

THE CHALLENGES OF RECURRENT EXPENDITURE BUDGETS IN DISTRICT ADMINISTRATION DEPARTMENTS OF LOCAL GOVERNMENT MINISTRIES IN LESOTHO

Matseliso Motloli-Litjobo

MANCOSA Graduate School of Business, Durban
matselisomotloli@yahoo.com

Mothepane Makhele

MANCOSA Graduate School of Business, Durban
mothepanem362@gmail.com

ABSTRACT

The current financial crisis at government departments in Lesotho, District Administration departments have reached a condition where external suppliers are reluctant to provide services to state-owned departments, for fear that they will not obtain payment owing to insufficient funds. The study was carried out to examine the challenges of recurrent expenditure budgets in use at District Administration departments. The report assesses the impact that budget development approaches, processes and budgetary control systems have on the implementation of recurrent expenditure budgets. A descriptive, quantitative study was conducted, where survey questionnaires were administered to 121 respondents, from the 241 operational staff members employed at District Administration departments. The findings reveal that District Administration departments are faced with the challenges of low budgetary allocation, resulting from budget cuts, delays in the release of funds, failure to spend funds in accordance with procurement plans, a lack of commitment during budget preparation, as well as a lack of proper monitoring and evaluation of

budget performance at District Administration departments. The study recommended that for District Administration departments to address the present challenges during budget implementation, autonomy of the departments and decentralization of budgeting process are necessary. It is crucial to stipulate who is responsible for devising the budget within the department and the approach adopted should be clearly identified. Budgetary laws should be implemented at District Administration departments for accountability, control, effective supervision of expenditure and budgetary performance evaluation.

Keywords: budget, expenditure, financial crises, government departments, performance evaluation

1. INTRODUCTION

Notwithstanding the fact that a budget is a control mechanism which channels funds and other resources to be used for the achievement of government programmes and activities (Swadaya, Herwanti & Supaman, 2017), there are some challenges associated with budget execution invigorated by ineffective budgetary control systems and incomprehensible budget development approaches and processes. This research is based on the challenges of recurrent expenditure budget during execution in District Administration departments in the Ministry of Local Government and Chieftainship, Lesotho. The study will benefit District Administration (DA) management, Ministry of Local Government and Chieftainship, and DA staff and chiefs, as it will provide relevant budgetary information to enable them to produce detailed action plans and make rational decisions. The study will also benefit academics who conduct studies on budget related issues.

While the government is focusing on limiting expenditure, little attention has been paid to the potential impact of spending cuts on department's budgetary performance. Since the 2014/2015 fiscal year, the recurrent expenditure budget proposals for DAs did not get a 100% approval. As a result, budget implementation became very challenging due to increasing

day-to-day work demands and state finances, which have been experiencing growing budget shortfalls, forcing government to cut recurrent expenditure budgets (Kim & Wang, 2015:419).

The root cause of budget cuts is that Lesotho's government revenue and the country's reserves are highly dependent on the South African Customs Union (SACU) revenue pool, which dropped from 25% of Gross Domestic Product (GDP) in 2014/15 to 13.6% of GDP in 2016/2017, and is expected to decline in the medium term (World Bank, 2017:3). With public spending at 50% of GDP in 2016/17 and a wage bill of 18% of GDP, government's capability to improve growth is limited. As a result, the government is taking some measures to minimize public spending as part of the budget bill for the 2017/2018 fiscal year (World Bank, 2017:3).

Over the years, DA departments have been operating through scarce financial resources owing to budget restraints; as a result, most activities essential for the efficient running of the departments were hampered (International Monetary Fund/IMF, 2018:1-9). On account of budgetary limitations, some financial obligations for DA departments were not accomplished, compromising some of the fundamental projects (IMF, 2018:1-9).

An assessment of the challenges of recurrent expenditure budgets in use at District Administration (DA) departments was made. The study was conducted to address the following objectives:

- To determine if budget development approaches have an impact on budget implementation;
- To examine the influence of budgetary control systems on budget execution;
- To establish the challenges of budget implementation at DA departments;
- To determine the extent to which the challenges affect budget implementation, and
- To make recommendations to department's management which address budgetary restraints.

2. LITERATURE REVIEW

Budget is the reflection of political decisions on the amount of money to be spent on recommended programmes within a fiscal year, and the proposed means of financing that expenditure (Mohr & Fourie, 2013:354). Since supervisors have information on previous budgetary performance outcomes, they can scrutinize and adjust budget figures (Aranda, Arellano & Davila, 2014:9). Most government funds allocated for expenditure are transferred to recurrent expenditure for the running of government's daily operations (Liphafa, 2012:52).

