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# A Systematic Review of Budgeting and Budgetary Control in Government Owned Organizations

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**Abstract**
Budgeting and budgetary control entails the establishment of goals by the management of an organization and designing a process which serves as a framework within which an organization effectively articulates overall planned activities. The quantification of these planned activities in financial terms is known as budgeting, while the establishment of an effective mechanism to guarantee desired result is known as budgetary control. This study therefore seeks to undertake a systematic review of budgeting and budgetary control in Government owned organizations and given the importance of the foregoing, attention was focused on the Nigerian National petroleum Cooperation (NNPC). To achieve the objective of the study, primary data were obtained through the use of a well structured questionnaire administered to the respondents, while the secondary data were obtained from the annual financial statements, files, memos, tax laws and gazette of the NNPC. The findings revealed that a necessary and sufficient condition for achieving effective budgeting and budgetary control is the involvement of all relevant stakeholders in the preparation of the budget, given the established processes in government circles, while emphasizing a deliberate and faithful implementation, by all responsible officers. This rests on the existence of a mental picture of the present state of affairs, vis-à-vis the future expected state of affairs, within the organization. It therefore recommended that since budgeting and budgetary control contributes to management efficiency and high productivity of an organization, all relevant stakeholders must be involved in the budget process, from preparation to implementation, in other to guarantee overall goal attainment.
**Keywords:** Budgeting, Budgetary Control, Effective, Efficient, Management, Performance.

## 1. INTRODUCTION

Budgeting is a key policy instrument for public management and management of the firm; it is a familiar activity to many as it is practiced in our private lives as well as in businesses, government and voluntary groups. The use of budgets in government circle long preceded its application in enterprises or the business sector. In the stable economic environment of the period before the world wars, few large companies particularly in the U.S.A and U.K used budgets for variety of purposes. The use of budgets created its own conflicts, as some pioneer companies reported budgeting as a significant tool to management, while others reported same as having an ill or even a negative effect on efficiency and productivity. However, the world depression of the 1920s and its attendant negative effects that created "business worries and troubles" made the use of budgeting imperative in order to plan the overall growth of an economy and the enterprise.

Lambe (2012) writing on Budgeting and Planning aptly defines budgeting as a comprehensive and coordinated plan which is packaged by the management of an organization, and expressed in financial terms for the operations and resources of an enterprise for some specific period in the future. Pandey (2008) defines budgetary control as the establishment of departmental budgets relating the responsibilities of the executive to the requirement of a policy, and the continuous comparison of actual budgeted result either to secure desired actions. The objective of that policy is to provide a firm basis for its revision. Thus, a budget could be seen as a plan showing how resources will be required and used over a specific period of time. It represents a plan for the future expressed in quantitative terms. The Institute of Cost and Management Accountants (1999) put the concept of budget in perspective when they defined a budget as, a plan quantified in monetary terms prepared and approval prior to a defined period of time, usually planned income to be generated and expenditure to be incurred during that period and the capital to be employed to attain a given objective.

Individuals draw up household budgets for the entire family showing the sources of the family's income and their day to day expenditure. In the same way businesses whether service oriented, oil industry, manufacturing or government agencies all draw up their budgets showing expected revenue and proposed expenditure for a given period of time usually as a way to 'insure' themselves against any serious disasters that may occur. Sometimes, a forecast may be wrong, yet it provides a basis for necessary adjustments in cases of deviations and as such budgets are expected to be kept flexible to accommodate change. The management of an organization normally sets objectives or goals, so that the organization clearly identifies what it wants to achieve in a future time period and these targets or goals differ among several organizations. Budgeting therefore involves the setting of targets and monitoring of actual performance against the anticipated performance. It is a technique, which is essential and critical to most businesses and it requires the involvement of all levels of management and all functions of the organization.

Traditionally, budgeting has always been viewed as a way of limiting expenditure, hence a great part of management's time is devoted to the allocation of fund. However, empirical evidences in today's globalized world, suggest that budgeting goes beyond merely showing expected revenue and project expenditure. Rather, a budget protects and controls the way management reacts to proposals brought before it, while also examining the present and future cost as well as benefits associated with such a proposal. In achieving this though, it must not lose sight of the environment in which it operates. This same principle goes with the preparation of a budget, such that in preparing a budget, management of businesses must realize that it is indeed a part of the economic system and as such, can influence as well as be influenced by activities within the economic system.

