>
</tr>
<tr>
<td>Exchange rate fluctuations /movements has an impact on budget</td>
<td>4.00</td>
<td>.707</td>
</tr>
<tr>
<td>preparation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.3.2 Inflationary Measure Influencing Preparation of Budget

The study established that to a large extent inflationary levels greatly affected budget preparation (4.00) as shown in table 4.4

**Table 4.4: Inflationary Measure Influencing Preparation of Budget**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taking into account variances caused by inflationary levels that cause increases in commodity prices will improve on budget preparation</td>
<td>4.04</td>
<td>.841</td>
</tr>
</tbody>
</table>

4.3.3 Market Demand Influencing Preparation of Budget

The study established that many respondents agreed that taxation has an impact on budget preparation (4.60) and product pricing has an impact on the budget preparation (4.08). It was also noted that there was indifference on Inclusion of supply chain management in budget preparation ensures stability in budget preparation (3.68) and politics have an effect on the budget preparation process (3.36).

**Table 4.5: Market Demand Influencing Preparation of Budget**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation has an impact on budget preparation</td>
<td>4.60</td>
<td>.645</td>
</tr>
<tr>
<td>Product pricing has an impact on the budget preparation</td>
<td>4.08</td>
<td>.862</td>
</tr>
<tr>
<td>Inclusion of supply chain management in budget preparation ensures stability in budget preparation</td>
<td>3.68</td>
<td>.748</td>
</tr>
<tr>
<td>Politics have an effect on the budget preparation process</td>
<td>3.36</td>
<td>1.075</td>
</tr>
</tbody>
</table>
4.3.4 Market Demand Influencing Preparation of Budget

The study established that there was uncertainty of whether market demand influences preparation of budget and this had a mean of 3.12 as indicted in Table 4.6

Table 4.6: Market Demand Influencing Preparation of Budget

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental based budgeting does not focus on the schools technological requirements</td>
<td>3.12</td>
<td>.881</td>
</tr>
</tbody>
</table>

4.3.5 Correlation of External Factors and Budgeting Processes

A Pearson correlation done between budgeting process (dependent variable) external factors affecting budgeting, as indicated in Table 4.7 The findings revealed that the receipt of funding in foreign currency has a strong impact on budgeting impact on the budget preparation in USIU $r(28)=0.713, p<0.00$. Inflation in the funded countries economy also had a significant on the budget preparation in USIU $r(28)=0.623, p<0.00$. The findings also revealed that taking into account variances caused by inflationary levels that cause increases in commodity prices will improve on budget preparation $r(28)=0.438, p<0.05$. 
Table 4.7: Correlation of External Factors And Budgeting Processes

<table>
<thead>
<tr>
<th>Variables</th>
<th>Budgeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>The receipt of funding in foreign currency has an impact on the budget preparation in USIU</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Inflation in the funded countries economy has an effect on the budget preparation in USIU</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>The receipt of funding in foreign currency has an impact on the budget preparation in USIU</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Exchange rate risks affects budget preparation</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Taking into account variances caused by inflationary levels that cause increases in commodity prices will improve on budget preparation</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Taxation has an impact on budget preparation</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Product pricing has an impact on the budget preparation</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Inclusion of supply chain management in budget preparation ensures stability in budget preparation</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>Incremental based budgeting does not focus on the schools technological requirements</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
</tbody>
</table>

4.4 Internal Factors That Influence Preparation of Organizational Budget

The second objective sought to determine internal factors the influence preparation of organizational budget and to do so the respondents were asked a set of questions where they were to state the extent of their agreement to the statements with a scale of 1-5 where 1= Not at all; 2=very little; 3=Neutral; 4=To a large extent; 5=To a very large extent.
4.4.1 Availability of Financial Resources Influence Preparation of Budget

It was also noted that availability of financial resources was a major factor in budget preparation (4.68). It was also noted that most respondents were neutral about whether budget preparation by middle and low level managers (bottom up approach) (3.84), and budget preparation by top management (top down approach) (3.80) influenced budget preparation.

Table 4.8: Availability of Financial Resources Influence Preparation Of Budget

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of financial resources is a major factor in budget preparation</td>
<td>4.68</td>
<td>.476</td>
</tr>
<tr>
<td>Budget preparation done by top management (top-down approach) aids in the budget preparation process</td>
<td>3.80</td>
<td>1.190</td>
</tr>
<tr>
<td>Budget preparation done by middle and lower management (bottom up approach) aids in the budget preparation process</td>
<td>3.84</td>
<td>.850</td>
</tr>
</tbody>
</table>

4.4.2 Competence of Human Resource Influence Preparation of Budget

The findings revealed that to a large extent the manager’s skill in presentation of budgetary and financial information will affect the release of funds by the donor be it internal or external (4.44). It was also noted that most respondents were neutral about whether lack of skilled manpower (3.84) influenced budget preparation.

