

**BUDGETARY PRACTICE AND FINANCIAL PERFORMANCE IN SELECTED
PRIVATE UNIVERSITIES IN MOGADISHU, SOMALIA**

A Thesis

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In Partial Fulfillment of the Requirement for the Degree
Masters in Business Administration

By


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DECLARATION A

"This thesis is my original work and has not been presented for a degree or any other academic award in any University or Institution of Learning".

_____ 

Name and Signature of Candidate

_____ Oct 6, 2011
Date



DECLARATION B

"I confirm that the work reported in this thesis was carried out by the candidate under my/our supervision".

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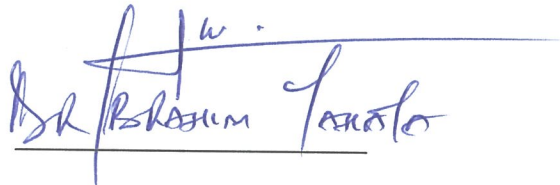
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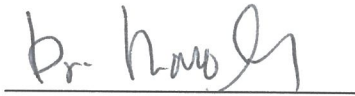
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APPROVAL SHEET

This thesis entitled" Budgetary Practice and Financial Performance of Selected Private Universities in Mogadishu, Somalia" prepared and submitted by Hassan Ahmed Mohamud in partial fulfillment of the requirements for the degree of Masters in Business Administration has been examined and approved by the panel on oral examination with a grade of PASSED.



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DEDICATION

I dedicate this work to my beloved daughter, Amran Hassan Ahmed and my family members (mother and father) for their comfort during the period of writing this report.

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ABSTRACT

This study was set out to establish the extent to which budgetary practice affect financial performance of selected private universities in Mogadishu, Somalia; specifically the study intended to establish the (i) profile of the respondents, (ii) level of which budgetary practice, (iii) level financial performance, (iii) whether there is a significant difference in the level of which budgetary practice and financial performance in selected private universities in Mogadishu Somalia. The study used a survey design; specifically descriptive correlation and descriptive comparative; data were collected from 109 respondents using self administered questionnaires as the key data collection instruments. Data were analyzed at universities level using frequency counts and summary statistics and Pearson Linear Correlation coefficient at bi-variate level. The study findings revealed that there was a moderate level of which budgetary practice, there was also moderate level of financial performance, the level of budgetary practice and financial performance significantly differed among universities in Mogadishu city and that budgetary practice in the selected universities in Mogadishu is significantly correlated with financial performance . From the above findings appropriate conclusions and recommendations including those for further research were made. Recommendations from the study were (i) The board of trustee should have appointed a permanent central budget authority committee that help the university budget formulation with the standards of university that exist in the world, the authority should also be given an office they operate and control the budget (ii) When formulating the budget, there should be methodology used for establishing the economic assumption of the budget publicly available, and economic planning office that develops the economic assumption should be opened the finance director shouldn't be given in authority to increase spending once the budget has been approved by board of trustee of the university(iii)The university should improve an internal audit system and the finding of the audit institution should be performed to board of university and it should be transparent and available to the public (iv) The central budget authority committee should control for the achieving financial performance and should in charge of monitoring compliance with the.(v)Owners of the private universities should work hard to meet the budget practice as may be required continuously adjustment to fulfill those financial performance. in the private universities in Mogadishu

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CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background of the Study

Since the 1940s and 1950s, federal and state governments have initiated major budget reforms to increase the information basis and rationality of the budget process to improve government performance. Florida's own reform efforts took shape in the 1970s with a planning programming-budgetary system, were re-examined in the 1980s with the effort to integrate planning and budgeting, and have again returned to the forefront in the 1990s. Historical conditions such as poor technology and analysis capacity, limited legislative and executive leadership commitment, and unrealistic expectations for changing the political process are still factors that can affect the present reform efforts.

The federal government has undertaken budget reform efforts since the 1940s, and state governments have often modeled on these at ten 5 year on how to improve performance. This performance information was productivity-rather than result-focused, and it was not linked with the budget. This effort was discontinued in the mid-1970s. Zero-based budgetary (ZBB) was a 1970s reform effort adopted in Georgia and attempted by at least 11 other state governments as well as the federal government in 1977. ZBB was an effort to examine all program spending annually and present funding decision packages ranked on the costs and benefits of each. Rather than focusing on planning or performance, as did earlier reforms, ZBB was a tool to build budgets through examining management and efficiency. By the early 1980s, the effort was abandoned in many jurisdictions. While these reform efforts have had some effect on the government budgetary process, all failed to be sustained for several reasons. First, the information requirements of these systems were extensive but were not supported by adequate historical record-keeping, sufficient staff expertise, or sufficient computer support for the type of analysis required. Typically, These

systems collapsed under paperwork. Second, requiring all programs to justify their existence under a system like zero based budgetary was a laborious exercise that was not feasible on a regular basis and did not appear to produce substantial resource reallocation. Third, by stressing "rational" analysis, these systems did not acknowledge the political choices inherent in budgetary and so tended to have little impact on funding decisions. Finally, prior reform efforts have often not had the strong and consistent backing from both the executive and legislative branches needed to succeed. Barrett, Katherine, 1995

The mission of the University Budget Office is to coordinate and provide leadership for University-wide financial and resource planning, budgetary and policy analysis. These activities include financial and resource analysis and planning; capital planning and budgeting; development of biennial budget requests and annual operating budgets; institutional data management; and budgetary and policy analysis.

The University Budget Development Process flow chart describes a process to develop annual Revenue and expense budgets guided by presidential directive. The directive will consider the best information available at the time for revenues and expenses along with long range plans, and direction from MnSCU Board of Trustees, the Office of the Chancellor and the legislature

Financial performance

Financial performance is generally defined as the use of outcome-based financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm (Venkatraman& Raman jam, 1986; Murphy, et al. 1996). It has been widely used to measure business performance in both SMEs and larger firms. A great deal of accounting literature (Hopwood, 1972; Ross, 1994; Kaplan & Atkinson, 1998; Lau & Sholihin, 2005) recognizes the inherent advantages of financial measures. They argue that financial measures might be beneficial because they

are objective and certain to provide a summary view of the success of the organization's performance and operating tactics. Kaplan and Atkinson (1998) The Impact of the Budgeting Process on Performance of SMEs in China - 7 - as a coercive instrument by top management to "impose" its objectives on subordinates in the organization.

Therefore they expect that a participative environment is of positive importance to maximize organization effectiveness and individual satisfaction. Their research results, from in-depth interviews, show that the budget process significantly influences the outcome of their budgets. But the participative decision-making results in slack which managers can incorporate into their budgets. The link between budgetary participation and performance is, "at best, weakly" supported by Milani (1975). He finds that a significant impact of participation on performance only exists during the first two months of January and February⁸. In all other months, the effects are not significant. Dunk (1989), Otley and Pollanen (2002) even indicate negative findings for participation-performance relationship.

The results from Dunk's research suggest that "high participation together with high budget emphasis lowers managerial performance, rather than increasing it." Recently, a handful of studies (Awasthi et al., 1998; Chow, et al, 1994; Chow et al., 1996; Harrison, 1992; Harrison, et al, 1994; Chow, et al, 1999) examined management accounting techniques such as budgeting, standard costing from a cultural point of view. They argue that management control tools and management practices found to be effective in one environment, could be ineffective or even dysfunctional in another environment. Additionally, some accounting literature highlights the importance of the firm context including the organization's size, age, and degree of decentralization. They argue that the firm context is strongly contingent on the design and

operation of a management accounting system such as budgeting, cost accounting etc. For example, Bruns & Waterhouse (1975)

Conclude that budget-related behavior⁹ is found to be contingent on various aspects of the organizational structure such as centralization, autonomy, and the degree to which activities are structured. Budget-related behavior, in their research, is defined as the activities, actions, and interaction of managers with each other and their tasks, that relate, either directly or indirectly, to budgeting. The present study, it is designed to focus specifically on two aspects of firm context viz. firm size and ownership.

The reasons to select these two factors for testing are: Firstly, firm size is one of the most popular variables, widely used as a control variable, in previous research, especially in quantitative research; Secondly, when research is related to 8 Performance is measured by the percentage of growth for a month in Milani's research. It is measured by the quantity of such behavior, the kind of behavior, and the quality and satisfaction in terms of the extent to which the budget is seen. Following Hopwood, a lot of researchers have continued the work on RAPM. For instance, Chakravarthy (1986) states that accounting performance measures are considered necessary, but not sufficient to define overall effectiveness. Bento and White in 2001 also mention the limitations of using accounting data in a small organization. Budgets provide rational and tangible data facilitating and enabling decision-making of organizations. Instead of expressing a budget as a statically financial plan or blueprint, the term "budgeting" refers to the act of preparing a budget or the activities of predicting and qualifying future requirements for finance (Garrison, et al., 2003).

