

**ST. MARY'S UNIVERSITY**  
**FACULTY OF BUSINESS**  
**DEPARTMENT OF ACCOUNTING**

**AN ASSESSMENT OF BUDGET PREPARATION AND  
MONITORING PROCESS  
CASE STUDY OF AFRICAN UNION COMMISSION**

**BY**  
**NIYONSABA SPES**

**MAY, 2014**  
**SMU**  
**ADDIS ABABA**

**AN ASSESSMENT OF BUDGET PREPARATION AND  
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**A SENIOR RESEARCH SUBMITTED  
TO THE DEPARTMENT OF ACCOUNTING  
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**IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR  
THE DEGREE OF BACHELOR OF ARTS IN ACCOUNTING**

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## **Acronyms**

<b>AUC:</b>	African Union Commission
<b>OAU:</b>	Organization of Africa Unity
<b>HRD:</b>	Human Resources Development
<b>PBFA:</b>	Programming, Budgeting and Finance Accounting Directorate
<b>RECs:</b>	Regional Economic Communities
<b>NGOs:</b>	Non-Governmental Organizations
<b>GASB:</b>	Government Accounting Standards Board

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of Study

According to Horngren (1926: 183), Budget is defined as a quantitative expression of a plan of action and an aid to the coordination and implementation of the plan. Managers formulate budgets for the organization as a whole. It describes the financial plans for all value-chain functions. The budget quantifies management's expectations regarding future income, cash flows, and financial position. These expectations arise from a careful look at the organizations future.

The role of budget plays throughout the process. These roles focus on the planning of operations. The budget serves a variety of function, which is coordinating activities, implementing plans, communicating, authorizing actions, motivating, controlling, and evaluating performance. The authorization function is especially important in government budgeting and nonprofit budget, where budget appropriations serve as approvals and ceilings for management expenditures. The budgets are the major feature of most control systems management. When administered intelligently, budgets compel planning, provide performance criteria, and promote communication and coordination within the organization Horngren (1926: 183).

According to the manual procedure proposals made by the Consultants Ernst and Young, the African Union Commission as a commission, accountable to 53 member states, partner, and supporters, has to invest more efforts into budgeting as the expectation are high from different stakeholders. It shall always strive for quality budget by building a shared understanding both within and outside as the stake and expectation is high amongst Member States, partners and supporters of AU's vision. Hence, the purpose of this guideline is to streamline the budgeting process through easily understandable steps, budget procedures and formats. Thus, this study will review the budgeting process used by the AUC for the effectiveness and better use of resources contributed by the member states.

## **1.2. The African Union Commission Background**

From the African Union Commission Web site, the denomination of the African Union took place replacing the Organization of the African Union. The later has instituted in 1963 by the charter of the Organization of the African Unity on the 25 May 1963. The African Union Commission is a union consisting of 54 states; the only non-member state is Morocco.

The AUC was established on 26 May 2001 in Addis-Ababa Ethiopia and launched on 9 July 2002 in South Africa to replace the Organization of Africa Unity (OAU), which was created in 1963. The most important decisions of AU are made of the Assembly of the African Union, a semi-meetings of the heads of states and governments of its member states, the AU Secretary and the African Union Commission. Their motto is a UNITED AND STRONG AFRICA.

The vision of the African Union is that of:“An integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in global arena.” vision of a new, forward looking, dynamic and integrated Africa will be fully realized through relentless struggle on several fronts and as a long-term Endeavour. The African Union has shifted focus from supporting liberation movements in the erstwhile African territories under colonialism and apartheid, as envisaged by the Organization of African Union (OAU) since 1963 and the Constitutive Act, to an organization spear-heading Africa’s development and integration.

The mission of the Commission is become “An efficient and value-adding institution the African integration and development process in close collaboration with African Union Member States, the Regional Economic Communities and African citizens”. The values to guide and govern the functioning and operations of the Commission which include respect for diversity and team work; think Africa above all; transparency and accountability; integrity and impartiality; efficiency and professionalism; and Information and knowledge sharing.

The AU has also his representative body, the Pan African Parliament (PAP) with 265 member states elected by their national Parliament. There are also political Institutions made of the Executive council composed by ministries of foreign affairs which prepare decisions for the Assembly, the Permanent Representatives committee made of Permanent Ambassadors of Africa in Addis Ababa, the Economic, social and cultural (ECOSOCC), and a civil society consultative body. Note that the secretariat to the political structure in the African Union Commission is chaired by Mrs. NKOSAZANNA Dlamini-Zuma of South Africa elected on 15 July 2012 replacing Jean Pink, Gabon.

The main administrative capital of the African Union is in Addis-Ababa, Ethiopia where the AUC is head quartered. Beside, the new headquarter complex” the AU conference center and office complex” (AUCCC) was inaugurated on 28 January 2012, during the 18<sup>th</sup> AU Summit.

Other AU structures are hosted by different member States such as the African Commission on Human Rights and people which is based in Banjul (Gambia); and the NEPAD: New Partnership for African Development, the APRM and the PAP which are in Midland in South Africa. The AU has adopted a number of important new documents establishing norms at continental level, to supplement those already in force when it was created. These include the African convention on corruption in 2003; the African Charter on Democracy, elections and governance in 2007; the new partnership for Africa to Development NEPAD and its associate declarations on democracy, political and corporate governance. The AU has a number of official bodies such as the PAP Pan African Parliament, the African Authority, and the Africa Court of Justice whose setting’s protocol was adopted in 2003 but entered into force in 2009.

