

## **BUDGET AND BUDGETARY PROCESS IN NIGERIA**

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### **Abstract**

*The aim of this study is to enhance the management control Budget in Nigeria and to ascertain its impact in controlling the expenditure as well as the government spending limit, it also enable the government in strategizing the possible ways of managing its resources. The annual budget processes will aid the government to plan in financing its capital project against the anticipated revenue to be generated thereby, making it possible for government to channel the anticipated revenue into a right direction. From literatures and empirical findings the study was described based on a qualitative approach. Furthermore, the methods employed in data collection were both primary and secondary sources.*

*Key words: Management Control, Budget, process.*

### **INTRODUCTION**

The spending requirement of government is too much that, the limited resources cannot be enough to cover all the demand at once. In such a situation, there is the need for adequate planning and forecast for its resources to meet the set objectives for which it is created. One systematic way of facilitating the effective management of resources is budgeting. Thus, budget helps in directing government spending and it is considered as a tool of accountability, management and economic policy.

Budgeting is an annual exercise at all levels of government whether elected or not. This paper therefore intends to look at the concept with particular focus on the budgetary process and implementation in the public sector.

### **DEFINITION OF BUDGET**

A budget can generally be defined as a formal quantitative state of resource allocation set aside to finance a planned activity over a specific period of time. Most definitions provided are common and regard budget as a future plan. Wildavsky (1975), Oshisami and Deans (1984), Johnson (1999) and Adam (2000) see budget as a future plan in order to achieve government goals.

### **HISTORICAL BACKGROUND OF BUDGETING**

One economic principle states that "resources available whether at individual level, private or public sector are not always sufficient to service the needs and available opportunities which individuals or organizations would want to service or seize". This principle which is as old as history itself has brought in budgeting as the most tactical means by which the scarce resources would be distributed amongst such competing services and opportunities. Thus budgeting has been an age long basic instrument of resources allocations. From this mere instrument of resource distribution, it developed into an instrument of financial management, control and evaluation and more importantly, as an instrument of accountability in the public sector.

### **BUDGET PROCESS**

This is the step-by-step procedures of preparing budget. The procedure starts first, with the executive arm of government stating the aims and objectives of the government

in the coming year. Such aims and objectives are clearly stated in terms of various factors - social, economic political etc. These factors will serve as guides against which the budget or resources allocation shall be made to achieve them.

#### **STEP-BY-STEP PROCEDURE**

- i. The Ministry of Budget and Planning will send out budget call circular to all budget centers (ministries, departments, parastatals etc.) to submit their budget proposals. The call circular will usually be accompanied by a designed format on which the budget centers shall make their budget proposals.
- ii. After collation of the various proposals by each of the budget centers, the Ministry of Budget and Planning will fix a date on which each of the centers shall come to defend its submission.
- iii. A draft estimates will now be made by the Ministry of Budget and Planning and submitted to the president.
- iv. The President in turn submits the draft estimates to the National Assembly in a form of a bill referred to as an Appropriation Bill. The National Assembly will subject the Appropriation
- v. Bill to the usual due process of Bills and after making amendments where necessary, the bill will be passed.
- vi. The approved Appropriation Bill be sent to the President for his assent which then becomes an Appropriation Act.

For the Federal Government Budget, the constitution has specified the time periods within which the President shall submit the Appropriation Bill to the National Assembly. The National Assembly in turn is expected to approve the bill before the first day of January of the year in which the budget shall be used.

#### **PURPOSE OF BUDGETING**

The major purpose of budgeting includes the following:

- i. Planning tool
- ii. Tool of management
- iii. Instrument of economic policy
- iv. Ensures accountability.