A number of controllable and uncontrollable factors also influence an organization and these factors must be well appraised in drawing up a budget. Due to the existence of uncontrollable factors, which are usually not within the purview of management, provisions must be made in the budget to allow for diverse results (whether favorable and adverse factors), depending on the state of the economy at any given time, and it is this provision that inputs flexibility in budgeting. According to Joseph Baggot (1976), flexible budget is any type of budget which recognizes the difference in behavior between fixed and variable cost relative to fluctuation in output and turnover, and it is designed to change appropriately with such fluctuations. Whereas a fixed budget according to ICMA (1999) is a budget which is designated to remain unchanged irrespective of the output or turnover actually attained.

There are basically two very common types of budgets in every organization, whether (private of public) and these include the capital and cash budgets. This does not in any way negate the importance of other forms of budgets, as every organization has its own way of classifying budgets, such as (the preparations of) sales budget, production budget, general budgets, administrative budget, research and development budgets among others. These budgets could be short term, intermediate or long term. The capital budget indicate the amount of funds that an organization or governmental agency will devote to capital project for a specific period of time. It details the projects assets and activities in which an organization will invest these outlays and it answers several fundamental questions such as: What are the long-term asset needs of an organization? What capital funds will an organization required in periods/years ahead in other to remain a going concern. The cash budget on the other hand is a detailed financial forecast presented in a schedule showing cash flows (inflows and outflow) for an organization, over a specific period of time. Batty (1968) opined that a cash budget is the estimation of cash receipts and payment for a future plan after due consideration has been given to expected condition and the overall budget plan. The cash budget rather than being a budget in itself is derived from other budgets. It gives the financial highlight and takes into account the timing of receipts and payments. The important aspect of cash budgets cannot be overemphasized as it influences the liquidity position of an organization. A decision not to plan cash inflow and outflow adequately could create structural rigidities and limited choice of financial sources, as well as high interest rate or opportunity cost of money. The essence of any budget is to control expenditure and enable management carry out projects in order of importance; hence the budgeting process is seen as a way of improving management efficiency and performance in operations. Similarly, the foundation of a firm's financial plan is a sales forecast or budget. The sales budget provides the source of information and guidance for drawing up other budgets. This is because the sales revenue shows how well a firm is performing or is expected to perform both in the present and in the future. A good sales budget allows management enough financial caution for other expenditure, while at the same time allowing for a good study of the pattern of sales revenue receipts which enable the organization draw up its cash budget for the purpose of liquidity and capital projects.

In drawing up a financial plan, management must set a standard for comparing actual performance with what was budgeted, thus creating a basis for controlling performance both in terms of production and cost incurred. This control is primarily referred to as budgetary control; that is the use of budget to control firms' activities. The Institute of Cost and Management Accountants (1999) defines budgetary control as the establishment of budget relating the responsibility of executives to the requirement of a policy and the continuous comparison of actual with budgeted result, either to be secured by individual action the objective of the policy or to provide a basis for its revision. It is essential to compare at regular intervals, actual performance with budgeted results or standard set to ensure that deviations from planned results are kept down to a minimum and that the necessary corrective actions are taken as soon as possible after investigation of such deviations have been undertaken. In some circumstances, it may be necessary to revise the target or goals set, but this should only occur in exceptional circumstances.

The basic concept of budgeting and budgetary control however entails the establishment of a goal by management that will guide it in drawing up its planned activities, quantified in financial terms as a budget. It also involves the comparison of actual performance with the established standard or goal, and if any deviations occur, corrective actions are taken. Budgeting is closely connected with control and the exercise of control in the organization with the help of regulatory or policy framework is known as budgetary control. Consequently, the process of budgetary control involves; the preparation of various budgets, continuous comparison of actual performance with budgetary performance and the revision of budgets in the light of changed circumstances. Budgetary control (if not made to be excessively rigid), is an important device for making any organization more efficient on all fronts, and it serves as an important tool for controlling costs and achieving the overall objectives. In the light of the above, it is important to state that planning and control is the essence of profit planning in any business organization and the budgeting system provides an integrated picture of the firm's operation as a whole. All companies require for their successful operation and continuity in business, effective financial planning and control. Budget represents planning and control devices that require management to anticipate changes and adopt them. Business operations in today's economic environment are complex and are subject to heavy competitive pressures, and as such different kinds of changes take place. The state of the fluctuations in the economy in turn affects different industries in a number of ways.