There are also the Executive Council composed of Ministers designed by different governments and is accountable for the AU assembly; the permanent goals and objectives Representative Committee; the Peace and Security Council proposed in Lusaka Summit in 2001 and established in 2002; ECOSOCC in 2008.

Beside, the AUC has 3 departments, which are the department of the Administration and Human Resources Development (AHRD), the department of Strategic Policy Planning and Resource Mobilization (SPPRM), Programming, budgeting and Finance Directorate (PBFA) and the department for Women, Gender and Development.

As per this study, the department of PBFA will be concerned. It has a mission to plan, develop and implement Financial Accounting policies and policy to execute Budgetary Programs, Rules, Regulations and Procedure. The Directorate also collects and manages statutory and other funds owed to the African Union. In addition, it ensures inter-departmental coordination in programming and the budgetary process, as well as to assess the efficiency and effectiveness of programs in realizing organizational.

### **1.3. Statement of the Problem**

Budget is the cornerstone for the organization effectiveness and efficiency and it involves careful planning, awareness of the environment and alignment with the organization's short and long-term strategies. The proper budgeting facilitates the management oversight by providing a base to monitor how resources are used as intended and to check the alignment of the organization within the boundary of its long-term strategic objectives. Accordingly, a failure of an organization to prepare an appropriate budget will cause more losses to the organization that is unfair allocation of resources among departments will lead to over expenditures experienced in some departments and under expenditures in others. This is dangerous since it will hinder the organization to the achievement of the overall organization objectives as resources are scarce and unfairly allocated compared to the need of each department. Likewise, the African Union Commission as a commission accountable to 53 member states, partners and supporters, has to invest more efforts into budgeting as the expectation are high from different stakeholders. Thus, the study reviewed the budgeting process used by the AUC for the effectiveness and better use of resources contributed by the member states.

## **1.4. Research Questions**

1. What are the main problems faced by African union commission in preparation of the Budget?
2. What is the importance of preparing the budget in African Union Commission?
3. What are the parts involved in budget preparation in African Union Commission?
4. What is the relevance of execution and monitoring budgeting African union Commission?

## **1.5. Objectives of the Study**

### **1.5.1. General Objective**

The main objective of the study is to review the Budget process of the AUC and its practice in preparing and monitoring the budget.

### **1.5.2. Specific Objectives**

Specific Objectives are:

1. To identify the main problems faced by African Union Commission in preparation of the budget.
2. To identify the importance of preparing the budget in African Union Commission.
3. To identify the parts involved in budget preparation in African Union Commission.
4. To identify the relevance of execution and monitoring budget in African union

## **1.6. Significance of the Study**

The study aims to contribute:

### **a. To Knowledge**

The study shades light on the process of budget preparation and monitoring in AUC.

### **b. To Literature and Reference**

The research could be used to establish a framework for subsequent studies that could work with more data sets that were comprehensive. Furthermore, it could stimulate

further research: thus keeping sustained interest in understanding the budget preparation and monitoring process used by AUC.

## **1.7. Delimitation of the Study**

This study paper was delimited on the subject problem of reviewing the Preparation and Monitoring process of the budget in African Union for the period 2012-2013.

## **1.8. Research Design and Methodology**

### **1.8.1. Research Design**

The research design to be used for this study is a descriptive method, which describe the budget preparation and Monitoring process in African Union Commission

### **1.8.2. Population and Sampling Technique**

The researcher used purposive sampling technique and select finance department employees as a respondent for the study. This sampling technique was chosen to allow the researcher to select those respondents that were more relevant to the topic and better provider of information related to budget preparation and monitoring process. Thus, the 22 employees working in the department has been taken as the sample respondents.

### **1.8.3. Types and Methods of Data to be collected**

The researcher collected both primary and secondary data. The Primary data is collected by conducting interviews with the senior budget officers and the distribution of written questionnaires with open and closed questions forwarded to the 22 employees of the Finance department. The secondary data is compiled from AU's manuals.

### **1.8.4. Data Analysis Methods**

The data analysis method used for the research was descriptive analysis method, which uses tables, percentage and textual description. Therefore, the correct Analysis of the data in the descriptive form has been made by the researcher to select the basic findings and to help in making conclusion on budget preparation and monitoring process, which helped the researcher to make conclusion and recommendation.

## **1.9. Limitation of the Study**

The student researcher faced problems while conducting the research, like delay in returning the responded questionnaires and accessing budget documents. Nevertheless, efforts have been made by the student researcher for the successful accomplishment of the study.

## **1.10. Organization of the Study**

This study was organized into four chapters:

The first chapter deals with introductory issues like background of the study and the organization, statement of the problem, research questions, objectives of the study, significance of the study, delimitation of the study, research design and methodology, limitation of the study and organization of study. The second chapter is concerned with presenting the review of the related literature. The third chapter treats the analysis of the data collected where as the fourth chapter brings to an end this study with the summary, conclusion and recommendations.

# **CHAPTER TWO**

## **THE REVIEW OF THE LITERATURE**

### **2.1. Introduction**

According to A Premchand (1994, 289), the governmental budgeting have focused on detailed description of Government budgetary and accounting systems on the working systems on the working of the legislature and its supportive agencies. The development in budgeting and expenditure control in industrial and developing countries, discusses the efficacy of budget reforms that have been introduced, and analyzes successes or failures and the current state of these reforms. Although the economic status and current state of two groups of countries differs widely, the concerns of budgetary policy and budgetary management of both the industrial and developing countries are the same. They relate to the utilization of budget instruments national economic management, communicating between planned and actual expenditures, and achieving better control of open-end transfers. The ramifications of policy objective, areas to be controlled, method of control, checks and balances of the systems, and related aspects.