Statement of the Problem

Though budget practice have existed for long time which are meant to guide Somali universities before the collapse of Somali government, the whole universities budgets were managed and controlled by government- education ministry, after the collapse of government a private universities controlled by private owners emerged .

Problems associated with budgeting practice Having reviewed the concepts "Budget" "budgeting" and "practice " which are key to this study, stating its problem and solution , there is need to consider some of the problems that are associated with these concepts, so that universities those seek to survive in the complex economic environment will be familiar with these likely problems and apply necessary tools in by-passing them so as to experience improvement in the financial performance.

The universities in Mogadishu, Somalia need to apply their budgets. To be able to apply the budget, they need to formulate a good budget, approve the budget in the fiscal period and execute the budget as to perform good financial performance

In addition to that the private Somali universities are very difficult to apply the planned or budgeted results as some performance is seen in their financial report. The report mostly t shows that there is negative variance account in the expenditure and revenue accounts; these have great effect on financial controlling of the universities. For that reason the researcher intends to investigate causes of such poor financial performance and why the budgets are not practiced

In view of this discrepancy, there is need to establish the kind of relationship that exists between the budgetary practice and the financial performance.

Therefore, the researcher has endeavored to determine the effects of budgetary practice on financial performance in private universities in Mogadishu Somalia.

Purpose of the Study

To establish the relationship between budgetary practice and Financial Performance in Private Universities in Mogadishu, Somalia. Further this study identified the strengths and weakness/gaps in budgetary practice and financial performance

Research Objectives

General: Investigated the correlation between the Budgetary practice and financial performance.

Specific: To be sought further in this study was the following:

- To determine the demographic characteristics of the respondents in terms of:
 - Age.
 - Gender.
 - Educational qualification.
 - Number of years experience in Private Universities.
- To determine the extent of budgetary practice.
- To determine the level of financial performance.

- To establish if there is a significant relationship between the extent of budgetary practice and in level of financial performance.

Research Questions

- What are the demographic characteristics of the respondent in terms of:
 - Age?
 - Gender?
 - Educational qualification?
 - Number of years experience in private universities?
- What is the level of budgetary practice?
- What is the level of the financial performance?
- Is there any significant relationship between the levels of budgetary practice and financial performance?

Null Hypothesis

There is no significant relationship between the levels of Budgetary practice and financial performance

Scope

Geographical Scope

The study was conducted in private Universities in Mogadishu, Somalia.

Content Scope

This study was look and intended to examine for the following:

- The demographic characteristics of the respondents in terms of age, gender, educational qualification and number of years experience in private universities.
- The level of the budgetary practice.
- The level of the financial performance.

- The significant relationship between the levels of Budgetary practice and financial performance.

Theoretical Scope

The planned level of activity is seldom achieved exactly. When the actual level of performance differs from planned performance, a performance budget can be prepared after the fact to show what revenues and cost should have been at actual level of activity. for performance assessment, it would be a weak analysis to use a profit plan based upon a level of activity that differs from the actual level of activity.(Don T. Decoster 1982)

Time Scope

Data was collected on July 2011

Significance of the Study

- The study will be use for improving financial performance in Somali universities.
- The study will help the concerned policy makers of Somali universities to use the information for better policy in future.
- The study can be added to the existing literature on budget practice and financial performance also helped future research.

Operational Definitions of Key Terms

Budget is a financial document used to project future income and expenses. The budgetary process may be carried out by individuals or by companies to estimate whether the person/company can continue to operate with its projected income and expenses.

Budgetary practice provides for the preparation of a financial plan, a capital improvement plan, and budget options. Development of a long-range financial plan is essential to ensure that the programs, services, and capital assets are affordable over the long run. Through the financial planning process, decision makers are able to better understand the long-term financial implications of current and proposed policies, programs, and assumptions and decide on a course of action to achieve its goals. These strategies are reflected in the development of a capital improvement plan and options for the budget

The Best Practices in Public Budgeting: Narratives and Illustrations is a key component of GFOA's ongoing efforts to encourage implementation of the recommended budget practices of the National Advisory Council on State and Local Budgeting (NACSLB). It is designed to provide finance officers with concrete illustrations of how high-performance governments use the NACSLB recommended practices to improve the planning, development, adoption, and execution phases of their budgeting process.

Statement of financial performance is an accounting summary that details a business organization's revenues, expenses and net income.

Demographic characteristics are attributes the respondents in this study in terms of gender, age, qualifications and experience.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Concepts, Opinions, Ideas from Authors/ Experts

Planning/budget

Most people associate the word budget with limitation on spending, for example government often approve spending budget for their various agencies .then they expect the agencies to keep their expenditures within their limits prescribed by budget . In contrast, most business organization use budgets to focus attention on company operation and finance, not just to limit spending .Budgets highlight potential problems and advantages early, allowing managers to take steps to avoid.

One of the managements' major responsibilities is planning; planning is the process of establishing enterprise wide objectives. A successful organization makes both long term and short term plans. These plans set forth the objectives of the company and propose way of accomplishing them. Budget is formal written statement of managements' plan for specified future time period expressed in financial term. It normally represents the primary method of communication agreed upon objectives throughout organization. Once adapted, a budget becomes an important basis for evaluating performance it promotes efficiency and services as to wait and in efficiency.

Definition of Good Budgeting

A study by Finney (1993) defined a good budgetary process as one that provides information and focuses on outcomes. It provides the right climate for good decisions, excellence and controls all activities, and is intelligent and timely for organizations. It can also directly aid down-sizing, Integration of new

acquisitions, pricing and “reengineering” activities that are poorly performed or Wrongly budgeted. Campbell (1985) further added that the recognition of both technical and Behavioral aspects of budgetary are essential if organizational goals are to be achieved.

The second characteristics indicate that good budgetary processes have both special behavioral and technical characteristic implications. However, this study only discusses the behavioral aspects of budgetary which arise from the technical aspect of the budgetary processes followed as a result of government constraints.

The behavioral characteristics of good budgetary practices will be identified from the business literature. As Campbell (1985) stated, every budgetary system (business and public sector) must be customized and its success measured by the extent to which it can provide necessary motivation for individuals in order to maximize their contribution in achieving organizational goals. This provides

an indication that there is no significant difference in terms of behavioral aspects between business and public sector budgeting.

Purpose of budgetary

A budgetary system gives an organization several advantages.

It forces managers to plan

It provides information that can be used to improve decision making

It provides a standard for performance evaluation

It improves communication and coordination

Budgetary forces management to plan for the future. It encourages managers to develop an overall direction for the organization, foresee problems, and develop future policies. If Dr. Jones had spent time planning, he would have

known the capabilities of his practice and where the resource of the business should be used.

Budget improves decision making. For example if Dr. Jones had known the expected revenue and the cost of supplies, lab fees, utilities, salaries and so on, he might have lowered the rate of the salary increases, avoided borrowing money from the corporation, and limited the purchase of nonessential equipment. These better decision, in turn might have prevented the problems that arose and resulted in the better financial status for both the business and Jones.

Budget also set standard that can control the use of a company's resource and motivate employees. A vital part of the budgetary system control is achieved by comparing actual results with budgeted results on periodic basis (for example monthly). A large difference between actual and planned results is feedback revealing that the system is out of control. Steps should be taken to find out why, and then to correct the situation. For example if Dr. Jones may discover that he is often careless in it is use and that extra care will produce savings. The same principle applies to other resource used by the corporation. In the saving could be significant.(Jablonsky,1985).

Budget also serves to communicate and coordinate. Budget formally communicates the plans of the organization to each employee. According all employees can be aware of their role in achieving those objectives. Since the budget for the various areas and activities of the organization must all work together to achieve organizational objectives, coordination is promoted. Managers can see the needs of other areas and encouraged to subordinate their individual interest to those of the organization. The role of communication and

coordination becomes more significant as an organization increases in size.(Don R. Hansen 2000)

Budget involves establishing specific goals, executing plans to achieve the goals and periodically comparing actual results with the goals. These goals include both the overall business goals as well as the specific goals for the individual units within the business. Establishing specific goals for future operation is part of the planning function of management, while executing action to meet the goals is the directing functions of the management. Carl S. Warren, 1999)

Good Budgetary Characteristics

Characteristics of good budgetary defined to include: managers' involvement; a clear definition of long-term goals; the rational allocation of resources; control processes that lead to continuous. Improvement in the business; and all of these attributes is supported by sound accounting information systems (see, for example, Campbell (1985), Finney (1993) and Holland (2000)).

