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An Assessment of the Effects of Budget Interpretation on Budgetary Control: A Case Study of Uasin Gishu District Hospital

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Abstract
The purpose of this study was to assess the effects of budget interpretation on budgetary control in Uasin Gishu District Hospital in Eldoret. The objectives of the study were: to determine budget interpretation methods used in the institution, to find out the effects of budget interpretation on budgetary control in the institution, to determine budget control measures used by the institution and to find out challenges the institution is facing in budget formulation. The study adopted a case study research design. The study incorporated the total population of 99 respondents. The study adopted census method to select a sample frame. Data for the study was obtained through the use of questionnaires and interviews. The data was analyzed and presented using descriptive statistics and presented in percentages and frequency tables. Based on the findings of the study, the researcher made the following recommendations in order to improve budgetary control: Allocate resources equitably to ensure departmental conflicts does not arise; The accounts officers should be competent in order to allocate resources equitably and Ensure that all the money spent are accounted for to ensure transparency in the school. The study suggested further research on the challenges facing budgetary control in organizations
Keywords: Budget execution; Congressional action; budgetary interpretation and budget control

1. Introduction

Formal budgeting is a management control technique used to assist in controlling expenditures and tracking revenues. Budgetary accounting techniques are important because the annual budget is a legal compliance standard against which the operations of government are evaluated. Because statutory laws and charters of institution require staying within appropriated budgets, the accounting structure is designed to ensure and demonstrate compliance with the budget. To achieve this goal, appropriated budgets are integrated into the accounting system. "Integrating the budget" means the accounting system is specifically designed to provide ongoing and timely information on unrealized budgetary revenues, as well as remaining uncommitted balances of appropriations (Davidson, 2007)

Public budgets grew as a proportion of gross domestic product in North America and Europe in the late nineteenth and early twentieth centuries as welfare expenditure was increased. In addition, the First World War necessitated greater public expenditure to meet immediate needs, but also initiated state expenditure which became permanent as citizens in the victorious countries sought a 'peace dividend'. Budgeting merely expanded in scope as a process to meet these new demands, drawing most heavily on increases in direct taxation, notably taxes that were progressively related to income. The influence of public expectations and Keynesian economics expanded from the 1940s, bringing about the demise of the orthodoxy of balanced annual budgeting for flexible budgeting over a given period, thus allowing government's greater freedom to indulge in party politics. Budget surpluses could be built up in the first years of a government to allow fiscal give-aways in the budget preceding an election (Ashford, 2000)

The contemporary problems of budgeting arise from three conflicts that have emerged since the 1960s. First, continued incremental budget growth to provide for the needs of different sections of electorates have occurred simultaneously with relative economic decline or stagnation in large parts of the West. Budgetary control is hazardous because of uncontrollable commitments such as inflation-linked pensions, and because of the electoral implications of budget reduction for the party of government responsible. Secondly, continued expectations of governmental responsibility for macroeconomic management coexist uneasily with new political economies such as monetarism and old orthodoxies such as balanced budgets. Thirdly, the political imperatives of party statecraft in budgetary manipulation have conflicted with needs for long-term planning and/or stability in budgetary policy (Ashford, 2000)

The budget system of the Kenyan Government provides the means for the parliament to decide how much money to spend, what to spend it on, and how to raise the money they have decided to spend. Through the budget system, they determine the allocation of resources among the agencies of the Federal Government. The budget system focuses primarily on shillings, but it also allocates other resources, such as Federal employment. The decisions made in the budget process affect the nation as a whole, State and local governments, and individual Americans. Many budget decisions have worldwide significance. The Congress and the President enact budget decisions into law. The budget system ensures that these laws are carried out. This same principle applies in the institutions and other organizations in the Kenya perspective. After their managerial control purpose has been served, during the year end closing process, the general ledger budgetary accounts are reversed. (Cooper, 2001)

Pendlebury (2004) argue that "Controls can serve as complements or substitutes for one another, and they also may differ in both magnitude and area of impact." This suggests that organizations may need to implement different forms of accounting controls simultaneously to achieve the desired outcome and behaviour. Hence accounting controls, such as the extent of budget emphasis in performance evaluation should not be viewed in isolation, but as a total package of accounting controls along with other non accounting controls to achieve the organizational objectives

Henson (2001) argue that accounting controls "...may seem an adhoc collection of techniques and mechanisms, but in many cases they are the tangible elements of a strategy to create an integrated organization control package." This suggests the need to explore the impact of the moderating effects of other accounting control on the relationships between an emphasis on tight budget targets and subordinates' performance and dysfunctional behavior.