According to Horngren (1926: 684), Capital budgeting is the principal accounting technique for analyzing and accounting technique for analyzing and controlling project cost. Capital budgeting helps managers make long-range decisions. The role of accounting data in popular decision models for capital budgeting. We also studied the relationship of the decision models to the performance-evaluation models that managers use to help judge the results of capital-budgeting decisions.

At this stage, we again focused on purpose. Both income determination and the planning and controlling of routine operations focus primarily on the current time. Special decision and long-range planning focus primary on the project or program with a much longer time span.

## **2.2. Importance of Budgets**

Financing is an important part of the governmental environment, particularly for governmental-type activities. For these activities, the budget is the primary method of directing and controlling the financial process. In a chronological sense, the first significant accounting procedure encountered in a state or locality is the recording of budgetary entries. To enhance accountability, government officials normally are required to adopt an annual budget for each separate activity to anticipate the inflow of financial resources and establish approved expenditure levels. In its objectives of “Financial Reporting“, the GASB indicates that the budget serves these important purposes:

Express public policy. If, for example, more money is budgeted for child care and less for the environment, the citizens are made aware of the decision that has been made to allocate limited government resources. Serves as expression of financial intent for the upcoming fiscal year. The budget presents the financial plan for the government for the period. Provides control because spending limitations are established. Offers a means of evaluating performance by allowing a comparison between actual results and the levels of funding found in the budget.

The GASB even states that “many believe the budget is the most significant financial document produced by a government unit.” Once a budget has been produced and enacted into law, formal accounting recognition is frequently required as a means of enhancing the benefits just described. In this way, the public is given to be made with these financial resources. Since the General Fund and the Special Revenue Fund account for a wide range of ongoing service activities, reporting both revenue projections as well as compliance with spending limitations is considered essential for government accountability. Therefore, the approved budget figures for these two fund types formally are entered into the accounting records at the start of each fiscal year. (McGraw-hill, 5/E)

## **2.3. Function of Budget**

Budgeting in its general sense is the act of quantifying objectives in financial terms. Budgeting assists managers in decision-making process in an organization. It is the function of management accountant to provide information need in Budgeting process. Management accountant must be happy with the functions of budgeting.

### **2.3.1. Forecasting**

This entails making a calculated attempt into knowing what the future holds forecasting would not be perfect as evidence has shown but it was better to have a forecast to work with than not having any as this would help you get prepared, there were many statistical tools developed over the year to help managers and accounts make better forecast.

### **2.3.2. Planning**

Planning depended on forecast that has been made in past to make decision about the future. The estimated data generally by forecasting were used to make plans Government agencies.

### **2.3.3. Communication**

**Gathering information:** Information about a company and the activities of its competitors were gathered during the process of making all kind of budget. It was quite impossible for a single individual to gather all these information that were needed to make a function. Managers and other non-managerial staff needed to be consulted and information was obtained from them. This information was analyzed, challenged and criticized in order to come up with filtered information.

**Disseminating information:** Budgets when not acted upon were useless, so the budgetary system had inbuilt information. Dissemination ability that responsible managers actually got the budget, which they worked with.

### **2.3.4. Motivation**

Motivation was the driving force that makes people to run toward their goals rather than trudge toward motivation was a relative and budgeting affected the motivation of staff.

### **2.3.5. Evaluation**

Evaluation meant to judge something with a sort of standard. Budget represented that target performance which then has been compared with actual performance. And this led to corrective action being taken. Evaluation in real life was not as easy as I have presented it. If not handled with, evaluation could encourage action that harmed the organization in long run.

### **2.3.6. Control/Co-ordination**

This function budgeting was very important for an organization to grow. Co-ordination simply meant ensuring that different parts of business work in congruence.

### **2.3.7. Authorization**

Budget helped to minimize misappropriation and embezzlement that would have characterize corporation if a system of authorization does not exist through authorization. The manager or accountant responsible for preparing and ensuring that budget were implemented, they needed to always update their knowledge on budgeting.

## **2.4. Budget Process**

From Wikipedia, the free encyclopedia: A budget process refers to the process by which governments create and approve a budget, which is as follows:

- The Financial Service Department prepares worksheets to assist the department head in preparation of department budget estimates
- The Administrator calls a meeting of managers and they present and discuss plans for the following year's projected level of activity.
- The managers can work with the Financial Services, or work alone to prepare an estimate for the departments coming year.

- The managers present the completed budgets to their Executive Officers for review and approval.
- Justification of the budget request may be required in writing. In most cases, the manager talks with their administrative officers about budget requirements. Adjustments to the budget submission may be required as a result of this phase in the process.

Budgeting refers to the setting of the expenditure with respect to the organization's core function, which is responsible for the overall functionality of the firm. Budgeting is the setting and allocation of the capital, which is then used in the proper way to achieve the set or designated targets of the firm. Budgeting needs to be very much focused and clearly prepared. It covers all of the financial constraints in that sense that any of the investments that would be planned in the future. In addition, will cover the financial targets of the firm, its viability should be in due course of the firm's overall strategic financial plan, the routine and daily occurring expenses will have their proportionate allocation so that any investment will be in a way that will not hurt any of the scheduled existing expenses of the firm. Budgeting needs to be done in a proper and meaningful way that covers all the financial targets of the company, these targets needs to be achieved in order to be called successful budgeting. Financial budgeting is also referred to as an investment appraisal that finalizes and clearly shows that the investment through which the firm will be going must have fulfilled all financial targets.