Managers' Involvement

Various scholars Fisher *et al.* (2000), Lehan (1996), Hoque (1995), Grifel (1993), Schmidt (1992)) argued that workers' involvement in the process of setting and developing organizational budgetary was the major determinant of good budgeting. Hofstede (1965) put forward that staff participation in the budgetary process helped to strengthen the perceptions among workers that organizational goals were fair, and therefore the budget would be more relevant to them. This is in line with the budgetary concept that workers' participation may contribute to greater willingness from them to accept the budgetary goal.

Campbell (1985) is also of the view that information gathered from lower-level managers can facilitate the process of budget preparation. This potentially provides opportunity to improve the organizational performance.

Clear Definition of Long-Term Goals

Murray (1990) perceived organizational goal as the objective or the performance target that every worker should seek to achieve. If an individual becomes committed to achieve the goal, it will

Budget and organization

The budget is tool that helps managers in both their planning and control functions interestingly; budget helps managers with their control function not only by looking forward but also by looking backward. Budget, of course deal with what manager's plan for the future; however they also can be used to evaluate what happened in the past. Budgets can be used a benchmark that allows managers to compare actual performance with estimated or desired performance.(gray T Sundem, 2002)

Types of budgets

For Finance Executives, it is necessary to be familiar with the various types of budgets to understand the whole picture. The types of budgets include master, operating (for income statement items comprised of revenue and expenses), financial (for balance sheet items), cash, static (fixed), flexible, capital expenditure (facilities), and program (appropriations for specific activities such as research and development, and advertising). These budgets are briefly explained below (Charles T. Hornggren, 2002).

Master Budget

A master budget is an overall financial and operating plan for a forthcoming calendar or fiscal year. It is usually prepared annually or quarterly. The master budget is really a number of sub budgets tied together to summarize the planned activities of the business. The format of the master budget depends on the size and nature of the business. (Cho Y, 1989)

Operating and Financial Budgets

The operating budget deals with the costs for merchandise or services produced. The financial budget examines the expected assets, liabilities, and stockholders' equity of the business. It is needed to see the company's financial health.

Cash Budget

The cash budget is for cash planning and control. It presents expected cash inflow and outflow for a designated time period. The cash budget helps management keep cash balances in reasonable relationship to its needs and aids in avoiding idle cash and possible cash shortages. The cash budget typically consists of four major sections

1. Receipts section, which is the beginning cash balance, cash collections from customers, and other receipts
2. Disbursement section comprised of all cash payments made by purpose
3. Cash surplus or deficit section, showing the difference between cash receipts and cash payments
4. Financing section, providing a detailed account of the borrowings and repayments expected during the period. (Douglas, B.R. ,1994).

Budget process

Department directors and agency heads initiate detailed reviews and proposal development to arrive at specific requests for each program. These requests are then sent to the Department of Finance for review. The governor evaluates the requests as reviewed by the Department Finance and sends his or her proposed budget to the Legislature. the budget proposal is introduced in both the Assembly and the Senate as identical budget bills. The Legislative Analyst prepares an extensive analysis of the budget bill which becomes the starting point for budget subcommittee hearing sin the Senate and Assembly. (Drury, C. 2000)

The governor receives the budget bill and has until July 1, the start of the fiscal year, to sign or veto the budget bill. The bill becomes law as soon as it is signed by the governor due to its status as an urgency measure. The budget bills are sent from each house to their respective budget committees. The bills are then broken down by subject and assigned to the appropriate subcommittees by subject areas.

After completion of the hearings, each subcommittee votes and then sends its report to the full budget committee. The budget committee of each house considers the subcommittees' report sand sends a revised budget bill to the floor for evaluation by the full body. Each house discusses and then voteson its version of the budget bill.

The differences between the Assembly and Senate versions of the budget billare worked out in a conference committee made up of three members from each house. Upon completion fits review, the conference committee submits a single version of the budget bill to both houses. The Senate and. Assembly each vote on this final version before it is sent (Dunk, A.S. 1994)

Budget formulation

Budget formulation is the primary process in the budget cycle by which federal agencies identify the resources, both dollars and FTEs, necessary to effectively carry out their objectives. Three major budget submissions are produced each year for three different stakeholders. Internal submissions are presented to senior agency leadership in June; the Office of Management and Budget (OMB) submission is completed in September; and the Congressional budget is presented in February. PPC brings extensive experience and expertise to support the budget formulation process. Our subject matter experts work closely with federal budget analysts to support the three major budget submissions. Through our budget formulation solutions, budget office personnel are able to identify and manage dollars and resources through familiar desktop tools. Excel is by far the most popular budgetary technology used in the market today. PPC's budget solutions leverage the popularity of Excel with standard web-forms for data entry. Unstructured data is an integral part of the budget process as well, and must be equally managed with structured data. Therefore, narrative budget justifications are maintained in MS Word for ease of use and narrative extendibility. Word allows maximum text manipulation and provides full word processing capabilities. Finally, because auditing and version control are essential to the budget formulation process, both features are provided through the solution's underlying database and document management systems.

Budget approval

An approved as defined by this standard reflects the anticipated revenue or receipt expected to rise in the annual or multiyear budget period based on current plans and anticipated economic condition during that budget period and expense or expenditure approved by board of trustee or relevant authority an approved budget not a forward estimate or projection based assumption about future events and possible management action when are not necessarily expected to take place

Similarly approved budget differs from prospective financial performance of both for example a one year forecast plus five year projection in some jurisdiction, budget may singed in law as part approved process. in other jurisdiction , approved may be provided without budget becoming law whatever approval process , the critical features of approved budget in that authority to with to withdraw fund form university five or similar body or other appropriate authority the approved budget establishes expenditure authority for the specified items. The an entity must operate in some jurisdiction the approved budget for which the entity will be held accountable may be the original budget and in other it may be in final budget If a budget is not approved to the beginning of the budget period, the original budget is the budget that was first approved for in application in the budget year.

Use of computer in the budget planning process

The budget committee may review a budget and decide that is in consistent with company goal. This conclusion may lead managers to explore a variety of actions that effect future cost and revenue. if the managers decide to

make change then they must also revise the budget since budget are highly interdependent a change in one can effect several others.

Computers are very useful in this situation, most companies that use budget define the budget relationship in computer model using spread sheet program such as excel or custom program especially designed for them. With computerized budget in format, an item in budget can be changed and computer can recalculate that budget and any budget affected by the change. Obviously this result in a substantial saving in time and management effect (James jiambalvo 2004)

Budget and Accounting

Accounting information makes major contribution to the budgetary process. From the accounting records, historically data on revenues, cost and expenses can be obtained, these data are helpful in formulating future budget goal.

Normally accountants have responsibility for expressing managements' budgetary goals in financial terms; in this role they translate managements' plan and communication the budget to all areas of the responsibility. Accountants also prepare periodic budget reports that provide the basis for measuring performance and comparing actual results with planned objective, the budget it is self and administration of the budget, however are entirely management responsibility. (Harrison, G.L. 1992).

Use of budget in planning and control

Time and money are scarce resource to all individual and organization; the efficiency and effectiveness use of these resources requires planning. Planning alone, however, is insufficient. Control is also necessary to ensure that

plans actually are carried out.(Roger H. Hermanson, 1998) ,At the companies from Microsoft to Marriott form Wal-Mart to Wendy's budget are a high priority .As mentioned the entire planning and control process of many companies is built around budget this describes how budget are used in planning and control.

Planning

Budget are useful in the planning process because they enhance communication and ordination the process of developing a formal plan- that is a budget – forces manager to consider carefully their goal and objective and to specify means of achieving them. Budget becomes the vehicle for communication information about where company is heading and they aid coordination of managers' activities. For example the marketing department may prepare budgets that include estimates of sales for each month of future year. The production department may use the information contained in this budget to schedule workers and material deliveries. Thus the necessary coordination of product sales and product production is achieved.

Control

Budget are useful in the control process because they provide a basis of evaluation performance to control company- to make sure it is heading in the proper directions and operating efficiently- it is essential to assess the performance of managers' and the operation for which they responsible often performance evaluation it carried out by company actual performance with the planned or budgeted performance.

Theoretical Perspectives

The planned level of activity is seldom achieved exactly. When the actual level of performance differs from planned performance, a performance budget can be prepared after the fact to show what revenues and cost should have been

at actual level of activity. for performance assessment, it would be a weak analysis to use a profit plan based upon a level of activity that differs from the actual level of activity.(Don T. Decoster 1982)

Budget and actual

In many cases, the final budget and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 29 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. Those disclosures, together with the disclosures required by paragraph 14 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget. (Wildavsky, A. 1975)

Management discussion and analysis, operations review or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements.

In accordance with explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements, and the notes to the financial statements identify the reports or documents in which the explanation can be found. Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements will apply to only the

entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole-of-government reporting entity, the disclosures required by paragraph 14 will be made only in respect of the general government sector of the government. (jablonsky, S.F. 1985).