Budget interpretation is defined as a process through which stakeholders influence and share control over budget initiatives, including the decisions and resources which affect them (Mwenda A. K and Gachocho, 2003). The national budget is an important key public policy instrument that reflects a nation’s needs and priorities and since the budget is financed largely from taxes, interpretation in the budget process is viewed as mandatory.

Two forms of common accounting controls, namely, planning and cost control, are necessary for control systems to be effective. Hirsch, (2006) define planning as choosing goals, predicting results under various ways of achieving those goals, and then deciding how to attain the desired goals"; and control as "action that implements the planning decision and the performance evaluation of the personnel and operations." The management accounting literature suggests that effective planning and effective control are both crucial for achieving organizational objective. Effective planning ensures that goals are carefully chosen and effective control ensures that the chosen plan of action is implemented accordingly, thereby ensuring that the chosen goals are attained Planning without the complementary control will be unsuccessful.

Similarly, controls are not meaningful unless proper planning is in place. An effective cost control system must be in place to complement the tight budget target set. To-date, these relationships have remained largely untested. Since planning and cost control constitute two of the most common forms of accounting controls, a better understanding of their effects on subordinates' performance and behaviour will have important theoretical and empirical statistics. In Kenya, a few studies have been done in this area and therefore it is imperative to find out an assessment of the effects of budget interpretation on budgetary control

2.0 Literature Review

2.1 Concept of Budgeting

The budget documents provide information on all Federal agencies and programs. However, because the laws governing Social Security (the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance trust funds) and the Postal Service Fund exclude the receipts and outlays for those activities from the budget totals and from the calculation of the deficit or surplus, the budget presents on-budget and off-budget totals. The off-budget totals include the transactions excluded by law from the budget totals. The on-budget and off-budget amounts are added together to derive the totals for the Federal Government. These are sometimes referred to as the unified or consolidated budget totals. Budget authority, obligations, and outlays are the primary benchmarks and measures of the budget control system. Congress enacts laws that provide agencies with spending authority in the form of budget authority. After the plans are approved, agencies can enter into binding agreements to purchase items or services. These agreements are recorded as obligations of the United States and deducted from the amount of budgetary resources available to the agency. When payments are made, the obligations are liquidated and outlays recorded (Savage, 2002)

Baiman and Evans (2003), adopted organization communication theory. The theory states that Organizations seek enhanced budgetary communication between managers and their superiors (e.g., the immediate supervisor) for at least two general reasons. First, enhanced budgetary communication has the potential to reduce information asymmetry within the organization. Economic models of budgeting have emphasized the flow of information up the hierarchy from subordinate managers to their superiors and agents of the superiors such as budget staff. Subordinate managers generally hold private information regarding their task and task environment which, if acquired by superiors, may allow the superiors to allocate budgetary resources in a more effective manner and to design incentive contracts that better motivate the subordinates to achieve their budgets

The budgeting literature has also addressed, albeit to a lesser extent, the flow of information down the hierarchy from superiors to subordinates. Superiors hold private information regarding budget goals and strategies for achieving budget goals that, if conveyed to subordinates, may facilitate the subordinates' achievement of those goals. A second general reason that organizations seek enhanced budgetary communication between managers and their superiors is its potential positive effect on the managers' work-related attitudes, morale, and motivation, and, in turn, on behaviors such as job performance. Budgetary communication in terms of budgetary participation, budgetary explanation, or budgetary feedback has been found to be related to a variety of work-related affective and behavioral reactions. These reactions include increased job satisfaction, greater perceived fairness of the budgetary process and its outcomes, a more favorable attitude toward and greater trust in superiors, a more favorable attitude and greater commitment toward the budget and the organization, a reduced propensity to create budgetary slack and improved job performance. Mandatory budget meetings and mandatory budget reports are two basic types of structural procedures that an organization might implement to promote budgetary communication. Mandatory budget meetings provide for a two-way flow of budget-relevant information between the budgets actors involved in the meeting. Mandatory budget reports promote a one-way flow of budget-relevant information; with the direction of the flow depending upon which of the budget actors generated the report and which is (are) the recipient(s) of the report. Our focus in the current study is budgetary communication between two specific budget actors, a unit manager and his or her immediate supervisor. We next discuss how a manager's mandatory budgetary involvement in terms of attending budget meetings and exchanging budget reports not only with the immediate supervisor but also with another category of budget actor, budget staff, might be related to the manager's budgetary communication with the supervisor in terms of budgetary participation, budgetary explanation, and budgetary feedback.