Consequently, in other to critically articulate the issue in question, a government owned company in Nigeria will be brought into focus and this is the Nigerian National Petroleum Corporation (NNPC). The NNPC is an organization that prepares budget for production, sales, capital expenditures, research and development etc, but at the same time it is a major player in the oil industry, which is faced with changing national and global situations which exerts wide ranging influence on budget preparation and execution. The common changing situations that usually affects the oil industry includes; fluctuations in oil price and production quota as regulated by the Organization of Petroleum Exporting Countries (OPEC) at the international front and the government financial policies and statutory regulations at the national level.

Given the scenario above, a study such as this seeks to raise some fundamental questions such as:

- Determining whether the central feature of budgetary control is that of determining variances and identifying those saddled with the responsibilities of managing these variances.
- Determine whether government own companies in the design of their budgets report variance to officers who have responsibility for them.
- How actual performances are compared with established standards and corrective actions that are taken after investigation into the cause of deviations (if any).
- Identify if government owned companies adhere to budgeting principles and requirements in the preparation of budgets.
- Determine whether there any relationship between budgeting and budgetary control in government owned companies.
- Assess if budgetary control contributes to managerial efficiency and high productivity in government owned companies.

These are some of the questions that this research work will attempt to bring into focus and give an in depth analysis to. In addition, the quantifications of the fundamental questions raised above will provide the basis for the objective of this study. Consequently, the focal points of this study will involve and encompass the following objectives.

- To undertake an appraisal of whether the attainment of organisational goal (rendering effective services), is a direct consequence of an effective budgeting and budgetary control practice in the Nigerian, with specific focus on the Nigerian National Petroleum Corporation (NNPC).
- To determine how the budgeting and budgetary control affects the quality of service delivery in government owned enterprises.
- To highlight the importance of decision making on budgeting and budgetary control in the activities of government owned enterprises.
- To examine the benefits of budgetary control in government owned companies and the realization of their policy objectives.
- To evaluate the overall relationship between budgeting and budgetary control in government owned companies.

## 2. LITERATURE REVIEW

The budgeting system of every organization provides those saddled with the responsibilities of managing such organization the basis to determine how to source, allocate and utilize funds to support logical decision making and achieve organizational goal. Through the budgetary system, organizations have planned activities which are effectively quantified into monetary terms and definite periods.

One of the emerging issues in today's globalized world is that mangers are planning for the future of their organizations in an environment where changes in conditions are experienced at frequent intervals. The value of currencies rise and fall, prices of input materials suddenly fluctuates and there are generally structural imbalances and rigidities in the global economic systems. Amid these conditions, management must make comprehensive appraisals and take critical decisions about the future of the organization in other to remain a going concern and result oriented. According to Lambe (2014), one of the effective ways to prepare for changing conditions is to provide a frame work that contains specific plan that is sufficiently flexible to adapt to unanticipated changes. A comprehensive process of providing such frame work is known as budgeting. It involves the setting of targets, and effectively monitoring of actual performance against those budgeted.

### *2.1 Conceptual Framework*

Several authors have made various propositions and have defined the term budget; from various perspectives, mostly on individual perspectives and experiences. Aseshemic (1997) defined a budget as a financial or quantitative statement of plan to be pursued for achieving given objective. According to Brown and Howard (2002), a budget is a predetermined statement of management policy during a given period which provides a standard for comparison with result actually achieved. Buyers and Holmes (2000) on their part define a budget as a financial and/or quantitative statement prepared and approved prior to be pursued during that period for the purpose of attaining a given objective. They opined that a complete budget of the future operation of a business involves the matching of sales with production. This is to set an attainable objectives and the planning of the work to be carried out and costs to be incurred by the canters into which the business is divided for budgeting purposes.

In the views of Charles (1997) a budget is a quantitative expression of plan of action and an aid to co-ordination and implementation. This suggest that budgets are designed to carry out a variety of functions; planning, evaluating performance, coordinating activities, implementing plans, communicating, motivating and authorization, thus punctuating the basic element of a result oriented budgetary system. Pandey (2001) posits that a budget is a comprehensive and co-ordinated plan expressed in financial terms for the operations and resources of an enterprise and for some specific period in the future. According to him, the basic elements of a budget are would include the following:

- It is a comprehensive and co-ordinated plan.
- It is expressed in financial terms.
- It is a plan for the firms operation.
- It is a future plan for a specified period.