Budget Debate

At the conclusion of the Budget presentation by the Finance Minister, the Speaker recognizes a representative of the Official Opposition, usually the finance critic, who, after a brief speech, moves the adjournment of the debate. This motion is deemed adopted. In adjourning the debate, the Member reserves the right to speak first when debate on the motion resumes. The House is then adjourned.

The general nature of the Budget motion allows for a wide-ranging debate, during which the rules of relevance are generally relaxed.

Following the day of the Budget speech, the Standing Orders provide for a maximum of four additional days of debate on the Budget motion and any proposed amendments. The four days of debate do not have to be consecutive and, if few Members wish to speak, the debate can be less than four days. The unused days may be added to the number of opposition days in the same Supply period.

Debate on the Budget motion has precedence over all other Government orders. No other Government business may be considered during a sitting in which the House debates the Budget motion, unless the proceedings on it are completed.(Sahu, A.P. 2001).

Amendments to the Budget Motion

Amendments to the budget motion are opportunities for expression of non-confidence in the Government, only one amendment and one sub amendment may be proposed to the Budget motion, on the first day of resumed debate on the Budget motion, the opposition Member who had previously moved the adjournment of the budget debate, continues with his or her speech and traditionally moves an amendment at the end of the speech. The next speaker, a Member of the next largest opposition party, typically moves a sub amendment at the end of his or her speech. on the second day of debate, the Speaker interrupts the proceedings 15 minutes before the expiry of time provided for government business to put the question to dispose of any sub amendment. (Raviv, A. 1996), On the third day of debate, the Speaker interrupts the proceedings, as on the second day, and puts the question on any amendment under consideration, On the fourth day of debate, unless debate has already concluded, the Speaker likewise interrupts the proceedings to put the question on the main motion.

Preparing a performance report

A performance report may be prepared using either manual or automated methods. Reflection, inc., the business described that uses of manual method to calculate the amount of increase(decrease) from budget, the percentage of increase (decrease) from budget, and to prepare a performance report. (Kenton E. Ross,1995)

Objective of financial performance

This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial

statements of entities which are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. The Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results. (Helen, 1995).

Budget committee

The Budget Committee is the primary budget recommendation and decision making group for the College. The purpose of the Budget Committee is to ensure that the College budget supports the College's mission, and to advocate execution of the budget efficiently and effectively toward the achievement of optimal performance levels across all segments of the College community.

The Budget Committee responsibilities are

- To establish broad financial policies and reviews how those policies are implemented.
- Strive to optimize the limited financial resources available to meet the goals of the College.
- To make the budget process easier to understand for members of the Committee and the larger College community, and to evaluate and implement opportunities for a more effective budget process.
- To review the College's operating and capital budget and make decisions and recommendations about the allocation of available funds.

- To review requests for changes to the budget.

To review financial reports prepared for management review, and to take action when the budget shows significant deviations. (Oguma, P.A 1995)

The internal auditor

The role of an internal auditor is largely defined by the businesses that hire him. There are a number of professional guidelines he must follow to ensure that he provides services in keeping with the tenets set forth by the governing bodies of the profession. It is interesting to note that internal audits vary greatly by scope, the number of auditors involved, and also the subject matters of the audits themselves. Read on to learn about the benefits of audits, the warnings for those who think them to be superfluous and the overall significance of the internal auditing process. (Charles T. Hornggren, 2002)

Function

An internal auditor may audit anything from financial statements to customer service or human resources processes. The primary function of an internal auditor is to provide an uninvolved set of eyes to look over the figures or processes a company devised. At the same time, the auditor is a disinterested party who has no vested interest in the success, failure, feasibility or accuracy of the data she examines.

Significance

The role of an internal auditor is significant in ensuring compliance with state and federal laws, effectively protecting a business against problems that might crop up during an official audit. Borderline illegal employment practices, mistakes during hiring procedures and inefficient record keeping put a company at risk for lawsuits; an internal audit points out these problems and allows the business time to correct any mistakes. This protects the assets of the company in

the long run, and also ensures that any scheduled official audits---as might be the case for a home health agency or clinic---will not find problems that might lead to sanctions.

Considerations

A staff member sometimes fills the role of an internal auditor. This could lead to a conflict of interest, and may actually put the employee in a precarious situation if he must go against supervisors or managers. In turn, this leads to sometimes limited audits which purposely do not address areas of the organization where problems may lead to conflict. Hiring an outside auditor is a better solution to getting a truly unbiased opinion.

Benefits

Finding a professional to fill the role of an internal auditor early on greatly benefits the structure of a growing business, since it prevents the creation of faulty processes and limits the liability the company may be exposed to during its growing phase. As the business becomes more established, continued internal audits safeguard the company's assets by ensuring compliance when laws change. Even a business that is closing down benefits from an internal audit. It serves to protect its finances and ensures that employees receive all their compensation, while customers' orders are also filled.

Warning

No matter who fills the role of an internal auditor---an employee or independent third party representative---for a business, it is crucial to remember that recommendations alone are not sufficient to make a difference.

Management must follow up on the findings and correct whatever problems are found in either accounting practices or processes that put the company at risk.

Presentation of budget information in financial statement

Budget during the budget period and for reporting to the government, the public and other users on a relevant and timely basis. In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector and encompass only entities fulfilling the “primary” or “non-market” functions of government as their major activity, while financial statements report on all activities controlled by a government, including the business activities of the government. IPSAS 22, “Disclosure of Financial Information about the General Government Sector” specifies requirements for note disclosure of financial information about the general government sector of a whole-of-government entity which adopts the accrual basis of accounting and elects to make such disclosures. In many cases, disclosures made in accordance with IPSAS 22 will encompass the same entities, activities and classification bases as adopted in budgets prepared consistent with the general government sector as defined in statistical reporting models. In these cases, disclosures made in accordance with IPSAS 22 will also facilitate the disclosures required by this Standard.

In statistical reporting models, the general government sector may comprise national, state/provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its financial statements and develop, and require to be made publicly available, an approved budget that

encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the financial statements of those national governmental entities. However, where a national government does not control state/provincial or local governments, its financial statements will not consolidate state/provincial or local governments. Rather, separate financial statements are prepared for each level of government. The requirements of this Standard will only apply to the financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

Comparisons of budget and actual

The comparison of budget and actual amounts will be presented on the same accounting basis (accrual, cash or other basis), same classification basis and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean resending a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 5, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements of this Standard. Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, a government may adopt the accrual basis for its financial statements and the cash basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report assets, liabilities, net assets/equity, revenues, expenses, other changes in net assets/equity and cash flows. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes – for example, for monitoring progress of execution.

Related Studies

Financial statements are usually prepared by management and presented to the board. Directors/trustees, however, are responsible for making sure that the financial statements present a **full and accurate** position of the organization's financial situation and that any variants from budget are fully explained.

An organization's financial statements are not just used to monitor how things are going. They are essential for borrowing money and reporting to many stakeholders including owners and funders.

Processes that help establish good financial reporting include: Using GAAP (Generally Accepted Accounting Practice) and a good accounting process Having

an Audit Committee that thoroughly reviews standards and how the organization manages its financial reporting

The most common failings in financial statements are overstatements of net profit and understatement of borrowings.

While all directors/trustees are not expected to be expert accountants, they are expected to read financial reports with a strong level of interest and enquiry, and to understand the importance of complying with acceptable accounting standards (Venkatraman & Ramakrishna, 1986; Murphy, et al. 1996).

Financial performance is generally defined as the use of outcome-based financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm. It has been widely used to measure financial performance in both SMEs and larger firms. A great deal of accounting literature (Hopwood, 1972; Ross, 1994; Kaplan & Atkinson, 1998; Lau & Sholihin, 2005) recognizes the inherent advantages of financial measures. They argue that financial measures might be beneficial because they are objective and certain to provide a summary view of the success of the organization's performance and operating tactics. Kaplan and Atkinson (1998)

Budgets provide rational and tangible data facilitating and enabling decision-making of organizations. Instead of expressing a budget as a static financial plan or blueprint, the term "budgeting" refers to the act of preparing a budget or the activities of predicting and qualifying future requirements for finance (Garrison, et al., 2003).

CHAPTER THREE

METHODOLOGY

Research Design

This study utilized the descriptive survey design specifically descriptive correlation strategies. Descriptive studies are non-experimental researches that describe the characteristics of a particular individual, or of a group. It deals with the relationship between variables, testing of hypothesis and development of generalizations and use of theories that have universal validity.

Research Population

The target population was included a total of 150; 50 Top Management, 50 Middle Management and 50 for Administration and finance of private universities in Mogadishu, Somalia. The administration and finance was the focuses on because it is the main part of the operation in the company.