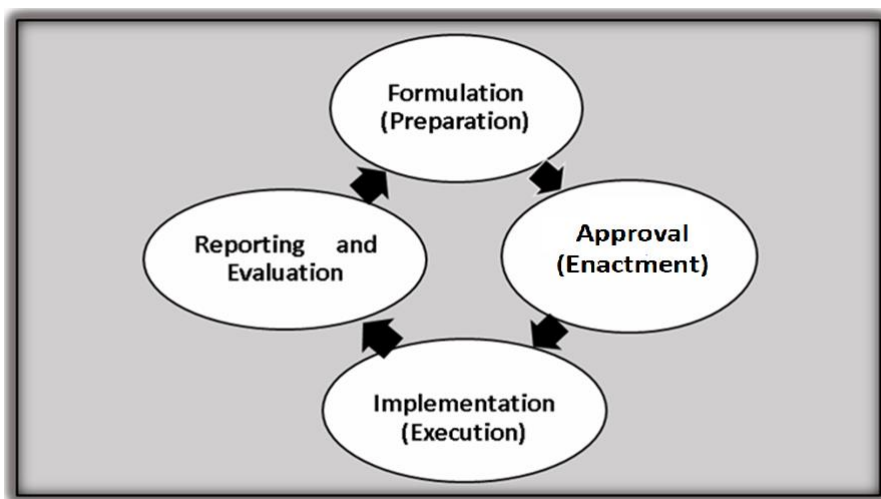


Figure 1: The Budget Cycle

Government Departments each prepare their budget and submit it to Treasury for approval (Oyewo & Adyeye, 2018:49). The warrant for expenditure is then released for the budget to be executed; eventually, the spent funds are accounted for in the financial statements (Sarkar, Hossain & Rahman, 2014).

2.1 Approaches to budgeting

An authoritarian (top-down) budgeting approach is where senior management formulates the budget to accomplish the established performance targets (Marshall, McManus & Viele, 2014:552). However, centralized budgeting deters operational efficiency since the budget ceilings are quantified by top management, while lower level managers, also the end users of the budget, are not part of the budget formulation team (Shcherbina & Tamulevičienė, 2016:167).

A participative (bottom-up) budgeting approach is where subordinates who are directly involved in various operations participate during budget preparation (Shcherbina & Tamulevičienė, 2016:167). However, disseminating budget information between subordinates and supervisors can be time consuming and interruptive (Owusu et al., 2014).

2.2 Budgeting models

Unlike the **incremental budgeting** model where the budget is prepared on the basis of the budget history, the **zero-based model** originates from zero (Chartered Institute of Public Finance and Accountancy or CIPFA, 2016). Jena (2016) is of the view that the zero-based model improves the management of public funds, since it encourages expenditure prioritisation and efficiency, even though it is costly and demands more time.

2.3 Functional benefits of preparing and using budgets as a control technique

Notwithstanding the fact that a budget ensures accurate use of department's resources (Shcherbina & Tamulevičienė, 2016), it is perceived to yield inadequate variance reports (Panteleeva, 2016:195). Ferry, Zakaria and Eckersley (2014:566) further point out that the budget figures are compared to GDP as a way of measuring economic performance. However, the analysis of government budgets can be daunting to those without detailed accounting knowledge and experience (Wines & Scarborough, 2015:136).

As Mitchell and Thurmaier (2016:51) perceive, the budget enables departments to realize their goals and objectives. However, budgets are mostly inconsistent (Panteleeva, 2016:195). Swadaya, Herwanti and Supaman (2017:1954) indicate that it is through budget that communication is improved within a department. Nevertheless, where budget information appears to be ambiguous, irregularities can arise (Wines & Scarborough, 2015:123).

Budgeting enables managers to be conscious of costs per activity (Shcherbina & Tamulevičienė, 2016:165). Also, the budgeting process allows management to assess beyond a budget's performance outcomes and avoid irregularities (Yalokwu, 2002:458). Panteleeva (2016:195), in contrast, views budgets as a barrier to change since they do not signal the need for change in a rival situation.

2.4 Challenges of budget implementation

As noted by Jena (2016:111), redundant spending occurs because the accountability arrangements regarding financial reporting have been weakened. Apart from that, budgets are reduced in order to cater for economic recession (Gordon & Fischer, 2014:558). Where employees believe that there is no fairness in allocation of resources, they reduce interest on budget participation (Owusu et al., 2014:87). Political culture also creates policies that put a curb on spending (Menifield, Stewart, Clark & Stodden, 2017:58).