Table 4.9: Competence of Human Resource Influence Preparation of Budget

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of enough skilled manpower leads to misinformed and inaccurate budgeting</td>
<td>3.84</td>
<td>1.143</td>
</tr>
<tr>
<td>The managers skill in presentation of budgetary and financial information will affect the release of funds by the donor be it internal or external</td>
<td>4.44</td>
<td>.507</td>
</tr>
</tbody>
</table>
4.4.3 Managerial Factors Influence Preparation of Budget

The findings revealed that to a large extent managers’ Participation in budgeting has a positive behavioural outcome on the employees (4.00) had an effect on budget preparation.

Table 4.10: Managerial Factors Influence Preparation of Budget

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers’ Participation in budgeting has a positive behavioral outcome on the employees</td>
<td>4.00</td>
<td>.816</td>
</tr>
</tbody>
</table>

4.4.4 Participation of both Staff and other Stakeholders Influence Preparation of Budget

The findings revealed that staff involvement improve accountability in budget use (4.60) and Participation in the budget preparation assures full co-operation and commitment for making budgets successful (4.72).

Table 4.11: Participation of Both Staff And Other Stakeholders

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The involvement of staff in budget preparation will improve the accountability in the use of the budget</td>
<td>4.60</td>
<td>.500</td>
</tr>
<tr>
<td>Participation in the budget preparation assures full co-operation and commitment for making budgets successful</td>
<td>4.72</td>
<td>.458</td>
</tr>
</tbody>
</table>

4.4.5 Proper Planning Influence Preparation of Budget

It was also revealed that respondents agreed that Proper planning of the budgeting process will ensure that the budget preparation process is smooth (4.36).

Table 4.12: Proper Planning Influence Preparation of Budget

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proper planning of the budgeting process will ensure that the budget preparation process is smooth</td>
<td>4.36</td>
<td>.638</td>
</tr>
</tbody>
</table>
4.4.6 Monitoring and Evaluation Influence Preparation of Budget

Majority of the respondents agreed that periodic evaluation of the budget preparation in line with the current context prevents mismanagement of funds (4.56) and continuous budget monitoring will help reduce budget variances (4.80).

Table 4.13: Monitoring and Evaluation Influence Preparation of Budget

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Periodic evaluation of the budget preparation in line with the current context prevents mismanagement of funds</td>
<td>4.56</td>
<td>.651</td>
</tr>
<tr>
<td>Continuous budget monitoring will help reduce budget variances</td>
<td>4.80</td>
<td>.408</td>
</tr>
</tbody>
</table>

4.4.7 Staff Motivation Influence Preparation of Budget

It was revealed that Staff involvement in the budget preparation process improves the budgeting process (4.52) as shown in table 4.13

Table 4.14: Staff Motivation Influence Preparation of Budget

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff involvement in the budget preparation process improves the budgeting process</td>
<td>4.52</td>
<td>.823</td>
</tr>
</tbody>
</table>

4.4.8 Correlation of Internal Factors and Budgeting Processes

A Pearson correlation done between budgeting process (dependent variable) internal factors affecting budgeting, as indicated in Table 4.15. It was revealed that availability of financial resources is a major factor in budget preparation \( r(28)=-0.400 \ p<0.05 \). The managers' skill in presentation of budgetary and financial information will affect the release of funds by the donor be it internal or external \( r(28)=-0.584 \ p<0.05 \). The study also showed that Lack of enough skilled manpower leads to misinformed and inaccurate budgeting \( r(28)=-0.461 \ p<0.05 \). It was also revealed that managers’ Participation in budgeting positively influenced budgeting \( r(28)=-0.408 \ p<0.05 \). In addition, continuous budget monitoring \( r(28)=-0.757 \ p<0.05 \).
### Table 4.15: Correlation of Internal Factors and Budgeting Processes

<table>
<thead>
<tr>
<th>Variable</th>
<th>Budgeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of financial resources is a major factor in budget preparation</td>
<td>Pearson Correlation: -.400* Sig. (2-tailed): .048</td>
</tr>
<tr>
<td>Budget preparation done by top management (top-down approach) aids in the budget preparation process</td>
<td>Pearson Correlation: .031 Sig. (2-tailed): .885</td>
</tr>
<tr>
<td>Budget preparation done by middle and lower management (bottom up approach) aids in the budget preparation process</td>
<td>Pearson Correlation: -.094 Sig. (2-tailed): .655</td>
</tr>
<tr>
<td>Lack of enough skilled manpower leads to misinformed and inaccurate budgeting</td>
<td>Pearson Correlation: .063 Sig. (2-tailed): .766</td>
</tr>
<tr>
<td>The managers skill in presentation of budgetary and financial information will affect the release of funds by the donor be it internal or external</td>
<td>Pearson Correlation: .584** Sig. (2-tailed): .002</td>
</tr>
<tr>
<td>Lack of enough skilled manpower leads to misinformed and inaccurate budgeting</td>
<td>Pearson Correlation: .461* Sig. (2-tailed): .020</td>
</tr>
<tr>
<td>Managers’ Participation in budgeting has a positive behavioral outcome on the employees</td>
<td>Pearson Correlation: .408* Sig. (2-tailed): .043</td>
</tr>
<tr>
<td>The involvement of staff in budget preparation will improve the accountability in the use of the budget</td>
<td>Pearson Correlation: -.158 Sig. (2-tailed): .452</td>
</tr>
<tr>
<td>Participation in the budget preparation assures full co-operation and commitment for making budgets successful</td>
<td>Pearson Correlation: -.339 Sig. (2-tailed): .098</td>
</tr>
<tr>
<td>Periodic evaluation of the budget preparation in line with the current context prevents mismanagement of funds</td>
<td>Pearson Correlation: -.129 Sig. (2-tailed): .540</td>
</tr>
<tr>
<td>Continuous budget monitoring will help reduce budget variances</td>
<td>Pearson Correlation: .757** Sig. (2-tailed): .000</td>
</tr>
<tr>
<td>Proper planning of the budgeting process will ensure that the budget preparation process is smooth</td>
<td>Pearson Correlation: -.027 Sig. (2-tailed): .900</td>
</tr>
<tr>
<td>Staff involvement in the budget preparation process improves the budgeting process</td>
<td>Pearson Correlation: .003 Sig. (2-tailed): .989</td>
</tr>
</tbody>
</table>
4.5 Challenges in Budget Preparation