Sample Size

In view of the nature of the target population where the number for Top Managements, Middle management and Administration and finance department, a sample wastaken from each category. Table 1 below shows the respondents of the study with the following categories: Top Management, Middle Management and Administration and fiancé department, target population and sample size. The SLOVENE'S formula was used to determine the minimum sample size for each category.

$$n = \frac{N}{1 + n(e)^2} =$$

Where n=sample size

N= population

E= level of significance (0.05)

$$n = \frac{150}{1 + 150(0.05)^2}$$

So, the sample size of this study was 109.

Table 1: Respondents of the Study

Respondents	Target Population	Sample size
Top Management	50	36
Middle Management	50	36
Administration and Finance	50	37
Grand Total	150	109

Sampling Procedure

The purposive sampling was utilized to select the respondents based on these criteria:

1. Male or female respondents in private universities selected horn Africa, Salaam, Horizon and Plasma Universities in Mogadishu, Somalia.

2. Top Management, Middle Management and Administration and Finance Department, with experience ranging from one year and above. The systematic random sampling was used to finally select the respondents with consideration to the computed minimum sample size.

On the other hand in this study stratified sampling technique was used. In stratified sampling the population is divided in to subpopulations such that elements within each sub-population are homogenous.

Research Instrument

A variety of research instruments was employed. These include: questionnaires. A review of secondary data in the form of official documents available in hard copy in libraries and the internet facility

Validity and Reliability of the Instrument

Validity of the study was assured through expert knowledge, and the researcher made sure at least the validity coefficient to 70%. There are many methods to be assured whether your study is valid or not and among them is Content Validity Index (CVI). The formula of CVI equals no of items declared valid /total no of items.

Content validity will be ensured by subjecting the researcher devised questionnaires on resource availability and utilization to judgment by the content experts (who shall estimate the validity on the basis of their experience).

The test-retest technique will be used to determine the reliability (accuracy) of the researcher devised instruments to ten qualified respondents, five from rural and five from urban secondary schools. These respondents will not be included in the actual study. In this test- retest technique, the questionnaires will be administered twice to the same subjects. If the test is

reliable and the trait being measured is stable, the results will be consistent and essentially the same in both times.(see the calculation in appendix three)

Data Gathering Procedures

Before the administration of the questionnaires

- An introduction letter was obtained from the School of Post Graduate Studies and Research for the researcher to ask for approval to conduct the study from private universities.
- When approved, the researcher secured a list of the qualified respondents from the private universities in charge and select through systematic random sampling from this list to arrive at the minimum sample size.
- The respondents explained about the study and was requested to sign the Informed Consent Form (Appendix 3).
- Reproduce more than enough questionnaires for distribution.
- Select research assistants who would assist in the data collection; brief and orient them in order to be consistent in administering the questionnaires.

During the administration of the questionnaires

- The respondent was requested to answer completely and not to leave any part of the questionnaires unanswered.
- The researcher and assistants emphasized retrieval of the questionnaires within Three days from the date of distribution.
- On retrieval, all returned a questionnaire was checked if all are answered.

After the administration of the questionnaires

The data gathered was collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

Data Analysis

After questionnaires filled by the respondents, the data was edited, coded and entered into the computer Statistical Package for Social Scientists (SPSS). Data was then processed and analyzed using descriptive statistics showing frequencies and percentage distribution to determine the demographic characteristics of the respondents.

The mean and standard deviations was applied to indicate the levels of budget practice and financial performance related to the private universities. While the Pearson's Linear Correlation Coefficient (PLCC) was used to correlate the variables and to test for existence of significant relationships among the study variables. The 0.05 level of significance, popular in social sciences was used to confirm existence of statistical significance among study variables. Then to establish the factors influencing the budget practice, cross tabulation will be done, where the dependent variable was cross tabulated with independent variables and chi-square values read off and p value at 5%.

The measurements the budgetary practice, and level of financial performance were measured by eleven and seven items or questions respectively in the questionnaire each is selected from one to four 1 = strongly disagree; 2 = disagree; 3 = agree; 4 = strongly agree; To interpret the obtained profile of the inventory control system and level of organizational performance the following numerical value and description were used;

Mean Range	Description	Interpretation
3.26-4.00	Strongly Agree	Very Good
2.51-3.25	Agree	Good
1.76-2.50	Disagree	Fair
1.00-1.75	Strongly Disagree	Poor

The t-test for difference in means was utilized to test the hypothesis for difference between means ($H_0: \mu_1 = \mu_2$) at 0.05 level of significance.

Ethical Consideration

To safeguard against unprofessional conduct while carrying out this research like unnecessary pressures, which could cause the research findings to be undermined, the researcher: Sought permission of the people who participated in the research for their consent in the intended study as such the researcher was not lie to subjects and record findings on hidden mechanical devices.

The researcher made sure the researcher's personal biases and opinions was not override other interests of the research and gave both sides fair consideration. The findings of the research was kept confidential, done under the condition of anonymity to avoid embarrassing and harming respondents especially if got information could be used logically or otherwise to harm the respondents. The researcher was require approval of the University Ethics Committee to make sure the research does not violate any of the Ethical considerations, to ensure utmost confidentiality for the respondents and the data provided by them as well as reflect ethics practiced in this study, the following was done:

1. All questionnaires was coded to provide anonymity of the respondents
2. The respondents was requested to sign the informed consent
3. Authors quoted in this study was recognized through citations and referencing
4. A written communication to the authors of the standardized instrument
5. On emotional intelligence to solicit permission to use the standardized questionnaire

6. Presentation of findings was generalized

Limitation of the Study

The researcher faces number of problems including some of the respondents not understanding the English language well, Also, the researcher faces some of the respondents would not answer the questionnaire properly or correctly and correctly and tight schedule of the respondents.

The researcher meet a challenges to overcome those problems through explaining questionnaire, and choose educated respondents those who have accurate information about the study and distribute the questionnaires in advance to the respondents to have enough time to make inline in their tight schedule to complete the questionnaires.

The researcher was claim an acceptable (0.05 level of significance) 5% margin of error in view of the following anticipated threats to validity with relevance to this study:

1. *Testing*: Differences in conditions and time when the data was obtained from respondents by different persons on different days at different hours. This will be minimized by orienting and briefing the research assistants on the sampling techniques and data gathering procedures.
2. *Instrumentation*: The research instrument on ethical leadership is not standardized. A validity and reliability test was done to produce a credible research tool.
3. *Mortality*: The calculated number of respondents may not be reached considering the fact that some questionnaires may not be returned due to circumstances within the respondents and beyond the control of the

researcher. The researcher will endeavor to attain the appropriate number of respondents for reasons of representativeness.

4. Other conditions where the researcher was not have control over the extraneous variables such as honesty of the respondents, personal biases and descriptive nature of the design.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Profile of the University Staff Respondents

Respondents in this study were described according to age, gender, qualification, In each case, respondents were asked through a closed ended questionnaire, to provide their respective profile information, to enable the researcher classify and compare them accordingly. The first research question of the study was to determine the profile of the respondents used in this study. The purpose of this background information was to find out the characteristics of the respondents and show the distribution of the population in the study, the findings are presented below. Their responses were analyzed using frequencies and percentage distributions as summarized in following table.

Table 2:
Profile of the Respondents

Category	Frequency	Percentage (%)
Gender		
Male	74	67.9
Female	35	32.1
Total	109	100
Age		
20-39 (Early adult hood)	46	42.2
40-59 (Middle adult hood)	36	33.0
60 and above (Late adult hood)	27	24.8
Total	109	100
Educational Qualifications		
Certificate	1	0.90
Degree	76	69.7
Postgraduate	32	29.4
Total	109	100
Number of years Experience in Budgetary Practice in Institution		
1 years - 3 years	1	0.90
4 years - 6 years	50	45.8
7 years - 9 years	50	45.8
10 years and above	8	7.3
Total	109	100

Source: primary data 2011

From the table 2 shows that the findings of the study indicated the majority of employees in the sample were males represented by 67.9% while females were minority represented by 32.1%. This clearly shows that most employees at private universities Somali are male.

The findings of the study indicated that majority of employees represented by 42.2% were of age bracket 20-29 and 29-39 average of employees were 33%, minority represented by 24.8% were of the age bracket 60-Above years This finding suggested that the private universities staff were of diverse age groups. The diversity in age of the staff implies that the staff would have different values for their performance.

The findings of the study revealed that the majority of the employees in the sample were undergraduate represented by 69.7% and average of the respondents were postgraduate 29.4 ,while minority of the employees in the sample were secondary of 0.9 % (one cashier)

The findings of the study the table 2 revealed that the majority of the employees in the sample were 43% of the respondents hold a bachelor, minority represented by 2.2% where of the PHD holders. This is indicating that the private universities attracted and retained highly educated employees who are likely to perform their duties well.