#### **BUDGETING TECHNIQUES**

Since the lack of budgeting theory in the 1940s, public managers and public policy scholars have sought to answer the question, on what basis shall it be decided to allocate X money to activity A instead of activity B? The answers suggested were:

- a. Performance budgeting - i.e, tying workload measures to government activities (1950s answer)
- b. Planning - Programming budgeting i.e. (1960s answer)
- c. Management by objectives i.e. (1970s answer)
- d. Zero - base budgeting i.e. (1980s answer)

All these according to Fred (1979), failed because of non-recognition of political judgments. This is because public budgeting is still political.

Contemporary public budgeting operates in a political milieu. As a result modern techniques stand to achieve certain objectives and these are:

- i. Development of meaningful alternatives to enhance the role of the central decision makers.
- ii. Demand for programme results through programme analysis and evaluation

#### **THE BUDGETING REFORMS IN NIGERIA**

The popular budgeting that has been somewhat an inheritance of the colonial system, was the traditional system otherwise referred to as incremental budgeting. The technique is to increase a certain percentage for the year over that of the previous year. In some instances, a global percentage say 5% to 10% may be used to arrive at each class of revenues or expenditures in the budget.

However, since budgeting particularly, the annual budget is a medium plan of a Rolling Plan; such traditional or incremental budgeting technique will never lead to achievement of a rolling plan. This is

because, over the life of a rolling plan, circumstances will usually lead to review of aims and objectives and changes in programmes and priorities. The incremental budgeting technique always lays emphasis on the previous year's performance or allocations rather than looking ahead for changes and opportunities.

The demerit of the traditional technique to budgeting was emphasized in Nigeria as far back as 1968. However, it was the Western Region in fashioning out its Developmental Plan (Rolling Plan) for the five year period (1970-1974) decided to adopt the Programme and Performance Budgeting System (PPBS), an idea adopted from the United Nations (UN) manual of Economic and Functional Classification of Government Transactions in 1958. There was however a problem of adopting the UN document due to the fact that, the classification in the UN document was import based while Developmental Plan was an output based.

The Federal Government in 1977 however saw to some extent the advantages of the PPB system of budgeting and constituted a special committee to first evaluate the federal government budgeting system. The Federal Government agreed with the report of that committee to use the PPB system in the same year. There was however resistance from, the then Permanent Secretaries.

Another reform in the budgeting system came in 1981 with one additional column in presenting the capital estimates.

This column was expected to show anticipated level of performances over the period of the capital project. The PPB was not introduced to all ministries and Extra Ministerial Departments of the same time.

### **DISTINCTION BETWEEN PPBS AND ZBB**

The Planning Programming Budgeting System (PPBS) is a little complex system. It requires specialists to first examine government objectives in all areas of the economy. The specialists committee after identifying the objectives of the government will develop programmes that will lead to the accomplishment of these objectives. In doing this, major areas of the programmes will usually be identified and highlighted especially those with time factors.

The next stage is to identify if what is or are presently on ground in terms of staff, material, structures are adequate for the programmes to take off otherwise identify the deficiencies and possible immediate ways to get the requirements.

The next is to assign responsibilities (tasks) to individual and groups. However what is required is who does what and when. This is necessary to avoid duplication and overlaps of efforts. Assigning of task is desirable to know who should be held responsible in case of failures and or inefficiencies.

The last stage is to agree on time table and completion dates so that each individual or groups would know their target date for completion of their tasks.

When the above stages have been designed and approved the PPB is set for implementation.

The Zero-Base Budgeting (ZBB) system is quite popular both in the private and public sectors. Its guiding principle is that each sector is given allocation based on the cost benefit analysis of the sector or subhead. Each sectoral head (Ministries and Departments) would be required to prove the need for each item of its expenditure before allocation is made to that expenditure item.

The ZBB unlike the traditional incremental budgeting system where the previous year's allocation or expenditure serves as the base, this budget system as the name signifies assumes a zero base for allocation.

The advantages of the ZBB system over the incremental system are:

- i. Resource allocation becomes rational
- ii. Avoids allocation of more resources to less important sectors
- iii. Value for money is justified.

Generally, which ever system is used, there is the need to involve executors from the preparation of the budget to implementation and expenditure control.