## **2.5. Budget Classification**

According to A Premchand (1994: 289), Budget transaction can be classified in several ways. Early in the development of Budgeting and reflecting the concerns of newly acquired legislative control, the primary consideration of the budget classification was to provide a better understanding of the intentions and purposes of government for which funds were sought. As further progress was made and as legislative supervision was the manner in which accountability could be ensured.

The objective was not only to provide information on what the Government proposed to do but also to reflect an understanding between government and the legislature of the specific implied that there were enough safeguards within governments to accomplish the tasks inherent in the understanding. To this end, the budget structure was so divided as indicate the full responsibility of spending agency. The budget heads to relate to each spending department.

The Budget structure provided accountability and a series of vantage points with in government to control its own operations.

## **2.6. Types of Budgets**

### **2.6.1. Master Budget**

A master budget is a comprehensive projection of how management expects to conduct all aspects of business over the budget period, usually a fiscal year. The master budget summarizes projected activity by way of a cash budget, budgeted income statement and budgeted balance sheet. Most master budgets include interrelated budgets from the various departments. Managers typically use these subset budgets to plan and set performance objectives. Master budgets are generally used in larger businesses to keep many managers on the same page.

### **2.6.2. Operational Budgets**

The operational budget covers revenues and expenses surrounding the day-to-day core business of a company. Revenues represent sales of products and services; expenses define the costs of goods sold as well as overhead and administrative costs directly related to producing goods and services. While budgeted annually, operating budgets are usually broken down into smaller reporting periods, such as weekly or monthly. Managers compare ongoing results to budget throughout the year, planning and adjusting for variations in revenue.

### **2.6.3. Cash Flow Budget**

A cash flow budget examines the inflows and outflows of cash in a business on a day-to-day basis. It predicts a company's ability to take in more money than it pays out. Managers monitor cash flow budgets to pinpoint shortfalls between expenses and sales -- times when financing may be needed to cover overheads. Cash flow budgets also suggest production cycles and inventory levels so that a company's resources are available for activity, not sitting idle on warehouse shelves.

### **2.6.4. Financial Budget**

A financial budget outlines how a business receives and spends money on a corporate scale, including revenues from core business plus income and costs from capital expenditures. Managing assets such as property, buildings, investments and major equipment may have a significant effect on the financial health of a company, particularly through the peaks and troughs of daily business. Executive managers use financial budgets to leverage financing and value the company for mergers and public offerings of stock.

### **2.6.5. Static Budget**

A static budget contains elements where expenditures remain unchanged with variations to sales levels. Overhead costs represent one type of static budget, but these budgets aren't confined to traditional overhead expenses. Some departments may have a fixed amount of money set in budget to spend, and it is up to managers to make sure such amounts are spent without going over-budget. This condition occurs routinely in public and nonprofit sectors, where organizations or departments are funded largely by grants.

## **2.7. The Budget Cycle**

According to Das Hari and Elsevier Science publisher, organizational and decision characteristics and personality as determinants of control actions: a laboratory experiment. Some organizations use extrinsic control systems to coordinate organizational activities and others use intrinsic, internally motivated control systems. It

is found that an organization has a major impact on the choice of control tactics by controllers: those in mechanistic organizations are likely to use extrinsic control strategies and those in organic organizations are likely to use internal control.

According to William David and Elsevier Science publisher , budgeting department power will be greater in larger organizations and in the formulation stage of the budget cycle (as opposed to during the implementation stage). Budget departments will have more power when cost control is an essential goal of the organization and when other departments depend on the budget department to reduce uncertainty and provide funds.

## **2.8. Budgetary Models used by NGO**

There are three common practical budgetary models, which are: incremental budgeting, Zero-base budgeting and rolling budgets.

### **2.8.1. Incremental Budget**

This is a budget prepared using a previous period's budget or actual performance as a basis with incremental amounts added for the new budget period. The allocation of resources is based upon allocations from the previous period. This approach is not recommended as it fails to take into account changing circumstances. Moreover it encourages "spending up to the budget" to ensure a reasonable allocation in the next period. It leads to a "spend it or lose" mentality.

#### **➤ Advantages of incremental budgeting**

- i. The budget is stable and change is gradual.
- ii. Managers can operate their departments on a consistent basis.
- iii. The system is relatively simple to operate and easy to understand.
- iv. Conflicts should be avoided if departments can be seen to be treated similarly.
- v. Co-ordination between budgets is easier to achieve.
- vi. The impact of change can be seen quickly.

➤ **Disadvantages of incremental budgeting**

1. Assumes activities and methods of working will continue in the same way.
2. No incentive for developing new ideas.
3. No incentives to reduce costs.
4. Encourages spending up to the budget so that the budget is maintained next year.
5. The budget may become out of date and no longer relate to the level of activity or type of work being carried out.
6. The priority for resources may have changed since the budgets were set originally. There may be budgetary slack built into the budget, which is never reviewed-managers might have overestimated their requirements in the past in order to obtain a budget which is easier to work to, and which will allow them to achieve favorable results.

### **2.8.2. Zero-Based Budgeting**

Zero-based budgeting is an approach to planning and decision-making which reverses the working process of traditional budgeting. In traditional incremental budgeting (Historic Budgeting), departmental managers justify only variances versus past years, based on the assumption that the "baseline" is automatically approved. By contrast, in zero-based budgeting, every line item of the budget must be approved, rather than only changes. During the review process, no reference is made to the previous level of expenditure. Zero-based budgeting requires the budget request be re-evaluated thoroughly, starting from the zero-base. This process is independent of whether the total budget or specific line items are increasing or decreasing.