The third objective sought to determine challenges in budget preparation and to do so the respondents were asked a set of questions where they were to state the extent of their agreement to the statements with a scale of 1-5 where 1= Not at all; 2=very little; 3=Neutral; 4=To a large extent; 5=To a very large extent.

4.5.1 Descriptive of Challenges in Budget Preparation

The findings revealed that majority of the respondents agreed to a large extent that a lack of Budget preparation skills possess a great challenge in budget preparation (4.32), it was also noted that lack of training in budget preparation is a major challenge in budget preparation (4.32). Most of the respondents also agreed to a large extent that rigid and non-adaptable budgetary planning and control systems don’t respond to environmental changes (4.08), and USIU should allocate more resources to the activities/departments that generate more profit (4.76). There was however uncertainty and lack of community participation in budget preparation poses (3.88).

Table 4.16: Descriptive of Challenges in Budget Preparation

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of community participation in budget preparation poses a great</td>
<td>3.88</td>
<td>.726</td>
</tr>
<tr>
<td>challenge in budget preparation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of Budget preparation skills possess a great challenge in budget</td>
<td>4.32</td>
<td>.476</td>
</tr>
<tr>
<td>preparation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of training in budget preparation is a major challenge in budget</td>
<td>4.32</td>
<td>.690</td>
</tr>
<tr>
<td>preparation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rigid and non-adaptable budgetary planning and control systems don’t</td>
<td>4.08</td>
<td>.702</td>
</tr>
<tr>
<td>respond to environmental changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USIU should allocate more resources to the activities/departments that</td>
<td>4.76</td>
<td>.436</td>
</tr>
<tr>
<td>generate more profit</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Valid N (listwise) 25
4.6 Enhancing Budget Preparation

The fourth objective sought to enhance budget preparation and to do so the respondents were asked a set of questions where they were to state the extent of their agreement to the statements with a scale of 1-5 where 1= Not at all; 2=very little; 3=Neutral; 4=To a large extent; 5=To a very large extent.

4.6.1 Descriptive statistics on Enhancing Budget Preparation

To a very large extent respondent agreed that Training of personnel involved in the budgeting process will help enhance budget preparation (5.00), to a large extent however, respondents noted that adoption of flexible budgets will help enhance the budgeting process (4.60) and adoption of flexible budgets will help enhance the budgeting process (4.08).

Table 4.17: Descriptive statistics on Enhancing Budget Preparation

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training of personnel involved in the budgeting process will help enhance budget preparation</td>
<td>5.00</td>
<td>.000</td>
</tr>
<tr>
<td>Rigid and non-adaptable budgetary planning and control systems don’t respond to environmental changes</td>
<td>3.84</td>
<td>.746</td>
</tr>
<tr>
<td>Adoption of flexible budgets will help enhance the budgeting process</td>
<td>4.08</td>
<td>.493</td>
</tr>
<tr>
<td>Adoption of rolling budgets( budgets that can be adjusted monthly,semi-annually or quarterly) will help enhance the budgeting process</td>
<td>3.84</td>
<td>.746</td>
</tr>
<tr>
<td>Holding every individual accountable for the budget will help in the budgeting process</td>
<td>4.60</td>
<td>.500</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

4.6.2 Correlation Of Enhancing Budgeting

A Pearson correlation done between budgeting process (dependent variable) internal factors affecting budgeting, as indicated in Table 4.18. It was revealed that Training of personnel involved in the budgeting process was significant in affecting Budgeting \( r(28)=-0.631 \) \( p<0.05 \). Similarly, Adoption of flexible budgets was also significant in affecting Budgeting \( r(28)=-0.421 \) \( p<0.05 \)
Table 4.18: Correlation Of Enhancing Budget and Budgeting