Olafusi (1998) sums up budgeting in a write-up for the "Nigerian Accountant", when he defined budgeting as an indispensable tool for effective performance, by which costs are assigned to specific tasks that are planned within a definite time period. To Parker (1997), budgeting is a faith accompli in economic discourse, because resources are scarce relative to need for them. Thus an overall perspective of budgeting is such that, it can be viewed as an instrument that provides a benchmark for the measurement and control of performance, while it equally provides feedback information, which facilitates ability to take corrective measures, based on its relativity to the nature and types of planning.

Cope (1994) views the term budget as a comprehensive plan expressed in financial terms by which an operating programme is effective for a given period of time (usually one year) including estimates of the services, activities and projects comprising the programme, resultant expenditure requirement and the resources usable for their support. Onuorah (2005) however holds the view that budgeting spells out management plan in quantitative terms. According to him, it also helps to evaluate organizational plans, while at the same time performing two vital management functions namely:

- The formulation of a comprehensive future plan of action;
- It compares actual result with predetermined plan, thus, planning and control (which are two primary functions of management) are also essential features of the budgeting process.

In the views of Lucey (1988) as it relates to the discourse, a budget is the annual process of funds allocation, which should be seen as stages in the progressive fulfillment of the long term objectives of the organizations. Accordingly, the budgeting process steers the organization towards the long term objectives defined in the corporate plan.

An analysis of the above propositions on the concept of budget reveals that although they have different interpretations they all have a common element. In essence, a budget is a predetermined statement of management policy during a given period, which provides a standard for comparison with the results actually achieved. It involves an estimation of income and expenditure over a period of time, thus the act of preparing a plan and quantifying it financially is known as budgeting. A budget is generally the organization's expectation in the future and it basically involves planning (which involves the control and manipulation of relevant variables - controllable and non-controllable) and reduces the impact of uncertainty. It makes management active to influence the environment in the interest of the enterprise. A budget expresses the plan in formal terms and helps to realize the firm's expectation. It is a comprehensive plan in the sense that all activities and operations are considered when it is being prepared.

### *2.2 Theoretical Model*

Budgeting and budgetary control as a key organizational and institutional variable is not a modern phenomenon. However, budgeting and budgetary control are of wide ranging global orientations, to which several models and theories have been associated with overtime, most especially as propounded and opined by various authorities and schools of thoughts. The budget co-ordinates sales, production, finance and all other related areas and it drives executions in a unified manner. Moreover, budgets enable management to decide on policies with some benefit of hindsight and knowledge of result thereof. Hence, the underlying principle in budgeting and budgetary control is the fact that it is a comprehensive and unified system that serves as a co-ordinated process which influences every aspect of the business and every section of the organization.

Mcalpine (2000) opines that it is important to ensure that the budgeting scheme is comprehensive and effective and that the members of the organization know their responsibilities under the scheme; what is needed to be done, how it should be done and how performance will be measured. He further stated that these requirements are fulfilled through comprehensive matter procedures. According to him, some of the questions that have to be considered in drafting a procedure (among several others) include:

- What budgets are in the scheme?
- Who is responsible for preparing and coordinating them?
- What decision has to be made in the preparation of each budget?
- What information will be required to guide these decisions?
- What are the sources of this information? How will it be collected, analyses an interpreted to establish the facts?

These procedures will be based on a factual approach to decision making and in this connection, it has to be appreciated that decisions based on incomplete information can be misleading as those based on wrong information.

Owler and Brown (1965), puts the concept of budget within the theoretical perspective when they opined that budgets are expected to be viewed from a humanistic approach. This is because human aspect of budgeting is much more important than the accounting techniques. The success of any budgetary system depends on its acceptance by those saddled with the responsibilities of managing the budget and the company members who are affected by the budgets. It is not enough to prepare budgets and assign responsibility for them; the behavioral aspect must be appraised. This fact was rightly and succinctly pointed out by Owler and Brown (1965) when they stated that: "It is nevertheless necessary to consider also the behavioral aspects of a system. The system will be ineffective if the people who are operating the system have not been considered and are not asked to participate in it". To fully appreciate the theoretical framework of budgeting and budgetary control, the types of budgets, budget administrations and periods (as discussed below) needs to be closely examined.

#### 2.2.1 Types of Budgets

Basically, there are three major types of budgeting systems used by managements of any organization for the purposes of planning and control. These include the**,** fixed budgeting, flexible budgeting and Incremental budgeting or zero-based budgeting. A fourth classification which encompasses the different type enumerated above includes the master budget.