The term "zero-based budgeting" is sometimes used in personal finance to describe, "zero-sum budgeting", the practice of budgeting every unit of income received, and then adjusting some part of the budget downward for every other part that needs to be adjusted upward.

Zero based budgeting also refers to the identification of a task or tasks and then funding resources to complete the task independent of current resourcing.

➤ **Advantages**

- i. Resources, as it is based on needs and benefits rather than history.
- ii. Drives managers to find cost effective ways to improve operations.
- iii. Detects inflated budgets.
- iv. Increases staff motivation by providing greater initiative and responsibility in decision-making.
- v. Increases communication and coordination within the organization.
- vi. Identifies and eliminates wasteful and obsolete operations.
- vii. Identifies opportunities for outsourcing.
- viii. Forces cost centers to identify their mission and their relationship to overall goals.
- ix. Helps in identifying areas of wasteful expenditure, and if desired, can be used for suggesting alternative courses of action.

➤ **Disadvantages**

1. More time-consuming than incremental budgeting.
2. Justifying every line item can be problematic for departments with intangible outputs.
3. Requires specific training, due to increased complexity vs. incremental budgeting.
4. In a large organization, the amount of information backing up the budgeting process may be overwhelming.

### **2.8.3. Rolling Forecasts / Rolling Budgets**

A rolling budget is a budget or plan that is always available for a specific future period by adding a month, quarter or year in the future as the month, quarter or year just ended is dropped. Thus, a 12-month rolling budget for March 2008 to February 2009 period becomes a 12-month rolling budget for the April 2008 to March 2009 period the next month, and so on. There is always a 12-month budget in place. Rolling budgets

constantly force management to think concretely about the forthcoming 12 months, regardless of the month at hand.

## **2.9. Monitoring and Evaluation**

Although it is the responsibility of the donor to carry out monitoring and evaluation of the project, it usually seeks the plan from the implementing NGO about it.

Monitoring and evaluation enables constant check on the activities and helps review the progress made at every step. Monitoring should be the integral part of project implementation; in fact, there should be an internal mechanism to monitor the results, risks, assumptions and performance regularly through meetings and submission reports.

The Management Information Systems (MIS) is often used as a mechanism to undertake monitoring. The baseline information is critical to the monitoring process.

Involving external entities such as donors, government people, consultants etc in monitoring would give a good opportunity to collect feedback, provide exposure to the work and also explore new options. Evaluation is carried out by an external agency during the mid-term or in the end part of the project.

# CHAPTER THREE

## DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### 3.1. Overview

This chapter deals with the presentation, analysis and interpretation of the data gathered from employees of African Union Commission. The data was collected through questionnaires distributed to 22 individuals in addition to the interview and the responses were presented and analyzed using descriptive analysis techniques in the form of tables, textual, and percentages.

The data were obtained through primary sources. 100% have been completed and returned by respondents.

### 3.2. General Characteristics of Respondent

#### 3.2.1. Sex Distribution of Respondents

The following table shows the general characteristics of respondent which the researcher as gathered the following data about the sex of selected employees of the AUC.

**Table- 3.1. Sex Distributions of Respondents**

No	Characteristic Categories/Item	Number	Percent %	
a.	sex	Male	16	72.72%
		Female	6	27.72%
		<b>Total</b>	<b>22</b>	<b>100%</b>

**Source: Primary data**

According to the **table 3.1**, 16 (72.72%) respondents are males while 6 (27.72%) respondents are female. From the above table it can be concluded that the number of male participants in this research are more important than the number of female participants.

This implies that the targeted respondents that is more relevant to the topic and better provide of information related to budget preparation and monitoring process.

### 3.2.2. Educational Background

The education background of sample respondents is the basic necessity for the researcher to be sure of relying on relevant data to make conclusion about the study. Accordingly, the educational profile of the respondents for this is shown in **table 3.2**.

**Table- 3.2. Level of Education**

No	Characteristic Categories/Item		Number	Percent %
b.	Education	Diploma	-	-
		1 <sup>st</sup> degree	4	18.18%
		Master	14	63.63%
		Above	4	18.18%
		<b>Total</b>	<b>22</b>	<b>100%</b>

**Source: Primary data**

According to the **table 3.2**, **No** respondents are diploma's holder means that none of the 22 respondents have diploma level as represented by the dash in the diploma field on this table , 4 (18.18%) respondents are 1<sup>st</sup> degree's holder, 14 (63.63%) respondents are master's holder while the remaining 4 (18.18%) respondents are above master's level. It can be concluded that the finance department's employees have enough educational qualification to perform their duties with efficiency.

### 3.3. The Purpose of the Budgeting Systems

**Table 3.3. Purpose of the Budget**

What is the purpose of the budget	Response								
	Strongly Agree	%	Agree	%	Disagree	%	Strongly Disagree	%	
Develop realistic financial plan that will facilitate allocation of resource according to Union's activities priorities.	22	100	0	0	0	0	0	0	
Provide control tool to ensure that spending is line with time plans and budget amounts.	-	-	-	-	-	-	-	-	
Provide periodic variance reports of actual and budget amounts to form a basis for investigation and necessary decision making.	-	-	-	-	-	-	-	-	
To compare and monitor cumulative expenditure by account code to the original budget allocation.	-	-	-	-	-	-	-	-	
To effectively support the improvement of the annual comprehensive business plan and its periodic review.	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>22</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

**Source: Primary data**

As shown in **table 3.3**, 22(100%) respondents unanimously agreed on that the purpose of the budgeting is to develop realistic financial plan that will facilitate allocation resources according to the union's activity priority.