<table>
<thead>
<tr>
<th>Variable</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training of personnel involved in the budgeting process will help enhance budget preparation</td>
<td>.613**</td>
<td>.001</td>
</tr>
<tr>
<td>Adoption of flexible budgets will help enhance the budgeting process</td>
<td>.421*</td>
<td>.036</td>
</tr>
<tr>
<td>Adoption of rolling budgets( budgets that can be adjusted monthly,semi-annually or quarterly) will help enhance the budgeting process</td>
<td>.143</td>
<td>.497</td>
</tr>
<tr>
<td>Holding every individual accountable for the budget will help in the budgeting process</td>
<td>.258</td>
<td>.212</td>
</tr>
</tbody>
</table>

4.7 Budgeting Process

This section sought to analyse the budgeting process and to do so the respondents were asked a set of questions where they were to state the extent of their agreement to the statements with a scale of 1-5 where 1= Not at all; 2=very little; 3=Neutral; 4=To a large extent; 5=To a very large extent.

4.7.1 Descriptive of Budgeting process

The findings revealed that majority of the respondents to a large extent agreed that advantage reconciliations are reviewed by management, and action taken to correct errors and answer questions (4.12) and also anticipated fund deficits are reported to the appropriate level of University management on a timely basis (4.51). It was also noted that the respondents to a large extent noted that internal control appears adequate for the budget and accounting overall process (4.06). There was however uncertainty on whether written departmental accounting, policy, and procedural manuals are regularly updated and distributed to appropriate personnel (3.64).
### Table 4.19: Descriptive of Budgeting process

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantage reconciliations are reviewed by management, and action taken</td>
<td>4.12</td>
<td>.530</td>
</tr>
<tr>
<td>to correct errors and answer questions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anticipated fund deficits are reported to the appropriate level of</td>
<td>4.51</td>
<td>.726</td>
</tr>
<tr>
<td>University management on a timely basis?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal control appears adequate for the budget and accounting overall</td>
<td>4.06</td>
<td>.693</td>
</tr>
<tr>
<td>process?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Written departmental accounting, policy, and procedural manuals are</td>
<td>3.64</td>
<td>.786</td>
</tr>
<tr>
<td>regularly updated and distributed to appropriate personnel?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

### 4.8 Chapter Summary

This chapter presented the findings obtained from the analysis done on the data collected. The findings were organized in line with the objectives of the study which was to determine
the external factors that influence budget preparation, to determine the internal factors that influence preparation of Organizational budgets, to investigate the challenges in budget preparation and to determine what can be done to enhance budget preparation. Both
descriptive and inferential statistics was used to determine the relationship between
variables. Chapter five will dwell on the discussion and recommendations.
CHAPTER FIVE
5.0 CONCLUSION DISCUSSION AND RECOMMENDATIONS

5.1 Introduction

This chapter will aim to critique the literature review based on the research questions which are to determine the external factors that influence budget preparation, to determine the internal factors that influence preparation of Organizational budgets, to investigate the challenges in budget preparation and to determine what can be done to enhance budget preparation. Based on these findings recommendations will be made.

5.2 Summary of Findings

The study intended to determine the factors that influence budget preparation and it was guided by the following research objectives. To determine the external factors that influence budget preparation, to determine the internal factors that influence preparation of Organizational budgets, to investigate the challenges in budget preparation and to determine what can be done to enhance budget preparation.

The study used a descriptive survey and the population under study staff of United States International University of Africa based in all the departments. The study therefore focused on about 38 departments with knowledge on budget preparation however only 30 responded giving a 79% response rate. Data was collected through the administration of questionnaires to the relevant people. Data was first input and coded in excel before exporting into SPSS for analysis, the result was presented in figures and tables.

The study established that inflation, inflationary levels, taxation and product pricing affected budget preparation. On the other hand, most respondents were neutral on whether inclusion of supply chain management, Receipt of Funding, Politics and incremental Budgeting affected budget preparation at USIU-A. It was also noted that availability of financial resources was a major factor in budget preparation while staff involvement improves accountability. The correlation findings revealed that the receipt of funding in foreign currency r(28)=0.713, p<0.05; inflation in the funded countries r(28)=0.623, p<0.05; taking into account variances caused by inflationary levels r(28)=0.438, p<0.05; had a significant impact on budgeting.
The study established the challenges in budget preparation as lack of Budget preparation skills, lack of training, rigid and non-adaptable budgetary planning and control systems and failure to respond to environmental changes. To Improve budgeting, USIU-A should allocate more resources to the activities or departments that generate more profit. A Pearson correlation done revealed that availability of financial resources \( r(28) = -0.400 \ p<0.05 \); The managers skill in presentation of budgetary and financial information \( r(28) = -0.584 \ p<0.05 \); Lack of enough skilled manpower \( r(28) = -0.461 \ p<0.05 \); managers’ Participation in budgeting \( r(28) = -0.408 \ p<0.05 \); and continuous budget monitoring \( r(28) = -0.757 \ p<0.05 \) had a significant impact on the budgeting process.

It was revealed that to enhance budget preparation training of personnel involved in the budgeting process will help enhance budget preparation. A correlation done revealed that Training of personnel involved in the budgeting process \( r(28) = -0.631 \ p<0.05 \), and adoption of flexible budgets \( r(28) = -0.421 \ p<0.05 \) significantly affected budgeting.