A fixed budget is a type of budget which does not give room or make provision for changes in the environment. It does not recognize the different behavioral patterns of cost in relation to the various levels. Professor Pogue (1997) in his article titled 'Budgeting as an aid to management performance' viewed fixed budgeting as being based on one level of activity to which the various costs are related thus materials, labour and overhead costs are related to this one level of activity. Control of cost is difficult with a fixed budgeting because if actual activity is different from budgeted activity, then the budgeted costs or yardstick costs, by which actual costs are measured by management information and action, becomes meaningless. Fixed budgets is sometime criticized by analysts as being destructive because it establishes expense limit that cannot be exceeded and again does not give room for comparison between the actual performance and the budgeted result.

The flexible budget on the other hand, is a type of budget which allows changes in original form because expenditures of certain goods and services vary with output at different levels of production and economic activities. Unlike the fixed budget, it shows several levels of activity and recognizes different behavioural pattern of costs in relation to the various output levels**.** Harper (1999), defines it as a budget which lays down what should have happened in respect of each budget fact, or in view of the actual level achieved. The flexible budget affects the rigidity of the fixed budget, and it basically recognizes that forecast can be wrong. For instance, if the firm makes a poor forecast of sales, it does not limit the usefulness of the flexible budget, primarily because the operating costs under the flexible budget can be related to different level of operating activities. The flexible budget ensures effective controls by recognizing that different costs provisions are necessary to meet different levels of activity in business. It is particularly useful for control purpose with the actual output achieved.

The incremental or zero base budgeting provides a total approach to budgeting. It commences from the beginning with an appraisal of each function or activity, and subsequently goes on to examine and contract any alternatives. In other words, every item of budgeted expenditure must be examined critically and justified before it is allowed to form part of the budget. Koontz (2003) states that the idea behind this technique is to divide enterprise programs into activities and needed resources and then to calculate costs for each package by starting each program budget from base zero, costs as calculated afresh, thus avoiding the common tendency in budgeting to look only at change from a previous period. Here the budget figure for the next period is altered, bearing in mind the actual outcomes in the current budget period and the projected changes for the view period. Generally, zero base budgeting is applicable to those functional budgets, which do not involve direct costs. Where direct costs are involved (such as materials and direct wages), they will be controlled by the normal production operation because it would be expected that each item of direct cost had been monitored carefully and its relationship with production established. It is more applicable to budgets which involve overhead expenditure such as administrative, selling and distribution overheads. In the opinion of Professor Pogue (1997), the zero base approach to budget primarily centers on:

- Why the cost or activity is necessary in its present form.
- The possibilities of activity or cost alternatives.
- If these alternatives affect product quality or product services.
- Whether these alternatives affect the relationships and inter-relationship with other costs and activities.

On the whole however, zero base budgeting should be a useful tool in budget preparation because it provides the total to the problem. It is pertinent to point out that under each of the types of budgets, they could be further categorized as operating and capital budgets. An operating budget according Harper (1999) is a plan of the day to day use of resources and creation of utilities. It is particularly concerned therefore with materials, labour, overhead, sales cash etc, and it usually runs for a year, the period which is expected to correspond with whatever fiscal year the company is following so that comparison of budget to actual can be made. With respect to capital budgets, Harper (1999) further opined that it is a budget that lays down the planned requirements for the long term running of an enterprise. It indicates the fixed assets, working capital and forms of finance that will be needed over the future years. A capital budget plans the capital structure and liquidity of the enterprise over a long period of time. Capital budgeting is also an investment concept basically because it involves commitment of funds now in order to receive desired return in the future. Capital and operating budgets are well inter-connected, since capital budgets can only be developed on the basis of planned operation over the years. At the end of the planning process the capital budget in effect lay down the objectives for each of the sequential operating budgets.

In addition to the types of budgets highlighted above, a fourth categorization includes the master budget. A Master budget, according to some analysts is not a type of budget, but a summary of all functional budgets drawn up by the various functional heads in an organization. According to Ray (1995) a master budget is nothing more than a summary of all phases of a company's plans and goals for the future. It sets specific targets for sales, production, administration, distribution and financing activities and generally culminates in a projected statement of cash position expression of management plan for the future and how their plans are to be accomplished. The master budget is therefore prepared in the form of a budgeted profit and loss account in which productions, sales and costs estimated for the budget period is incorporated as a single position. Hence, a master budget is simply a network consisting of many separate budgets that are interdependent.