The findings of the study indicated that majority of employees represented by 45.8% of the respondents have worked for 4-6 years. Where the minority of the respondents represented by 0.9% of the respondent has worked for 1-3 experience, the findings indicate that there is high employee retention in private universities in Mogadishu, Somalia.

The level of budgetary practice

The independent variable in this study was budgetary practice, operationalized into, budget formulation, budget approval, budget execution was measured using qualitative questions in the questionnaire, process and position practice were each also measured using five items. All items on innovation were Likert scaled using four points ranging between 1= strongly disagree, 2=disagree, 3= agree, 4=strongly agree. The first objective in this study was set to determine the level of budget practice, for which respondents were required to indicate the extent to which they agree with each of the items or statements by filling in the number that best describes their perceptions. Their responses were analyzed and described using means as summarized in table 3;

Table 3:
Level of Budgetary Practice in Selected Private
Universities in Mogadishu, Somalia
N =109

Indicators	Mean	Std. deviation	Interpretation	Rank
Budget formulation				
In the developing budget, there are fiscal rules that place limits on fiscal policy in your university	3.20	.730	Good	1
Fiscal sensitivity of the economic assumption are included in the budget documentation	3.17	.833	Good	2
The central budget authority split the budget into capital and operation budget	3.17	.799	Good	3

There is an economic planning office that develops the economic assumption used in the budget	3.17	.792	Good	4
The central budget authority committee imposes limits (ceiling) for each department analysis of the budget	3.15	.692	Good	5
There is methodology used for establishing the economic	3.11	.906	Good	6
Fiscal estimate (spending and revenue) are revised in the course of fiscal year	3.06	.874	Good	7
The university has the central budget authority committee appointed by the board of trustee of the university	3.03	1.032	Good	8
The central budget committee has an office they operate and control the budget	3.00	.892	Good	9
Average mean	3.12	0.84		
Budget approval				
The formal powers of the board of trustee to modify the budget is a vote on the budget considered a vote of confidence in the university	3.28	.679	Good	1
The board of trustee has formal power to amend the budget	3.26	.810	Good	2
The board of trustee	3.22	.737	Good	3

formally debate / discuss overall budget policy				
There is specialized budget research office/ unit attached to the board of trustee to conduct analysis of the budget	3.15	.837	Good	4
In the presentation of the central budget authority committee documents to the board of the trustee, the macroeconomic assumption are included	3.13	.829	Good	5
The budget is presented to board of trustee before the beginning of the fiscal year	3.11	.820	Good	6
If the budget is not approved by board of trustee before the start of the fiscal year , the expenditure without board approval are allowed	3.05	.750	Good	7
Mean average	3.17	.078		
Budget Execution				
All departments carry over unused funds or appropriation from one year to another	3.34	.656	Good	1
The finance director has authority to cut / cancel rescind spending once the budget has been	3.18	.760	Good	2

approved by the board of trustee				
It is possible for departments of the university to borrow against future appropriation without approval	3.17	.792	Good	3
The finance director has authority to increase spending once the budget has been approved by the board of trustee	3.12	.847	Good	4
If any increase in mandatory spending, it requires central budget approval after the fact	3.12	.703	Good	5
It is possible to increase in mandatory spending without restriction	3.09	.764	Good	6
The finance director or central budget authority committee determines the technical standard for the budget and related documents and the technical accounting standard for financial statements	3.07	.767	Good	7
The departments carry over unused funds or appropriation from one year to another year	2.94	.724	Good	8

Source: primary data 2011

Results in table 3 indicate that there are different levels of budgetary practice and budget formulation in different aspects. For example, respondents rated

The level of budget formulation was good (mean=3.27), equivalent to agree, budget approval rated are good (mean=3.12) equivalent to agree and budget execution rated to be high (mean=2.3922), equivalent to disagree and Likert scale. Overall, all items on were to rated to be low (mean=2.21), indicating that there is a relatively a low level of budgetary in selected private Universities in Mogadishu, Somalia.

Level of financial performance

The dependent variable in this study was financial performance, which was broken accounting and audit. Each of these components was measured using seven items or questions in the questionnaire, with each question rated with four point Likert scale, ranging between one to four, where 1=strongly disagree, 2=disagree, 3=agree and 4=strongly agree. The second objective in this study was set to determine the level of financial performance, for which respondents were required to rate the level of financial performance by indicating the extent to which they agree with each item in the table. They had to this by feeling in the number that best describes their perceptions. Their responses were analyzed and described using means as summarized in table 4 below;

Table 4:
Financial performance Selected private universities in
Mogadishu, Somalia
(N = 109)

Indicators	Mean	Std. deviation	Interpretation	Rank
According to your policy/ legal; provision, the audit institutions principally report to the finance director or central budget authority committee	3.30	.585	Good	1
Expenditure are linked to performance goal or objectives	3.19	.631	Good	2
The findings of the audit institutions are available to the publicly	3.18	.696	Good	3
Any line departments have internal audit units	3.15	.780	Good	4
The finance director of the university is required to report on financial performance against budget he / she will report o the central budget authority committee	3.07	.889	Good	5
The central budget authority is charge of monitoring compliance with the fiscal rule	3.02	.839	Good	6
The accounts are audited on every month	3.00	.720	Good	7

by audit institution publicly				
The central budget authority committee is responsible for achieving financial performance target	2.99	.687	Good	8
Information on actual revenue and expenditure are published annually during the fiscal year	2.86	.967	Good	9

Source: primary data 2011

Table 4 results indicate that the level of financial performance is relatively good in selected private universities in Mogadishu, Somalia; all the seven of financial performance were measured, as rated or perceived by the respondents. For example, accounting and audit were good (mean =3.01), which falls under agree on the Likert scale; falling under agree on the Likert scale and ranked as good financial performance. To get a summary picture on how respondents rated the level of financial performance, a mean index for all the seven aspects of financial performance were rated, and computed which turned out to be 3.08, which was agree on the Likert scale and ranked as good financial performance

Relation between budgetary practice and the Level of financial Performance of the selected private universities in Mogadishu, Somalia

The relationship between two variables budgetary practice and financial performance, Pearson's Product Moment Correlation Coefficient was used to test correlation between budgetary practice and financial performance, as indicated on table 5.

Table 5: Pearson's Correlation Coefficient results correlating budgetary practice and level of financial performance in selected private universities in Mogadishu Somalia(n= 109)

Table 5:
Pearson's Correlations
(N = 109)

Variables Correlated	Mean	r-value	Sig.Value
Budgetary practice	1.0092	0.262	0.006
Financial performance	2.2375		

The r value in table 5 indicates a positive correlation between the two variables ($r=0.262^{**}$). The sig. values indicate that the two variables (the budgetary practice and financial performance) in selected private universities are significantly correlated (the sig. is less than 0.05, which is the minimum sig. value for us to state existence of a significant relationship). Basic on this resulted, stated research null hypothesis is rejected level of significance.

Table 6:
Regression Analysis between the Dependent and Independent Variables

Variables Regressed	Computed F-Value	r^2	Interpretation	Decision on Ho
1. financial performance	7.854	.068	agree	Rejected
2.budgetaty practice				

Source: primary data 2011

From table above, it is clear that this model has good correlation as the r is good ($r=.262$) and only 6.8% of the variation in budgetary practice is explained by financial performance. The model is significant ($F=7.854$, $P=0.000$). The researcher concludes that there is sufficient evidence at the 0.05 level of significance, that the budgetary practice affect financial performance. In this model, the only significant parameter is the constant ($t=5.014$, $p=0.000$). The objective setting, $t=2.803$, $p=0.000$), budgetary practice, and financial performance parameters are significant. This means that for this model, the budgetary practices significantly explain the variation in financial performance. The results suggest that employee budgetary practices have an effect on financial performance in selected private universities in Mogadishu, Somalia .

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of Findings

This study was guided by five objectives which comprised these objectives (1) to determine the demographic characteristics of the respondent in terms, age, gender, education and experience. (2) To determine the level of budgetary practice (3) to determine the level of financial performance. (4) To determine whether there is a significant difference in the level of budgetary practice and financial performance of private universities in Mogadishu, Somalia. (5) To determine whether there is a significant relationship between budgetary practice and financial performance in selected private universities in Mogadishu, Somalia.

The first objective of the study, the descriptive statistics result showed frequencies and percentages, indicating the characteristics of the respondents and also showed the distribution of the population in the study. The result indicated that there were more male than female individuals working the private Universities in Mogadishu. The finding also suggested that the universities staff were of diverse age groups who have different values for their performance.

Data analysis using SPSS's descriptive statistics for means and standard deviations, showed approximately (I) budgetary practice that showed score of (mean ≈ 3.14); stddev (1.00) (ii) financial performance showed score of (mean ≈ 3.08); stddev (0.75) in private Universities in Mogadishu, Somalia respectively, which had an interpretation as good.