5.3 Discussion

5.3.1 External Factors Influence Budget Preparation

The analyze the first objective the study established that to a large extent inflation, exchange rate risk, inflationary levels, Taxation and product pricing affected budget preparation. Similar findings have been noted and Kasidi and Mwakanemela (2013) established that economic environment in a country may lead to presence of budget variance. This is experienced where the country currency is much stronger than the donor funding country in which case the organization in question gets all or a portion of its funding from other countries hence reducing the budget target. They added that the situation is also realized in situations where inflation rate increases in a funded country hence impacting on the prices of products within the country pushing up wages, salaries, and cost of goods in a country hence creating a budget variance in the donor funded project.

The findings revealed that exchange rate fluctuations influence budgeting and the process of foreign exchange risk management is an essential element towards providing secure and effective management to every institution or firms that is exposed to foreign currencies. Adler and Duma (1984) notes that the process initiates effective management of the
position of foreign currency so as to gain full control within the outlined guidelines towards controlling exchange rate impact on institutions financial position.

The current perception on macroeconomic indicates predictability and permanent transformation in the inflation rate which may be impartial at the long run. This sometimes lacks substantial impact on the real activities as indicated in the budget preparation and donor funding. However, consistent high inflationary rates may have extreme implication on real economic development which may impact on donor funding in the long run. Therefore, high inflationary rates cause challenges in financial managers who controls donor funding. According to Kasidi and Mwakanemela (2013), the rate of inflation within a country become challenging in budget preparation when it surpasses 40 percent mark hence affecting the real activity level in a donor funded project. When the inflationary rate surpasses a specific level then there is possibility for challenges in financial management in donor funded projects. However, Boyd et al. (2001) criticizes that further inflation in a donor funded country may impact on financial sector.

Allaynis and Ofek (1997) indicate that the firm’s consideration may absolutely be irrelevant with various national incorporated firms. The risk perceives the sensitivity of the firm to its value linked to foreign exchange rate fluctuation. This occurs in situation where the institution is linked to foreign affiliates and its books is kept within the various local currency, however, for the consolidation and reporting purposes the firms account has to be translated into account in line with the contract donor currency or as well parent institution currency.

On the other hand, most respondents were neutral on whether inclusion of supply chain management, Receipt of Funding, Politics and incremental Budgeting affected budget preparation at USIU. According to Atkinson (1993), one of the most visible and highly publicized economic challenges facing the implementation of operational budget is the decline in the purchasing power of an institution. Due to budget pressure, a lot of organizations are forced to rethink their current service delivery and develop strategies to reduce costs and increase efficiency.
5.3.2 Internal Factors That Influence Preparation of Organizational Budgets

The findings revealed that to a considerable extent continuous monitoring reduce variances and this concur with previous studies like Hancock (2009) who ascertained that the level of effectiveness in organizations is dictated by elements such as the capacity of the management in managing human resource within the budget implementation level. According to Armid (2000) the manager in charge of the project funded by donor’s chain may have insufficient knowledge in the area of foreign funds management, budgeting as well as accounting. Lack of potential financial management skills result to insufficient understanding in the protocol involved in donor expenditure leading to ineligible expenditures hence possibility of halting or denial of more funding. As noted by Armid, (2000) the skills equipping preparedness by managers may be impacted by timeliness and quality in liquidation documents complicating quick release of the needed funds to complete the project hence spilling over to effectiveness in donor funds.

The findings reveal that employee participation ensure full cooperation and commitment. Similarly, Silva and Jayamaha,(2012) noted that the organization should be well equipped with knowledgeable and skilled employees who are well conversant with budgetary control measures to effectively implement the budgetary control processes and allocation. It was revealed that staff involvement improve accountability and staff involvement improve budgeting processes. Horngren (2002) noted that to successfully execute its activities the organization should ensure that it has competent human resource with knowledge and skills on efficient and effective means of budgetary control processes and procedures. Employees play an integral role in the process of planning, monitoring control and evaluation processes of budget implementation this highly contributes to monitoring budget expenditures and accountability in the use of the budget (All individuals responsible for achieving results should be consulted in the formulation of budgets. No system of budgetary control can succeed without the mutual understanding of superiors and subordinates. The organisation should communicate the outcome of budget decisions to all the relevant staff. Budgets have an important part to play in the communication of objectives, targets and responsibilities throughout the organization. Carried out properly, this can have considerable benefits in promoting co-operation at all levels (Callahan and Waymire, 2007).
It was also noted that availability of financial resources was a major factor in budget preparation. Adequate availability of financial resources is one of the determinants of effectiveness. To achieve an effective budget, the organization must ensure that it has adequate access to financial resources in order to finance its projects and to carry out its activities. The management team should plan and come up with a budget before implementing projects (Dunk, 2001). The organization must allocate adequate financial resources and other structures that facilitate effective implementation of projects and other organizational objectives for example adequate allocation for funds to facilitate effective budget implementation. These resources should be both financial and physical resources.