The question concerning the weaknesses of budget preparation systems in AUC has been asked and all the 22(100%) of the respondents pointed out the following weaknesses:

- Incremental Budgeting approach which is not in line with current best practice.
- Traditional line-item approach to preparing and presenting the budget.
- Budget related to income are prepared based on assessed member contributions and this has frustrated the budgetary process as in most cases the contributions are not realized.
- Ineffective budget preparation leads to unwarranted requirements from time to time.

### 3.4. Budget Preparation

**Table 3.4. Budget Preparation**

Items considered during budget preparation	Response								
	Strongly Agree	%	Agree	%	Disagree	%	Strongly Disagree	%	
Budget preparation timetable	22	100	0	0	0	0	0	0	
Standard rates to be used for various items	22	100	-	-	-	-	-	-	
Spreadsheet format and budget codes to be used	22	100	-	-	-	-	-	-	
A budget is aligning to departmental goals.	22	100	-	-	-	-	-	-	
<b>Total</b>	<b>22</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

**Resource: primary data**

Table- 3.4 shows that 22(100%) respondents strongly agree items considered during the budget preparations in African Union Commissions are, Budget preparation timetable, Standard rates to be used for various items, Spreadsheet format and budget codes to be used and align the budget to departmental goals.

### **3.5. The Steps in Developing A Program Budget in African Union Commission**

20 (90, 90%) of respondents completed all steps in developing a program budget in AUC. On the other hand, 2(9.09%) respondents did not. From both, the steps mentioned are:

Step 1: Establish Goals

Step 2: Establish Objective;

Step 3: Prepare a budget calendar;

Step 4: Define role in budget Preparation;

Step 5: Distribute Forms and Prepare Departmental budget requests;

Step 6: Review the Budget requests;

Step 7: Prepare the budget Document;

Step 8: Adopt the Budget;

Step 9: Execute and Monitor the Budget.

### **3.6. The Budget Type Applicable in African Union Commission**

All respondents ticked the strategic Budget field to show that it is the budget type applicable in African Union Commission. The AUC's manuals shows that the strategic budget is the most applicable **to develop** and maintain constructive and productive institutional relationship between Africa and the rest of the World as well as to coordinate the mobilization of extra budgetary resources. Then to ensure interdepartmental coordination in strategic planning, for continuous monitoring and evaluation of program outputs against action plans, as well as to assess the efficiency and effectiveness of programs in realizing organizational goals and objectives.

Finally to provide and maintain research and statistical services that will cater for the needs of the entire Commission, other Organs of the Union, RECs as well as Member States. That's why the others type of budget are not applicable in AUC.

### **3.7. The Time Length usually used in African Union Commissions**

22(100%) respondents answered (by writing) that the time length usually used for the short term is one year and strategic plan is for five year and more.

### **3.8. The Important of African Union Commissions Budget is Serve as the Managerial Road Map to Guide the Organization in its Operations**

22(100%) respondents answered (by writing) that the important of budget serve is as the managerial road map to guide the organization in its operations is monthly, quarterly and report are produced to assist planning, controlling and decision making.

### **3.9. Line-Item Budget is An Important Financial Document**

19(86.36%) respondent have given complete answer however the 3(13.63%) remaining of them did not give the complete answer, in conclusion the line-item budget is a financial document that lists how much you will spend on very item a budgetary organization uses. The line-item budget keeps track of how much you spend on what. While the simplest to prepare, the line-item budget does not provide any information regarding activities and functions of a program, department, or Commissions knowing how much your are spending for salaries, supplies, maintenances, and does not reveal much about the actual delivery of services.

### **3.10. The Main Purposes of Budget Execution**

100% of respondents indicated that the purposes of budget execution are to make the appropriations authorized in the adopted budget and to monitor spending.

### **3.11. The Difference between Program Budget and Performance Budget**

20(90.90%) respondents have given a complete answer and the remaining 2 (9.09%) of them have given an incomplete answer. According to both complete and incomplete answers, we can conclude that both types of budgets use indicators to measure performance, but they have a different focus. A program budget emphasizes the benefits that the communities gain from Commissions expenditures, while a performance budget emphasizes management efficiency in expenditure allocations.

### **3.12. Budget Variance Analysis is Used to Control The Operations of Commission**

22(100%) respondents indicated that the variance between actual and budget performance signal the need to slow spending or increase receipts, or to shift resources from one category to another, or the need to raise more fund. The progress report on the regular budget focuses on the quantitative variations whereas for program budget, the deviations from objectives/goals set shall clearly indicated and explained in addition to the explanation sought for variation in monetary terms.

An interview has been directed with the objectives to get more details and clearness on responses given by respondents on written questionnaires together with balancing information which was not applicable to be included in written questionnaires.

These are answer given by the senior budget officers in African Union Commission during the interview.

#### ***1. What are the sources of finance for African Union Commission?***

The source of Budget for the African Union Commission is the General fund which mainly consists of statutory contribution from Member State paid according to the scale of assessment approved by the executive council.

2. *What are its sources of revenue?*

The source of revenue for the organization includes voluntary contributions from Member States, donations, requests and remuneration for service and interest income on investment.

3. *What is the total, or size of African Union Commission Budget?*

The total budget of the African Union proposed for 2014 stood at \$312,694,949 which represents an increase of 11, 47% over 2013.