### **BUDGET IMPLEMENTATION**

The concept of budget implementation involves the mobilization of the entire public sector machinery and the activities take place during the entire fiscal year. The rules and regulations guiding the implementation are contained in the budget which is a legal document with the overriding principle for expenditure control and efficiency in the use of resources.

The main tasks with respect to budget implementation include:

- a. Revenue collection
- b. Budgetary releases
- c. Acquisition of goods and services

- d. Accounting system for proper records and analysis of government transactions
- e. Monitoring of progress of work in order to match expenditure with output.
- f. Evaluation of the budget performance.

Considering the tasks, it is apparent that implementing the budget would involve the evaluation of its performance in respect of policies, financial resources and physical achievements. So, while the budget is being implemented, it is at the same time being reviewed, hence budget implementation is regarded as a further process of budget preparation.

### **BUDGET CONTROL**

Control to any system of financial management is the mechanisms for enforcing prudence and accountability in the conduct of financial activities in the organization. Dalhatu (1994) asserted that, many major failures in an undertaking may be traced to absence of proper control. This implies that any organization that aspires to achieve its set down goals must have some means of knowing and checking on what their subordinates are doing and whether it is in line with the laid down procedures and expectations.

### **PROBLEMS ASSOCIATED WITH BUDGET**

Whatever method a nation adopts, the universal obstacle is availability of resources at the disposal of that nation. However, this paper wishes to add the following:

- i. Dishonesty at the preparation stage: In Nigeria we are familiar with incremental budget using percentage say 25% more than the previous years. The way budget are prepared, the actual cost of a project is not what is reflected in the estimate. For instance, if a project is estimated to cost about N10m to execute. It will be inflated (i.e. in-built) to say N15m. If submitted to the policy makers it looks so frightening and this leads us to the second problem.
- ii. Suspicion: The person at the level of deciding begins to suspect the initiator for giving frightful figures. So, the N15m submitted is slashed down by say 50%. Meaning, instead of the actual N10m, it is now N7.5m. The consequence of this is, that project cannot be executed and hence repeated submissions of a particular project over and over.
- iii. Diversion: Funds approved in the estimate are sometimes diverted with the hope that, such funds will be retrieved. In the event that the retrieval fails, that is the end of the story.
- iv. Late release of funds: Unlike the former treasury system where the Head of Department controlled his vote, the current approach requires a long protocol before getting funds, such as writing of memos, getting executive approval etc. While this ensures central control, it is being suggested that, a relative authority be given to some specific offices to reduce long protocol.
- v. Intra-politics: Now that all hurdles have been crossed and funds released to the organization concerned, the politics between the Financial Controller and the Chief Executive on one hand and other line managers on the other hand begins. Such as no money, cheque lodged, in the bank yet to be cleared, bank charges have taken part of the money etc. In the end, the actual amount does not reach the executor of the project.

### **CONCLUSION AND RECOMMENDATION**

This paper wishes to conclude that, no matter how good and effective a policy is, the attitude of the operators will make or mar it. Therefore, to find solution to this problem, it is being suggested that, less cherishing of material wealth by the operators of the system, adequate attention to staff welfare by the policy makers and above all, fear of Allah by all, can go a long way in making whatever system is in operation to achieve its set out objectives. Medium-term spending projections are necessary to demonstrate the administration and public desired direction of change. In the absence of a medium-term program, the study recommend a rapid spending adjustments to reflect the changing circumstances that will tend to be across-the-board and ad hoc, focused on inputs and activities that can be cut in the short term. The preparation of a macroeconomic framework is therefore an essential element in the budget preparation process. Macroeconomic *projections* should be simplified in other to make forecasts of trends of macroeconomic variables easy. Finally, in a purely annual budgeting, it has been observed that there is weak link between sectorial policies and budget allocations. The study also recommends that Sector politicians should clearly state their needs so that the budget will provide the necessary resources.

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