### 2.2.2 Budgets Administration, Periods and Benefits

A pertinent issue that needs to be examined in such a discourse is to identify those saddled with the responsibilities of budget administration in an organizational setting. The primary responsibility of drawing up the budget in most formal organizations rests with the controller or budget officers, who receive inputs from the representatives of the various units or departments to which the organization is structured. The controller or responsible office will subsequently screen the proposals, consolidate them into a company ride proposed budget and submit the budget to top management for final approval. In large organizations however, the budget preparation is the responsibility of a budget committee. The committee consists of the functional heads with the chief executive as the chairman. The responsibility of operating the whole system is undertaken by a budget officer, who is usually a principal officer of the organization. Pandey (2002) identified some of the functions of the budget committee to include the following:

- Issuing instruction to various departments.
- Receiving and checking budget officers.

- Providing historical information to departmental manager as to help them in their forecasting.
- Suggesting possible revision.
- Discussing difficulties with the managers.
- Ensuring that managers prepare budgets in time.
- Preparing budget summaries.
- Submitting budgets to the committee and finishing explanations on particular work.

The budget committee is in essence a management committee and it tends to bring together all activities of all management sections or departments in an effective manner. In the preparation of a budget, total involvement of all management levels is very important. It is more necessary to get the participation in budgeting, especially at the lowest supervisory level. It is in recognition of this fact that Onourah (2005) posited that "Budgeting is no longer and should not be the sole responsibility of the chief executive budget officer or other top executives in the company. Rather, all level of the company will participate in the budgetary process and make commitments to achieving the goals set by the budget. The wave of the future will be to tap all the human resource that is available to a company in budgeting preparation and control. Greater involvement by more people will commit them to achieving budget goals when they are established. This will have important results in terms of motivation and achievement".

Ray Garrison (1995) seem to support the position of Onourah, and that is why in his own views, the advantages that results thereof in a good budget administration cannot be overemphasized as highlighted below.

- Individuals on all levels of the organization are recognized as members of the team, whose views and judgment are valued by top management.
- The person in direct contact with an activity is in the best position to make budget estimates, thus budget estimates tend to be more accurate and reliable.
- An individual in the work place is much more apt to work at fulfilling a budget, which he has set himself as against a budget imposed on him.
- A self-imposed budget contains its own unique system of control such that if an individual is not able to meet budget specification, he only has himself to blame. But if a budget is imposed on him from above, he can maintain that the budget was unreasonable or unrealistic to start with, and therefore was impossible.

In essence, all levels of management and staff in an organization, whether strategic, tactical or operational, need to work together to produce the budget. This will ensure that the whole organization functions as a single entity in which all its constituent units are intimately interlinked.

Similarly, budget periods according to Lambe (2014) are the timeframe within which the contents and frameworks of budgetary provisions are brought into realities, considering that a budget itself is an action plan, structure into quantitative terms for efficient and effective implementation and to support long term strategic decision making. Budgetary periods can span over wide ranging periods of time, ranging from few hours to several years, depending on the nature of the budget. Owler and Brown (1999) identified budget periods as the duration for which a budget is to be implemented, which could be short-term, medium-term or long-term. Consequently, a number of advantages or benefits are derived by an organization from the preparation of budget. According to Dogara (2014), some of these benefits, among several others include:

- Estimating the cost of distribution and general administration for the budget period.
- Helps in determining the financial resources available, such that any additional funds needed must be anticipated and planned for.
- The budget emphasizes that all division of a company work toward a common goal. It demonstrates clearly that only when the efforts of all people in the divisions of the company are directed properly, can goals be achieved.
- Budgeting perform control functions, since it is a plan of operation for a definite period in the future. Operational activities throughout this period in question are controlled by working within the framework of the budget. As such it becomes easy to track deviation and corrective measures are taken appropriately, thus budgeting promotes efficiency and prevents waste.
- Budgeting has the benefit of forcing management to investigate important factors before a balanced progress can be mapped out.
- It assists in estimating the cost of production for the budget period and this involves studying and forecasting material costs, labour costs and overhead costs.
- Budgeting results in more rational use of the firm's resources and facilities. Management can make more accurate estimate of future labour and capital requirements. This contributes to the welfare of workers as well as the employee since it tends to stabilize the demand of their services.

### 2.3 Empirical Framework of Budgetary Control

As enumerated earlier, an implied meaning of budgets and the setting of budget targets is the fact it is an instrument for control purposes. Much as planning alone does not necessarily bring into effect a proposed course of action, so also is budgetary propositions which must have effective control for it to remain relevant. Budgetary control is principally geared towards achieving in a functional and effective manner, the proposed course of actions quantified in the budgetary framework.