It was also noted that most respondents were neutral about whether budget preparation by middle and low level managers (bottom up approach), budget preparation by top management (top down approach) influenced budget preparation. This contradicts other studies that have raised concerns, for instance Melek (2007) in his study on the impact of budget participation on managerial performance via organizational commitment in Turkey. A regression analysis was done. Findings revealed that there was a positive and significant relationship between budget preparation and organization commitment on managerial performance. According to Maurer and Lippstreu (2008) participation of managers and their subordinates in budget preparation will enable subordinated accept and be committed in achieving their goals. Furthermore, employees are able to gather, exchange, and share relevant information to facilitate decision making (Lins & Changa, 2005). Gachithi (2010) in his study on challenges facing budget implementation in public institutions, a case study of the University of Nairobi. The research concluded that the university budget preparation procedures are not efficient especially because lower level staff do not take ownership.

5.3.3 Challenges in Budget Preparation

Majority of the respondents agreed to a large extent that a lack of Budget preparation skills possess a great challenge in budget preparation. Previous studies have indicated that majority of donor funded project today are manned by personnel’s who do not possess the requisite leadership and managerial skills to deliver the gains of society transformation. The principle of education qualifications is not been followed and as such, made the donor
funded project the dumping ground for illiterates (Powell, 2003). In recent time, training outlays are typically treated as expenses rather than investments (Hope and Frazer, 2003).

It was also noted that lack of training in budget preparation is a major challenge in budget preparation. According to previous studies Jones (2006) also established that accuracy is critical to the effectiveness of performance management. Assessments of how well objectives are met depend on how realistic these objectives were from the start. Private institutions spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating department and organization unit budgets to ensure that the budget is consistent with their strategic objectives (Anderson, 1999). Institutions should allocate the right resources to the activities that will produce the highest returns (Jones, 2006).

Most of the respondents also agreed to a large extent that rigid and non-adaptable budgetary planning and control systems don’t respond to environmental changes, Douglas (2004) added that present day economic environment demands that institutions adapt new structural practices. Given the new competitive realities, there is need for management to embrace flexible and adaptable budgetary planning and control system which has the ability to quickly respond to environmental changes and complexities.

There was however uncertainty and lack of community participation in budget preparation poses. Similarly, Ramsey (2007) notes that the level of participation by the targeted community is highly limited especially the donor funded project located at the rural areas. The reason is attributed to high illiteracy level and the poverty rate. Thus, the psyche of the people is very low. In addition, there is no law that encourages community participation in governance and also no access to information and participation. In the absence of this, the community, no matter how vibrant and enlightened, cannot achieve anything.

Evaluation and monitoring go hand in hand. Monitoring provides the raw data to answer questions. But in itself, it is a useless and expensive exercise. Evaluation is where the learning occurs, questions answered, recommendations made and improvements suggested (Bremner, 1998). A monitoring program should not be designed without clearly knowing how the data and information was evaluated and put to use.
5.3.4 Enhancing Budget Preparation

According to the analysis done to a very large extent respondent agreed that training of personnel involved in the budgeting process will help enhance budget preparation, Winter (1999) supports this statement and he says that discussion should be held openly with the staff the kind of new skills that improve financial management systems will require and what training is available. Discuss new opportunities that could be pursued once the time dedicated to routine tasks is reduced. Review staff skills regularly and invest in training to keep skills level appropriate.

It is vital that staff should be trained on how to interpret and analyze financial reports. Help program staff members understand how a good system will make it easier for them to understand and work with financial information (Hope and Frazer, 2003). To a large extent however, it was revealed that respondents noted that adoption of flexible budgets will help enhance the budgeting process. Ramsey (2007) holds that discussion should be held openly with the staff the kind of new skills that improve financial management systems will require and what training is available. Discuss new opportunities that could be pursued once the time dedicated to routine tasks is reduced. Review staff skills regularly and invest in training to keep skills level appropriate.

Adoption of flexible budgets will help enhance the budgeting process. De Waal et al., (2011); Pollack and Zeckhauser, (1996); Ridgway, (1956) are some of the scholars that suggested that budget gaming is a concept most likely to occur in the event that an organization implements the traditional budgets characterized by rigidity and a specified time frame. Budget gaming typically occurs when the reporting information is distorted, creation of budget slack, provision of over or under estimates or postponing or accelerating investments, expenditures and revenues at the expense of profitability (Bart, 1988; Libby and Lindsay, 2003, 2010; Jensen, 2003; Merchant, 1985). As a result of this options of better budgeting techniques particularly rolling budgets, and the Beyond Budgeting approach, have been deliberated as alternatives to increase budgeting flexibility and to mitigate the effects of budget games (Hope and Fraser, 2003).