4. *Who is responsible for planning and preparing the budget*

Program managers in the African Union Commission (Directors, heads of missions, Representatives) are responsible for the preparation of budget proposal for their manpower, office furniture and equipment requirements and send same to the Administration and Human Resources Development(AHRD) Directorate for review and subsequent submission to Programming, Budgeting and Finance Directorate(PBFA).In addition, program Managers shall prepare their operating expenses and new program/project budget and submit to the PBFA for review, compilation and inclusion in program budget.

5. *How can changes in budget plans be programmed and targeted?*

The changes in budget plans can be programmed and targeted by flexibility; the system allows responses to changed circumstances. These responses are built into the system, so that implications of any changes are sufficiently analyzed and still fit within the AUC's overall objectives and priorities. Moreover, the discipline although the system provides flexibility, there is also effective control over expenditures, only limited use of supplementary estimates, and penalties for breach of rules and regulations.

6. *What limit AUC creativity in solving problems or services delivery issues in a line item budgeting process?*

The problem could be an opportunity for the Commissions to relook seriously into on-going alternative sources of funding initiative and within it member states for more sub

sustainable funding and spur African ownership. There is the need embark on a more aggressive resource mobilization which clear strategy. In addition the Commission will need to maintain financial solidity and sustainability in order to effectively prospect its continental development and integration agenda. Finally, The African Union Commission will need to reinforce coordination and complementary with RECs through creative partnerships and closer collaboration in order to promote synergies and derive maximum benefit from the use of limited financial resources.

*7. What is the framework in which budget decisions are made in African Union Commission?*

For best practices, the planning framework is made known and widely disseminated. In addition the planning framework is updated regularly (quarterly review, mid-term plan review).

*8. What type of budgeting is used?*

Budgets are aligned to overall strategic plan.

*9. What are your activities to monitor budget?*

A program budget focused on expected results of services and activities that the union carries out and links revenue and expenditure to multiyear.

*10. Is any budget variance analysis used to control operation?*

Quarterly Progress report is prepared at the end of each quarter to review budget performance and seek explanation on deviations from what has been allotted for period under consideration. Program managers are expected to give adequate explanation for variations on each budget item in writing and submit it to PBFA where the consolidated report will be prepared and submitted to the chair-Persons.

## **CHAPTER FOUR**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter presents the main funding, the conclusion and recommendation from the primary sources on performance of Budget Preparation and Monitoring Process.

#### **4.1. Summary of Findings**

A budget process refers to the process by which organization create and approve a budget, which is as follows:

- The Financial Service Department prepares worksheets to assist the department head in preparation of department budget estimates
- The Administrator calls a meeting of managers and they present and discuss plans for the following year's projected level of activity.
- The managers can work with the Financial Services, or work alone to prepare an estimate for the departments coming year.
- The completed budgets are presented by the managers to their Executive Officers for review and approval.
- Justification of the budget request may be required in writing. In most cases, the manager talks with their administrative officers about budget requirements. Adjustments to the budget submission may be required as a result of this phase in the process.

Budgeting is the setting of expenditure levels for each of an organization's functions. It is the estimation and allocation of available capital used to achieve the designated targets of African Union Commission.

## 4.2. Conclusions

A budget is an extremely important and effective tool management in piloting the affairs of the African Union Commission. However, to prepare a meaningful the African Union Commissions must know where it is heading and its goals and objectives. Priorities changes and this means that many people should be involved in the budget preparation and approval process to ensure that resulting budget is fully supported once prepare the budget must be compared to the actual result on timely basis throughout the year to ensure that management knows where deviation are accruing for corrective actions to be taken when necessary.

Even extremely important announcement effective, notice that the budget is a tool of management, not a substitute for management.

A good budget can do very little by itself, good management and good budget can do indispensable in the location government system. Based on finding it was remanded that:

- The management should make strict decision about the African Union Commission future, if profit is to be expected. By providing a framework that contains flexible plan to accommodate un anticipated changes, this is the essence of budgeting
- For the budget to be effectives, it must be a joint effort of all the stakeholders. It must also working documents, which forms the basis for action
- The activities of the various parts of organization should be planned and coordinated very well be achieved.
- Orientation seminar and workshops on budgeting should be adequately emphasized to these involved in the budget preparation.
- Budget committee should function very well to make sure that the proper budget is applied and in effective way.
- Since budget and budgetary control is an accounting tool and also a useful benchmark with actual result can be compared, the researcher therefore, recommended that government should encourage it so that it will be applied effectively

- Poor budget implementation due to inability to comply with due process should be discouraged.
- Before a budgetary control system should result in a number of advantages to the business concerned, it must be a fully comprehensive budget.

Budget allotted under various Heads to an organization is being utilized for the purpose for which it is meant. The expenditure incurred is being monitored for proper and timely utilization of the funds to avoid surrender/over expenditure. The amount expended during a financial year is also used as a yardstick for estimating future requirements of the African Union Commission.

Although there has been a marked improvement in the budget reporting and monitoring process, there is still a need for continued work in. Improved timing of monthly budget results and subsequent reporting; continued coordination and leadership to ensure ongoing improvements in the quality and timeliness of whole-of-organization reporting.

### **4.3. Recommendations**

Recommendations for more effective and efficient budgetary control system in an organization.

- A budgeting manual should be compiled and all those likely to be directly involved in the budget preparation should be given a copy each.
- Responsibility and implementation of changes demand necessary for effective budgetary control.
- Employees should be educated on budgeting. This would aid in the reduction of ignorance and increase in co-ordination and co-operation of employees towards achieving organizational goals.
- Positive variance should be investigated since it might be as a result of manipulations at the budget preparation stage that is, setting low budget standards.
- The characteristics of the organization and the environment in which it operates including the controllable and uncontrollable variables must be

identified and evaluated so that the relevant decision may be made concerning the characteristics of the budgeting and budgetary control program that should be effective and practical.