According to Brown and Howard (2002) budgetary control can be viewed as a system of controlling cost which include the preparation of budget coordinating the department and establishing responsibility, comparing actual performance with that budgeted and acting upon results to achieve maximum profitability. In their own views, the Institute of Cost and Management Accountants (1990) defined it as "The establishment of budget relating the responsibility of executives to the requirement of a policy and the continuous comparison of actual with the budgeted result either to secure by individual action, the objective of that policy or to provide a basis for its revision". From the above positions, it simply means that to achieve (budgetary) control, actual performance must be measured against the budgeted target, at regular intervals so that performing can be properly assessed and evaluated. Management must first of all establish goals and standards that will guide it, draw up its target, against which actual performance can then be compared with established standard and if any deviation occurs, corrective action can subsequently be taken (after investigation into causes), while utilizing the identified causes as inputs for corrective measure for future planning. Hand (1986) in his position, identified three basic stages in budgetary control processes and they include the following:

- Setting of pre-determined standard.
- Measurement of actual performance against predetermined standards.

Corrective action if necessary to bring the actual performances in line with the predetermined standard. The concept of budgetary control cannot be divorced from that of an executive responsibility.

Furthermore, the objective of budgetary control is to enable management to conduct business in the most efficient manner. Scott (2000) also lends credence to this fact when he posited that budgetary control is more than an administrative technique which aims to ensure that management functions are carried out in a well organize and co-ordinated fashion. According to him, budgetary control rather aims at straightening communication within an organization in other to ensure that budgetary provisions remain goal oriented. Budgetary control equally provides the basis for certain fundamental actions (such as Administration control, direction of sales effort, production planning, control of stocks, price fixing, financial requirement, expenses control and production). Given the foregoing, the basic objective of budgetary control includes the following:

- To bring together the ideas of all level of management in the preparation of the financial plan.
- To co-ordinate all the activities of the business.
- To centralize organizational control.
- To control each function so that the best possible results may be obtained.
- To act as a guide for management decision when unforeseeable conditions arise.
- To plan and control income and expenditure so that maximum profitability is achieved.
- To direct all expenditure in the most profitable direction.
- To ensure that sufficient working capital is available for the efficient operation of the business.
- To provide a yardstick against which actual performance can be measured.
- To show management what actual is needed to remedy a situation.
- To implement budgetary provisions in the most efficient manner.

Overall budgetary control as a management technique must be given adequate attention it deserves in any organization, given the the fact that good planning without an effective control for the purpose of measuring performance will result in sub optimality and inefficiency.

## 3. METHODOLOGY

By means of survey research design and percentage statistics method, this study undertook a systematic review of budgeting and budgetary control in Government owned organizations, with specific focus on the Nigerian National Petroleum Corporation. The choice of this design was due to the fact that the researcher perceived it as appropriate because of the need to have comparative and in-depth assessment of the issue in question. The population of the study consisted of top management and middle level management staff of the organization who are actively involved in budget preparation. The primary data were obtained through the use of a well structured questionnaire administered to the respondents, while the secondary data were obtained from the annual financial statements of the NNPC, as well as from files, relevant document, memos, tax laws, bank pamphlet reporting standards, journals, gazette, and financial columns of National dailies. The sampling technique adopted for the population of the study is the non-probability type. That is the non-mathematical based style of quota sampling. Rather the maximum of 80% of subjects was used for the sample size of management and non-management staff based on the recommendation by Borg and Gall. Data was analyzed using the percentage statistics method. The raw scores and their equivalent percentages were used in answering research questions earlier developed for the study.

## 4. RESULT AND DISCUSSIONS

The main objective of this study was to undertake a systematic review of budgeting and budgetary control in Government owned organizations**.** The analyses and interpretation of data obtained from both primary and secondary sources are brought under review so as to answer the pertinent questions raised in this study. From all the issues raised and brought under review in this study, it can be inferred that the subject of budgeting and budgetary control is a tasking issue, while its importance in exerting a positive or negative influence on the performance any result oriented organization (most especially in government owned businesses) cannot be overemphasized. The result of the analysis reveals the following:

i. Most of the respondents agree that budgets are effective means of planning business activities in any organization (whether private or public).
ii. It was discovered that actual performance of an organization has a direct correlation with the various budgets prepared within a given accounting period.
iii. There is a general consensus that budgetary control aids management in proper decision making and creates a basic for effective and efficient organizational activities.
iv. Control measures on budgeting execution serves as a relevant check on organizations performance.
v. There is equally a unified opinion that preparation of budgets aids in effective cost control, most especially in government owned enterprises.
vi. Budget preparations and budgetary provisions reflect the organization pattern of working.
vii. Inadequate planning by budget committees and budget officers (depending on the type of organization) is mostly responsible for discrepancies and variance in budget performance.
viii. Budgeting and budgetary control is a veritable instrument that constrains managers and strategic management to think about and plan adequately for the future of the organization.
ix. A good budgetary process provides a means of allocating resources to those parts of the organization where they can be used effectively.
x. An effective and result oriented budget is one which defines goals and objectives that serve as benchmark for evaluating performance.
xi. A necessary and sufficient condition for the effective performance of budgets and achieving budgetary control is a deliberate and faithful implementation, by all responsible officers. This rests on the existence of a mental picture of the present state of affairs, vis-à-vis the future expected state of affairs, within the organization

## 5. CONCLUSION AND RECOMMENDATION

Having undertaken a systematic review of budgeting and budgetary control in Government owned organizations and roles they play towards determining the corporate objectives and profit making, it is imperative to conclude that budgeting and budgetary control is an indispensable tool to any organization. When matters relating to budget and budgetary control are carefully planned and implemented by any organization (most especially government owned organizations), it can lead to decrease in cost and increase in revenue, which in turn leads to maximization of profit. Though budgeting and budgetary control could enhance the efficiency of the organization's performance, it should be noted that it is not a "magic stick" that can replace effective management or ensuring the going concern of an organization and sustainability of operations.

The finding of the research shows that when budgets are effectively utilized most especially within the framework of predetermined and effective control, it serves as a means of achieving and coordinating organizational plans and actions. It equally serves as a good means of communicating plans to those responsible for their execution, while at the same time motivating managers and employees at all levels and serving as a standard for measuring actual performance. Furthermore, the findings of this research reveal that the NNPC is an organization that is fairly well-planned, as it seems to have taken advantage of most relevant management theories. Perhaps this may have made the company (like any other organization) assume that it does not need any improvement, given the fact that there are no weaknesses in its budgetary system. It is imperative therefore to state that no matter how effective or efficient a system is, there is still room and need for improvement as periodic reviews are necessary at regular intervals. Consequently based on the findings and discussion enumerated above, the following recommendations are made:

The flexible budgeting system is mostly associated with government owned organizations, and as such, it is recommended that zero-based budgetary should equally be adopted in view of its numerous advantages. Zero base budgeting provides a framework that enables the evaluation of each function from the beginning. Every item of the budgeted expenditure must be examined critically and justified before it is allowed to form part of the budget. This makes the estimates or budgets more realistic as it is based on current conditions. Zero base approach tries to uncover the current position of things in organization, why it is being done, what better ways might be available and which activities are really important and determines the cost-benefit analysis. This in turn would enable the organization to utilize such an approach as an effective tool to manage and allocate its resources and in so doing, achieve its objective.

Based on the fact that actual budget preparation, co-ordination and implementation are almost exclusively the responsibilities of both top level management. It is therefore recommended that heads of units and departments should be more involved in the preparation of budgets and not just the implementation. This of course is with due regards to organizational policy and considering the fact that the individuals saddled with tactical and operational activities of an organization are in a vantage position to make budget estimates that will be more reliable and accurate.

It is equally recommend that operating performances report, which is occasionally prepared, should be done at more regular intervals (such as bi-weekly). This is recommended in recognition of the complexities of the budgetary system and it is envisaged that if the more regular reporting approach is adopted, it will in no small measure enhance the budgetary control system, since the shorter the period, the more effective the control.

As enumerated above, it is being re-emphasized that the budget committee should include all unit/departmental heads, supervisor and sub-heads that have direct control with the organizational activities. This will create a forum for wider participation of all relevant stakeholders in the company's management process, thereby enhancing the exchange of ideas and views about how the operation of the business could be improved. In this way, proper co-ordination of each department or sub-department budget can be ensured through careful scrutiny of all the components of the budget before the top management makes final approval.

Consequently, since budgeting and budgetary control contribute to the improvement of management efficiency and high productivity; the budget committee should be educated in the implementation of budget. This would enable them to understand the importance of adhering to actual budget provisions thereby minimizing loses. Thus budget education should be conducted at regular intervals for all principal officers of the organization, by reputable firms, as the usefulness of such an exercise cannot be overemphasized.

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