According to Haka and Krishnan (2005) better budgeting techniques mostly rolling budgets and forecasts have been proven helpful in highly uncertain environments. Rolling budgets
are usually prepared to cater for a period of up to 18 months but unlike traditional budgets they can be adjusted monthly, semi-annually or quarterly. These budgets are adjusted by taking into consideration the changes in the economic and financial environment which in turn affect the implementation of the projects (Lynn and Madison, 2004). Rolling budgets are better than traditional budgets as they allow rapid adaptation of changes in the initial plans, they relate to longer time frames and provide better quality short-term forecasts. There has been criticism of rolling budgets as they increase administration work, reduction of the employee’s commitment to their work, and they are also uncertain.

5.4 Conclusion

5.4.1 External Factors Influence Budget Preparation

External factors such as inflation, exchange rate risk, exchange rate fluctuations, inflationary levels, Taxation and product pricing happen outside the firm although despite this attribute they play a major effect on budget preparation as USIU.

5.4.2 Internal Factors Influence Preparation of Organizational Budgets

Internal factors undertaken by a firm has the potential of influencing performance, such include continuous monitoring that to reduce variances, and full employee participation that ensures full cooperation and commitment. Among other issues that affect the process include availability of financial resources and evaluation periods.

5.4.3 Challenges in Budget Preparation

Lack of Budget preparation skills possesses a great challenge in budget preparation, the situation is even worsened when firms lack training in budget preparation. Firms that have a rigid and non-adaptable budgetary planning and control systems also face the risks,

5.4.4 Enhancing Budget Preparation

When firms undertake the necessary training of personnel it enhance budget preparation, to a large extent and there is a need to adopt flexible budgets will help enhance the budgeting process and adoption of flexible budgets will help enhance the budgeting process.
5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 External Factors That Influence Budget Preparation

External factors such as inflation, exchange rate risk, exchange rate fluctuations, inflationary levels, Taxation and product pricing affected budget preparation and so it is essential for the institution to plan well and devise ways of mitigation. Such could include putting up inflation allowance and making prompt payments where applicable. The management of USIU-A should come up with policies that clearly stipulate the responsibilities of every individual in the budgeting process so reduce the challenge of lack of community participation. The government should also implement policies that make donor funded institutions mere transparent and accountable of the funds they receive.

5.5.1.2 Internal Factors Influencing Preparation of Organizational Budgets

USIU needs to continue with their continuous monitoring to reduce variances, and there is also a need to engage all employee for full cooperation and commitment. The institution also need to device other ways of generating revenues to avoid shortage of financial resources. The firm also needs to undertake regular periodic evaluation to deter mismanagement.

5.5.1.3 Challenges in Budget Preparation

USIU-A management should facilitate training sessions with the finance department where the individuals in the various departments are taken through the budgeting processes so as to ensure every individual in the organization knows what is required of him or her. There is also a need to discard rigid and non-adaptable budgetary planning and control systems. Shortage of resources to profit centers should be highly encouraged.

5.5.1.4 Enhancing Budget Preparation

To enhance budget preparation continuous training of personnel involved in the budgeting process and the institution needs to review some of its policies on budget preparation and
ensure the adoption of flexible budgets to enhance the process this is possible if the management of the institution adopt policies that will enhance community participation in the budgeting process.

5.5.2 Recommendation for Further Studies

The study intended to determine the factors affecting budget preparation, a case study of USIU-Africa. The study was aimed at determining the external factors, internal factors, challenges and ways to enhance budget preparation. There is a need for a similar study to be undertaken across other private university so as to be able to generalize the findings. There is also a need to access the exact training needs required in the organization.
REFERENCES


June 5, 2017

Dear Respondent,

**REF: ROSELYNE MWASI**

I am a graduate student pursuing Masters in Business Administration in Finance at United States International University of Africa. I am therefore, conducting a research project to identify factors affecting budget preparation institutions, focusing on USIU as my case study. The study will be conducted in USIU among the finance and other departments. The staffs working in these departments have to have knowledge on budget preparation in the institution since 2010. The study findings will be confidential and will only be used for academic purposes.

Your participation will be highly appreciated.

Yours faithfully,

Roselyne Mkanjala Mwasi

0722779255.
APPENDIX II: Questionnaire

SECTION ONE: GENERAL INFORMATION

1. Kindly tick the box describing your budget responsibility
   - Donor funded projects
   - USIU departmental Budgets
   - Both

2. Which level of the organization do you work in?
   - Top
   - Middle
   - Lower

3. What is your work experience in the involvement of budget preparation?
   - i) 1-3 Years
   - ii) 4-6 Years
   - iii) Above 6 Years

SECTION TWO:

DONOR FUNDED PROJECTS

Kindly answer the below questions if you are involved in budget preparation in donor funded projects

4. How long does it take for the budget to be reviewed in your project?
   - a) 3 months
   - b) 6 months
   - c) 12 months
   - d) Randomly
   - e) Absence of budget revision

5. Who dictates the final budget proposal decision in the project?
   - i) Board of directors/ Vice Chancellor
ii) Top Managers [  ]

iii) Budget Committee [  ]

iv) Donors Finance Manager [  ]

Others ……………………………………………………………………………

6. Do you incorporate the donors in budget preparation? Yes [ ] No [  ]

7. Effect of donor policies on budget preparation

Please state the extent to which donor policies influence budget preparation.