- There should be an evaluation of the organizational structure and assignment of managerial responsibility and implementation of changes in demand necessary for effective budgeting and budgetary control.
- To accommodate the diversity in foreseen changes in the economy, i strongly recommend the adoption of a combination of the flexible budget and incremental budgeting which will suit the requirements of the organization, so that a realistic and attainable budget may be developed.

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**Appendix**

## **Appendix**

### **AN ASSESSMENT OF BUDGET PREPARATION AND MONITORING PROCESS CASE STUDY OF AFRICAN UNION COMMISSION**

**March 2014**

#### **Questionnaire**

##### **The study aim:**

1. To identify the main problem faced by African Union Commission in preparation of the budget.
2. To identify the importance of preparing the budget in African Union Commission.
3. To identify the parts involved in budget preparation in African Union Commission.
4. To identify the relevance of execution and monitoring budget in African Union Commission.

##### **To respondents**

A research on budget preparation and monitoring process is being conducted for partial fulfillment of the bachelor Degree in accounting objective of this questionnaire is to collect relevant data about budget preparation and monitoring process based on data gathered, I will be able to make an authenticated conclusion. However, the effect of this questionnaire is highly dependent upon your cooperation to fill this questionnaire genuinely. Therefore, I kindly request your kind cooperation in filling out the questionnaire and I confirm to use your information for that academic purpose only

**Review questions**

**Part I. Background information**

Question 1: Gender

Male  Female

Question 2: Education qualification

Diploma  1st Degree  Master  Above

**Part II: To identify the purposes of the budgeting systems.**

**Question 3: What are the purposes of the budgeting systems?**

Make a tick (✓) to the correct answer	Strongly Agree	Agree	Strongly disagree	disagree
1. Develop realistic financial plan that will facilitate allocation of resource according to Union's activities priorities. 2. Provide control tool to ensure that spending is in line with time plans and budget amounts. 3. Provide periodic variance reports of actual and budget amounts to form a basis for investigation and necessary decision making. 4. To compare and monitor cumulative expenditure by account code to the original budget allocation. 5. To effectively support the improvement of the annual Comprehensive business plan and its periodic review.				

**Part III: To identify the main problem faced by African Union Commission  
Preparation of the budget**

Question 4: Closed question

**What are the typical weaknesses of budget preparation systems in African Union  
Commission?**

_____
_____
_____
_____
_____

**Part IV: To identify the parts involved in budget preparation in African Union  
Commissions.**

Question 5: Open questions

<b>Make a tick (✓)to the correct answer</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Strongly disagree</b>	<b>disagree</b>
1. Is the Budget preparation timetable?				
2. Are the standard rates to be used for various items?				
3. Is the spreadsheet format and budget codes to be used, folder name and directory in the server in which budget is to be saved?				
4. Is emphasis of the need to align departmental goals with the overall Union goals?				

**Question 6: Open Question**

**What are the steps in developing a program budget in African Union Commissions?**

Step 1.....
Step 2.....
Step 3.....
Step 4.....
Step 5.....
Step 6.....
Step 7.....
Step 8.....
Step 9.....
Step 10.....
Etc.....

**Part V: To identify the importance of preparing the budget in African Union Commissions.**

**Question7: Open Question**

Which Budget type is applicable among the following?

- 1. Strategic budget
- 2. Long-range budget
- 3. Capital budget
- 4. Master budget

**Question 8: Open Question**

The time length usually used for the following budgets is:

- a. Short term \_\_\_\_\_
- b. strategic plan \_\_\_\_\_
- c. Long term \_\_\_\_\_
- d. Others \_\_\_\_\_

**Question 9: Closed Question**

What is important is that AUC Budget serve as the managerial road map to guide the organization in its operations?

_____
_____
_____
_____
_____

**Question 10: Closed Question**

Why Line item budget is an important financial document? If any.

_____
_____
_____
_____
_____

**Part VI: To identify the relevance of execution and monitoring budget in African Union Commission.**

**Question 11: Closed Question**

What are the main purposes of budget execution?

_____
_____
_____
_____
_____

**Question 12: Closed Question**

How is a program budget different from performance budget?

_____
_____
_____
_____
_____

**Question 13: Closed Question**

What budget variance analysis is used to control the operations of the commission?

_____
_____
_____
_____
_____

## **Part VII: INTERVIEW**

1. What are the sources of finance for African Union commission?
2. What are its sources of revenue?
3. What is the total, or size of African Union commission Budget?
4. Who is responsible for planning and preparing the budget?
5. How can changes in budget plans be programmed and targeted?
6. What limit AUC creativity in solving problems or services delivery issues in a line item budgeting process?
7. What is the framework in which budget decisions are made in African Union Commission?
8. What type of budgeting is used?
9. What are your activities to monitor budget?
10. Is any budget variance analysis used to control operations

# DECLARATION

## Advisee's Declaration

I, the undersigned, declare that this senior essay/ project is my original work, prepared under the guidance of Mr. Mekonnen Aboneh. All source of materials used for the used for the manuscript has been duly acknowledged.

Name: \_\_\_\_\_  
Signature: \_\_\_\_\_  
Place of Submission: \_\_\_\_\_  
Date of Submission: \_\_\_\_\_

## Advisor's Declaration

The paper has been submitted for examination for approval as the University advisor.

Name: \_\_\_\_\_  
Signature \_\_\_\_\_  
Date: \_\_\_\_\_