2.2 Budgetary Control

Planning and control and related resources and their costs are the keys to good management. The process of developing plans for a company's expected operations and controlling operations helps to carry out those plans is known as budgetary control. Objectives of budgetary control are:

To aid in establishing procedures for preparing a company's planned revenues and costs. Budgets also aid in coordinating and communicating these plans to various to various levels of management (Kariuki, 2010).

In addition, budgets formulate a basis for effective revenue and cost control .for companies to benefit from budgetary control, they should first set quantitative goals, define the roles of individuals, and establish operating targets. Short term or one year plans are generally formulated in a set of period budgets. A period budget is a forecast of operating results for a segment or function of a company for specific period of time (Caldwell, 1996).

In practice, most of the public institutions use period budgets as their budgetary control. These follow several management accounting tools. These are, Knowledge of responsibility accounting reporting systems, cost behavior patterns, and the use of cost, volume-profit analyses help management project revenues and costs for departments or products. A profit planning in itself is possible only after all cost behavior patterns have been identified. (Caldwell, 1996)

2.3 Budget Interpretation in Kenya

Effective participation in planning and decision making processes which leads to citizen empowerment is an important ingredient in reforming governments. Besides all-inclusive participation plays a critical role in enhancing transparency, credibility and accountability of the budget interpretation. Although participation has been improving in Kenya over time especially at the budget formulation stage it is however still low at the other stages of budget cycle. Participation is inhibited by a couple of factors including lack of awareness of existing mechanism for the public to engage in the budget process, inadequate capacity, inadequate legal and institutional frameworks among others. Budget interpretation highlights the existing avenues as it provided legally and otherwise in which Kenyans can engage in the budget process but at the same time also makes a comparison of best practices in the interpretation of the budget.

Budget interpretation is defined as a process through which stakeholders influence and share control over budget initiatives, including the decisions and resources which affect them (Mwenda A. K and Gachocho M.N., 2003). The national budget is an important key public policy instrument that reflects a nation's needs and priorities and since the budget is financed largely from taxes, interpretation in the budget process is viewed as mandatory. Besides interpretation the budget process is empirically proven as a significant function of promoting budget transparency.

Modern management practices advocate for inclusive and open budgeting processes. It is thus argued that budget secrecy may encourage market speculation, while greater transparency may actually smooth market adjustment to known policy choices. Further, useful, accessible and timely budget information facilitates foreign and domestic private sector planning and investment. Participatory budgeting has therefore been advanced by budget practitioners as an important tool for inclusive and accountable governance and has been implemented in various forms in many developing countries. Through participatory budgeting interpretation, citizens have the opportunity to gain firsthand knowledge of government operations, influence government policies, and hold government to account.

However, as much as the budget process in Kenya is increasingly becoming more and more open, some studies and anecdotal evidence have revealed that overall citizen participation rate in the budget process in Kenya is still not very significant. In this regard there have being calls from various quarters including civil society organizations for the government to put in place an all-inclusive participation framework. Granted, there are a number of factors that limit stakeholder participation in the budget process including technical expertise, lack of information, legal and institutional framework, financial resources, geographical location and time among others (Mwenda A. K and Gachocho M.N., 2003).

3.0 Research Methodology

The study adopted a case study research design; as such it was an intensive descriptive and holistic analysis of Uasin Gishu District hospital Eldoret as a single entity. Census sampling method technique was used as the study included all the employees of various departments in the hospital. . Piloting study was used to test the reliability of the research instruments; the test-retest technique was used to test the validity of the research instruments. The tests involved administration of the same instrument twice to the same group of subjects. The researcher provided a time lapse between the first test and the second tests. The analysis of the data collected questionnaires and interview schedule followed a number of basic statistical techniques. Descriptive statistics (variance and standard deviation) and inferential statistics (Pearson correlation) were used to analyze data.