Results using Pearson's Linear Correlation Coefficient found that the budgetary practice, the study using Pearson correlation the result found indicated that significantly correlated to level of financial performance in selected

private Universities (corr. Coef. .262 ** $p=0,000$). Basing on these results, the stated research hypothesis is rejected, the alternative is accepted leading to a conclusion that budgetary practice and financial performance sig. = 0.000; are significantly correlated at 0.05 level of significance.

Second objective of the study, the descriptive statistics result showed mean and standard deviation indicating that the extent of budgetary practice was good, from the finding the mean index of budgetary practice showed score of (mean index=**3.14**, std.dev.= 1.00) respectively, which had an interpretation as good.

The Third objective of the study, the descriptive statistics result showed mean and standard deviation indicating that the level of financial performance was good, from the finding the mean index of financial performance showed score of (mean index=**3.08**, std.dev.=0.79) respectively, which had an interpretation as good. They also revealed that selected university used different methods of financial performance.

The Fourth objective of the study using Pearson correlation, the resulted found indicated that budgetary practice system is significantly correlated to the level of financial performance in selected private university (corr.coef.=0.006**). The sig. values indicate that the two variables the sig. is less than 0.05, which is the minimum sig. value for us to state existence of a significant relationship). And the null hypothesis is rejected level of significance.

CONCLUSION

In this section, the researcher gives conclusion to the study findings in relation to the study objectives.

Budgetary practice and financial performance in selected private universities in Mogadishu, Somalia.

This objective of the study was to establish that is not the affects of budgetary practice on financial statement in private Universities in Mogadishu, Somalia for which it was hypothesized that there is no affect of budgetary practice on the financial performance. Basing on PLCC results, this researcher rejected the null hypotheses. Based on the study findings, the researcher generated the following conclusions;

Properly conducted budgetary practice strategies were significantly leads to excellent financial performance of the private universities of Mogadishu, Somalia.

The finding of the study indicates that there is a very strong relationship between budgetary practice and financial performance; this means that there is significant relationship budgetary practice and financial performance.

RECOMMENDATION

After the research findings the following are the recommendations:

All employees should be given training in the good budgetary practice of the university and control budget system of all universities in Somalia and to carry out their daily work to maximize their good performance.

The owners of the universities should invest in the technological improvement to control budget system in the finance section and budget

committee and maintain information sharing to other global universities in terms of budget formulation and implementing.

The board of trustee should have appointed a permanent central budget authority committee that help the university budget formulation with the standards of university that exist in the world, the authority should also be give an office they operate and control the budget

Owners of the private universities should work hard to meet the budget practice as may be required continuously adjustment to fulfill those financial performance. in the private universities in Mogadishu

When formulating the budget there should be methodology used for establishing the economic assumption of the budget publicly available, and economic planning office that develops the economic assumption should be opened the finance director shouldn't be given in authority to increase spending once the budget has been approved by board of trustee of the university

The university should improve an internal audit system and the finding of the audit institution should be performed to board of university and it should be transparent and available to the public

The central budget authority committee should control for the achieving financial performance and should in charge of monitoring compliance with the monthly report base.

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QUESTIONNAIRES
KAMPALA INTERNATIONAL UNIVERSITY
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH
MASTER PROGRAM

Dear Sir/Madam,

Greetings!

I am a master of business administration in banking and finance candidate of Kampala international university. Part of the requirements for the award is a thesis. My study is entitled, **budgetary practices and financial performance in selected private universities in Somalia**. Within this content, may I request you to participate in this study by answering the questionnaire kindly doesn't leave any option unanswered? Any data you will provide shall be for academic purpose only and no information of such kind shall be disclosed to others.

May I retrieve the questionnaire with three days?

Thank you very much in advance

Yours faithfully,

Hassan Ahmed Mohamud

INFORMED CONSENT

I am giving my consent to be part of the research study of Hassan Ahmed Mohamud that will focus on budgeting practice and financial performance in selected private universities in Somalia

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the result will be given to me if I ask for it.

Initials: _____

Date: _____

FACE SHEET

Date received by respondent _____

Code # _____

PART 1: RESPONDENT PROFILE

Gender: _____

Age: _____

Highest educational qualifications: _____

Number of year experience in budgeting practice _____

PART 2 BUDGETARY PRACTICES

Direction 1: please write your rating on the space before each option which corresponds to your best choice in terms of budgeting practice in your university. Kindly use the scoring system below:

Respondent mode legend	rating	description
Strongly agree SA	(4)	you agree with no doubt at all
Agree A	(3)	you agree with some doubt
Disagree DS	(2)	you disagree with some doubt
Strongly disagree SD	(1)	you disagree with no doubt at all

1. Budget formulation

_____ 1.1 the university has the central budget authority committee appointed by board of trustee of the university

_____ 1.2 the central budget committee has an office they operate and control the budget

_____ 1.3 there is an economic planning office that develops the economic assumption used in the budget

_____ 1.4 there is a methodology used for establishing the economic assumption of the budget publicly available

_____ 1.5 fiscal sensitivity analyses of the economic assumption are included in the budget documentation

_____ 1.6 fiscal estimates (spending and revenue) are revised in the course of fiscal year

_____ 1.7 in developing the budget, there are fiscal rules that place limits on fiscal policy in your university

_____ 1.8 the central budget authority committee imposes limits (ceiling) for each department's initial spending

_____ 1.9 the central budget Authority split the budget into capital and operation budget

2. Budget approval

_____ 2.1 there is specialized budget research office/unit attached to the board of trustee to conduct analysis of the budget

_____ 2.2 in the presentation of the central budget authority committee documents to the board of trustee, the macroeconomic assumptions are included

_____ 2.3 the boards of trustee formally debate/discuss overall budget policy

_____ 2.4 the budget is presented to board of trustee before the beginning of the fiscal year

_____ 2.5 the board of trustee has formal power to amend the budget

_____ 2.6 the formal powers of the board of trustee to modify the budget, is a vote on the budget considered a vote of confidence in the university

_____ 2.7 if the budget is not approved by board of trustee before the start of the fiscal year the expenditure without board approval are allowed

3. Budget execution

_____ 3.1 the finance director has authority to increase spending once the budget has been approved by board of trustee

_____ 3.2 it is possible to increase mandatory spending without restriction

_____ 3.3 if any increase in mandatory spending, it requires central budget authority approval after the fact

_____ 3.4 the finance director has authority to cut/cancel/rescind spending once the budget has been approved by board of trustee

_____ 3.5 all departments are allowed to reallocate fund between line items with in their responsibility

_____ 3.6 the departments carry-over unused funds or appropriations from one year to another

_____ 3.7 it is possible for departments of the university to borrow against future appropriation without approval

_____ 3.8 the finance director or central budget authority committee determines the technical standards for the budget and related documents and the technical accounting standard for financial statements

PART 3 FINANCIAL PERFORMANCES

1. Accounting and audit

_____ 1.1 any line departments have internal audit units

_____ 1.2 the finding of the audit institutions are available to the public

_____ 1.3 the accounts are audited on every month by audit institution publicly available

_____ 1.4 expenditures are linked to performance goals or objectives

_____ 1.5 according to the your policy / legal provisions, the audit institutions principally report to the finance director or central budget authority committee

_____ 1.6 the central budget authority committee is responsible for achieving financial performance targets

_____ 1.7f finance director of the university is required to report on financial performance against budget he/she will report to the central budget authority committee

_____ 1.8 the central budget authority is in charge of monitoring compliance with the fiscal rule

_____ 1.9 information on actual revenues and expenditures are published annually during the fiscal year.

**APPENDICES:
APPENDIX I A
TRANSMITTAL LETTER**

**OFFICE OF THE DEPUTY VICE CHANCELLOR (DVC)
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH (SPGSR)**

Dear Sir/Madam,

**RE: INTRODUCTION LETTER FOR Hassan Ahmed Mohamud REG.
NO. MBA/42005/91/DF, TO CONDUCT RESEARCH IN YOUR
COMPANY**

The above mentioned candidate is a confide student of Kampala International University pursuing a Master of Business Administration in Finance and Banking He is currently conducting a field research for his Thesis entitled, **Budgetarypractice and financial performance in private universities In Mogadishu, Somalia.**

Your university has been identified as a valuable source of information pertaining to his research project. The purpose of this letter then is to request you to avail her with the pertinent information he may need.

Any data shared with his will be used for academic purposes only and shall be kept with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

Novembrieta R. Sumil, Ph.D.
Deputy Vice Chancellor, SPGSR

APPENDIX 1B

TRANSMITTAL LETTER FOR THE RESPONDENTS

Dear Sir/ Madam,

Greetings!