<table>
<thead>
<tr>
<th>1=Not at All</th>
<th>2= Very Little</th>
<th>3=Neutral</th>
<th>4=To a Large Extent</th>
<th>5=To a Very Large Extent</th>
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<tbody>
<tr>
<td>Donor policies have an impact on the budget preparation process in USIU</td>
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<tr>
<td>Donor policies can influence the governments capacity and commitment in making the budgeting process accountable and transparent</td>
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SECTION THREE:

8. External Factors that Influence Preparation of Organizational budgets

Please state the extent to which external factors influence budget preparation.

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<th>1=Not at All</th>
<th>2= Very Little</th>
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<tr>
<td>Economic Factors</td>
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<tr>
<td>The receipt of funding in foreign currency has an impact on the budget preparation in USIU</td>
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</table>
Inflation in the funded countries economy has an effect on the budget preparation in USIU

Exchange rate risks affects budget preparation

Exchange rate fluctuations /movements has an impact on budget preparation

**Inflationary Measure**

Taking into account variances caused by inflationary levels that cause increases in commodity prices will improve on budget preparation

**Market Demand Fluctuations**

Taxation has an impact on budget preparation

Product pricing has an impact on the budget preparation

Inclusion of supply chain management in budget preparation ensures stability in budget preparation

Politics have an effect on the budget preparation process

**Technology**

Incremental based budgeting does not focus on the schools technological requirements

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9. Kindly state any other external factor affecting budget preparation in USIU

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10. **Internal Factors that Influence Preparation of Organizational budgets**

Please state the extent to which internal factors influencing budget preparation.
<table>
<thead>
<tr>
<th>Availability of Financial Resources</th>
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<tr>
<td>Availability of financial resources is a major factor in budget preparation</td>
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<td>Budget preparation done by top management (top-down approach) aids in the budget preparation process</td>
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<tr>
<td>Budget preparation done by middle and lower management (bottom up approach) aids in the budget preparation process</td>
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<tr>
<th>Competence of Human Resource</th>
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<tr>
<td>Lack of enough skilled manpower leads to misinformed and inaccurate budgeting</td>
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<tr>
<td>The managers skill in presentation of budgetary and financial information will affect the release of funds by the donor be it internal or external</td>
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<th>Managerial Factors</th>
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<tr>
<td>Lack of enough skilled manpower leads to misinformed and inaccurate budgeting</td>
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<td>Managers’ Participation in budgeting has a positive behavioral outcome on the employees</td>
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<tr>
<th>Participation of both Staff and other Stakeholders</th>
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<tr>
<td>The involvement of staff in budget preparation will improve the accountability in the use of the budget</td>
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<tr>
<td>Participation in the budget preparation assures full cooperation and commitment for making budgets successful</td>
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</table>
Monitoring and Evaluation

Periodic evaluation of the budget preparation in line with the current context prevents mismanagement of funds

Proper Planning

Proper planning of the budgeting process will ensure that the budget preparation process is smooth

Monitoring and Evaluation

Periodic evaluation of the budget preparation in line with the current context prevents mismanagement of funds

Continuous budget monitoring will help reduce budget variances

Staff Motivation

Staff involvement in the budget preparation process improves the budgeting process

11. Kindly state any other internal factor affecting budget preparation in USIU

12. Challenges in Budget Preparation

Please indicate your rating on the challenges in budget preparation below.

<table>
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<tr>
<th>1=Not at All</th>
<th>2= Very Little</th>
<th>3=Neutral</th>
<th>4=To a Large Extent</th>
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<td>1 2 3 4 5</td>
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</table>
Lack of community participation in budget preparation poses a great challenge in budget preparation

Lack of Budget preparation skills possess a great challenge in budget preparation

Lack of training in budget preparation is a major challenge in budget preparation

Rigid and non-adaptable budgetary planning and control systems don’t respond to environmental changes

USIU should allocate more resources to the activities/departments that generate more profit

13. Kindly state any other challenge that is experienced during budget preparation in USIU

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14. Enhancing Budget Preparation

Please indicate your rating on the ways to enhance budget preparation.

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<th>1=Not at All</th>
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<th>4=To a Large Extent</th>
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</table>

Lack of Budget preparation skills possess a great challenge in budget preparation

Training of personnel involved in the budgeting process will help enhance budget preparation
| Rigid and non-adaptable budgetary planning and control systems don’t respond to environmental changes |
| Adoption of flexible budgets will help enhance the budgeting process |
| Adoption of rolling budgets (budgets that can be adjusted monthly, semi-annually or quarterly) will help enhance the budgeting process |
| Holding every individual accountable for the budget will help in the budgeting process |
| Advantage reconciliations are reviewed by management, and action taken to correct errors and answer questions |
| Anticipated fund deficits are reported to the appropriate level of University management on a timely basis? |
| Internal control appears adequate for the budget and accounting overall process? |
| Written departmental accounting, policy, and procedural manuals are regularly updated and distributed to appropriate personnel? |

15. Kindly state any other method to improve the budget preparation process in USIU

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Thank you for taking your time to complete the questionnaire.