4.0 Data analysis and Research findings

The section present study data analysis and research findings. Pearson's product moment correlation coefficient test was used to test relationships. The budget interpretation strategies an organization index was correlated with the budget control index.

Table 1: Results of Pearson's product moment correlation test on the analysis of factors affecting staff recruitment

		Effective budget control Index
Budget Interpretation strategies Index	Pearson's Correlation Sig.(2 -tailed) N	0.586** .000 78

Correlation significant at the 0.01 level (2-tailed)

From the Table, there is a Pearson Correlation of 0.586 with a p value of 0.000, $p<0.005$ showing a positive significant correlation between analysis of budget interpretation strategies an organization index was correlated with the budget control index. This result reveals a relationship between the two variables.

Pearson's product moment correlation coefficient test was used to correlate the measures of budgeting index and the Effective budget control index.

Table 2 Results of Pearson's product moment correlation test on the measures of budgeting on budget control

		Effective budget control Index
Measures of budgeting Index	Pearson's Correlation Sig.(2 -tailed) N	0.507** .000 78

Correlation significant at the 0.01 level (2-tailed)

The results r of 0.507 (50%) with a p value of 0.00 indicates significance between measures of budgeting and Effective budget control.

Pearson's product moment correlation coefficient test was used to test this relationship. The budget execution index was correlated with the Effective budget control index.

Table 3: Results of Pearson's product moment correlation test on the effect of budget execution on Effective budget control

		Effective budget control Index
Budget execution Index	Pearson's Correlation Sig.(2 -tailed) N	0.593 .000 78

Correlation significant at the 0.01 level (2-tailed)

The Pearson Correlation of 0.593, p value of 0.000 ($p<0.005$) with degree of freedom of 1 indicates a strong relationship between budget execution and Effective budget control.

5.0 Conclusion and Recommendations

5.1 Conclusion

Based on the findings of the study, the researcher made the following conclusions

The effects of budget interpretation on budgetary control are, it helps promote coordination and communication, it clearly defines areas of responsibility, it enables remedial action to be taken as variances emerge and it helps improves the allocation of scarce resources. Also, there are two methods used to interpret budget in the organization. These methods are the use of balance sheet, and the use of a trial balance

Based on the findings the study concludes that Budget control measures applied by the organization are, establishment of budgets relating the responsibilities of budget holders to the needs of a policy, relating the continuous comparison of actual with budgeted results and reviewing the receipts. More so, it further concludes that the Challenges the institution is facing in the management of budget include, some of the departments are large thus allocating resources to them may be a bit challenging, inflation may render allocated funds insufficient, at times emergency may arise thus disturbing the budget allocation. Other challenges are, the accountants might be incompetent thus making errors when allocating funds and it is not easy to allocate resources equitably

5.2 Recommendations

Based on the findings of the study, the researcher made the following recommendations in order to improve budgetary control in the organization, they include the management should allocate resources equitably to ensure departmental conflicts does not arise, also the accounts officers should be competent in order to allocate resources equitably, more so the management should Ensure that all the money spent are accounted for to ensure transparency in the organization

Based on the study the researcher recommends that the hospital management should enhance and embrace effective ways of decision making practices by instituting and implementing requirements of software development and other documentations standards that affect corporate planning. Also, the hospital management should establish planning management programme administrative framework which will ensure planning management programme function effective, efficient and consistently.

The study also recommends that the management should set and put in place standards of best practice for managing own organizational plans with which performance can be measured. Moreover the Budgetary control measures should be adopted by the firms to ensure proper growth and improve profitability. Also, the preparation of budgets should also include the middle managers and the lower staff so as to minimize on errors

The study recommends that there are usually problems that are encountered when preparing budgets thus management should know these problems and come up with the solution on how they can solve them. Also, the staff who deal with the budget preparation need to have knowledge on how to operate the standard budget which is required in the current competitive world. More so, the researcher also recommends that the organization should train its staff so as they can perform well and put them at a better competitive advantage and budgetary policies should be clearly formulated so that financial management can be effectively practiced

5.3 Area for further research

A study of this magnitude can not be exhausted in covering the area of investigation. More research can be undertaken in related areas. The following suggestions for further research are made.

Further study should be carried out to find out extent to which mandatory budgetary involvement affects budgetary control.

There is need to carry out comparative study between public and private organizations' budgetary system as a basis of improving accountability in the organization.

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