I am a Master of Business Administration in Finance and Banking candidate of Kampala International University. Part of the requirements for the award is a Thesis. My study is entitled, **Budgetarypractice and financial performance in private universities In Mogadishu, Somalia**. Within this context, may I request you to participate in this study by answering the questionnaire kindly does not leave any option unanswered. Any data you will provide shall be for academic purposes only and no information of such kind shall be disclosed to others.

May I retrieve the questionnaire within Three days?

Thank you very much in advance.

Yours faithfully,

Hassan Ahmed Mohamud

APPENDIX II
CLEARANCE FROM ETHICS COMMITTEE

Date _____

Candidate's Data

Name _____

Reg. # _____

Course _____

Title of Study _____

Ethical Review Checklist

The study reviewed considered the following:

- ___ Physical Safety of Human Subjects
- ___ Psychological Safety
- ___ Emotional Security
- ___ Privacy
- ___ Written Request for Author of Standardized Instrument
- ___ Coding of Questionnaires/Anonymity/Confidentiality
- ___ Permission to Conduct the Study
- ___ Informed Consent
- ___ Citations/Authors Recognized

Results of Ethical Review

- ___ Approved
- ___ Conditional (to provide the Ethics Committee with corrections)
- ___ Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson _____

Members' _____

APPENDIX III
CALCULATION OF CONTENT VALIDTY INDEX

$$\text{CVI} = \frac{\text{Number of all relevant questions}}{\text{The total number of the items}}$$

Section: A1

$$\text{CVI} = \frac{8}{9} = 0.89$$

Section: A2

$$\text{CVI} = \frac{5}{7} = 0.71$$

Section: A3

$$\text{CVI} = \frac{7}{8} = 0.88$$

Section: B1

$$\text{CVI} = \frac{8}{9} = 0.89$$

Therefore, Average of content validity index is

$$\text{CVI} = \frac{3.37}{4} = 0.84$$

APPENDIX IV
INFORMED CONSENT

I am giving my consent to be part of the research study of Hassan Ahmed Mohamud will focus on emotional intelligence and leadership styles.

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

Initials: _____

Date _____

APPENDIX V
CURRICULUM VITAE
(CV)

Personal Details

Name : Hassan Ahmed Mohomud

Address : SIMAD UNIVERSITY
HamarJadid, Mogadishu Somalia

E-mail : hassanyarre1@hotmail.com

Telephone : +25262385444

Mobile Phone: + 252699961956

Nationality : Somali

Sex : Male

Marital status : Married

Brief Statement of Capacity

I have the following skills:

- 1 Preparing, analyzing, and reviewing budgets and expenditures
- 2 Recording all financial transactions

- 3 Preparing checks and payroll documents
- 4 Developing the annual operating budget and consult with departmental heads on the fiscal aspects of program planning
- 5 Working computer programs such as ms-word, keeping and controlling organizational inventories with the specified procedures,
- 6 Collaborating and communicating with my colleagues, pursuing over all organizational goals and objectives as directed by the manager concerned

Educational Background

2007: (**Bachelor of Science in accounting**) at the Somali Institute of Administration

Development (SIMAD).

The Course Covered Included:

- 1 International accounting
- 2 Cooperate accounting
- 3 Cost account 2
- 4 Auditing 2
- 5 Principles of Management
- 6 Principles of marketing 2
- 7 Applied Business statistics 2
- 8 English skills
- 9 Business Communication
- 10 Management and Cost accounting
- 11 Human resource management

January 2002- December 2003: **A post secondary diploma in accountancy**; Somali Institute of Management and Administration Development (SIMAD) in Mogadishu, Somalia.

The Course Covered Included:

- 12 Practical business math Procedures
- 13 Introduction to Business
- 14 Economics (both micro and macro)
- 15 Principles of Accounting
- 16 Principles of Management
- 17 Principles of marketing
- 18 Applied Business statistics
- 19 English skills
- 20 Business Communication
- 21 Human resource management

1997 – 1999: **Certificate of Secondary Education**; UmulQura Secondary School in Mogadishu, Somalia.

Workshop/ seminars

- 1 Participated work shop for **Financial Planning Course** held in SIMAD paid by **UNDP Capacity Building for Somali financial Planners** in the following subjects:

☐ *Fundamental financial accounting concept,*

☐ *Invitations for economics*

☐ *Business English skills*

☐ *Public finance*

☐ *Cost accounting*

- 2 Participated Training program of **counseling** and **Guidance**, and **Research Methodology** conducted by SIMAD with collaboration of UNDP, the topics covered are the following:

o Counseling and guidance

☐ *Introduction to psychology*

☐ *Counseling and psychotherapy*

☐ *Introduction to scientific thinking and methodology*

o Research Methodology

☐ *Research methodology*

☐ *Practical research*

- 3 *Participated the initiative and creative deliberations*

☐ *As member of the organizing committee in the second national trade fair and exhibition organized and held by SIMAD*

4 *Participated the typing speed and English course at SAACID training centre*

5 *Training course*

☐ *English course*

☐ *Typing course*

5 *Participated course for computer studies*

6 *Course studies include*

7 *Ms Dos 6.28*

8 *Ms window 98*

9 *Ms word processing 2000*

10 *Ms Power point 2000*

11 *Ms access 2000*

February 2008: Peace Promotion and Conflict resolution held by Somali Community for

Peace Development and Democracy (SCPDD)

Work experience

Current position

2008: **Administration and finance Director**

2007-2008: General secretary

2006-2007: Publishing unit officers

2005 – 2006: Chief cashier.

2004 – 2005: Cashier

2003-2004 a part time teacher at SAMALE primary and secondary school

Interests

- 1 Reading management books
- 2 Working with people
- 3

Languages

- 1 English
- 2 Somali

References

- 1 Prof: Hassan ShiekhMohamud, Member Board of trustee of SIMAD University , + 252-1-500824, +252-5-962700, E mail hassansheikhm@yahoo.com
- 2 Prof: Yousuf Salad Warsame SIMAD HR Director, 2525162370007
- 3 A/lahi Omar Salah SIMAD dean, faculty of education +252162991999 ccsalah2@yahoo.com, ccsalah2@hotmail.com

AM UNIVERSITY OF SOMALIA



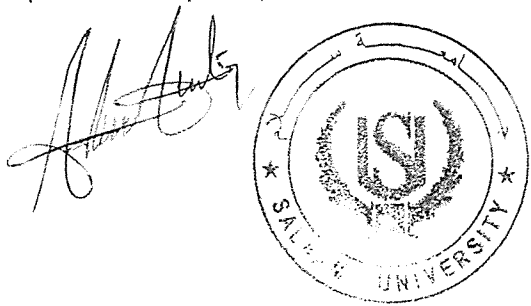
JAAMACADDA SALAAM EE SOOMALIYA

Memo

A letter of confirmation

Salaam University confirms that Mr Hasan Ahmed Mohamud has successfully finished his questioner about Budgeting Practice and Financial Performance in selected private universities in Somalia. Salaam University has helped him fill out the questioner as the selected source for his questioner. The university has indeed helped Mr Hasan get the exact and the actual facts for his research pertaining his questioner about Budgeting Practice and Financial Performance in selected private universities in Somalia. Mr Hasan Ahmed has promised to use this questioner as privacy for academic purposes.

Salaam University Vice—Chancellor



Office of the Administrative Director

Ref: PUADM/REC02/0911
2011

1st, September

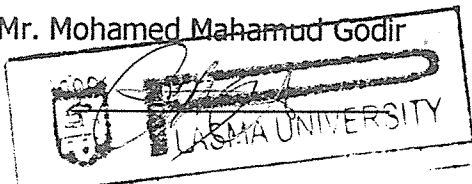
Re: Recommendation Letter

Plasma University is approving that **MR. HASSAN AHMED MOHAMUD MBA/43005/91/DF**, conducted research in our organization and met the help of Plasma University in terms of responding the student's questionnaire of the research title **BUDGETING PRACTICE AND FINANCIAL PERFORMANCE IN SELECTED PRIVATE UNIVERSITY IN SOMALIA.**

This approval was prepared after being seeing for his legitimate request dated to August 6, 2011.

Administrative Director

Mr. Mohamed Mahamud Godir



HORN AFRICA UNIVERSITY

Mogadishu - Somalia



جامعة قرن إفريقيا

مقديشو - الصومال

Ref.:

Date: 15th August, 2011

To: Whom it may Concern

Horn Africa University certifies that Mr. **Hassan Ahmed Mohamud** MBA/43005/91/DF made research about the title Budgeting practice and financial performance in selected private universities in Somalia.

This letter was paid for the application of Mr.

Hassan Ahmed Mohamoud and intended to be used for academic purpose

Mohamed Osman Abasheikh

Horn Africa University

Vice director

+25261875696