2.5 Features of effective budgetary control systems

Jena (2016:109) reveals that anticipated budget estimates should tally with operational activities. On the one hand, the Finance Ministry can reduce proposed budget aggregates for line ministries in order to overcome short to medium-term fiscal challenges (Hawkesworth & Klepsvik, 2013:107). On the other hand, top-down spending cuts can hinder some fundamental programmes (Hawkesworth & Klepsvik, 2013:107). While the functions should be assessed based on cost effectiveness, cost reduction can sometimes compromise quality (Hawkesworth & Klepsvik, 2013:107).

Performance based budgeting promotes the allocation of funds in accordance with goals and performance results of each programme (Shcherbina & Tamulevičienė, 2016:166). While the introduction of goals may seem like a straightforward task, it takes proper assessments to ensure that goals are realistic and attainable (Shcherbina & Tamulevičienė, 2016:166). Additionally, there should be an encouraging atmosphere to budget participants, for job satisfaction and commitment (Leach-Lopez, Stammerjohan, Lee & Stammerjohan, 2015:620). Employees who believe budget participation is intended to minimize costs instead of creating value to their departments, show slight interest during budget participation regardless of their level of satisfaction (Owusu et al., 2014:87).

Additionally, Xu and Wu (2016:439) suggest that budgetary law should be implemented to improve accountability and financial supervision. Wines and Scarborough (2015:122) maintain that the supervision of fiscal expenditures should be strengthened. Moreover, governments should release clear and unprejudiced budgets to allow detailed accountability and monitoring functions (Wines & Scarborough, 2015). Delays on budget execution should be avoided as they hinder government progress (Altenburger, 2017:4). Besides, budget goals should be clearly communicated within various sections (Leach-Lopez et al., 2015:621). Departments should develop their own budgets without any limitations by government (Onyango-Delewa, 2016).

3. RESEARCH METHODOLOGY

A quantitative study was conducted where structured, closed-ended survey questionnaires were administered to 121 respondents. This sample was drawn from the overall population of 241 operational staff members at DA departments to gather primary data. The sample was selected using probability sampling, out of which 8 clusters were established as shown in Table 1.

Table 1: Response rate per office/section in a survey-based study

Office/Section	Expected respondents	Actual respondents	Response rate(%)	Non-Response Bias (%)
District Administrator	5	4	80.00	20.00
Administrator Manager	5	5	100.00	0.00
Administration	51	32	62.75	37.25
Economic Planning	10	7	70.00	30.00
Information	5	5	100.00	0.00
Procurement	10	6	60.00	40.00
Finance	14	12	85.71	14.29
Executive	21	15	71.43	28.57
Total	121	86		

The structured closed-ended survey questionnaires were distributed to selected respondents through hand delivery, by email as well as telephonically, within a period of three to four weeks, after which the questionnaires were collected for data analysis. Descriptive statistics were employed to analyse data using frequency tables and summary measures such as mean, median, and standard deviation, with Microsoft excel programming, while inferential statistics were used to make projections about the broader population based on the sample, by means of graphs and tables in order to make recommendations relevant to the entire population (Wegner, 2012:7).

The structured survey questionnaire was tested for adequacy and accuracy through consultation with friends and colleagues who have prior research knowledge. They were asked to comment on significance, precision as well as consistency of research questions in relation to research objectives, and all comments were addressed. A pilot survey was also conducted where errors and omissions discovered were rectified accordingly and necessary amendments made to the original questionnaire. The response ratings based on a 5-point Likert rating scale, from each section throughout the 10 DA departments, were captured and analysed.

Some participants nominated for the sample were not available during the survey, while others were not willing to participate in a survey-based study; as a result, the estimates, predictions and decisions might not be generalizable beyond the particular population from which the sample was drawn. There were also chances of response bias where research questionnaires were administered by either telephonic surveys or e-surveys (email), as there was no control over who actually answered the questionnaire administered through e-survey or telephone. The results may thus not precisely reflect the opinions of all members in the population.

4. RESULTS AND DISCUSSION

Table 2: Impact of budget development approaches and processes on recurrent expenditure budgets

No	Statement	Strongly Agree (%)	Agree (%)	Don't Know (%)	Disagree (%)	Strongly Disagree (%)	Standard Deviation (S)
B1	DA departments are part of final decisions made on budget ceilings.	5.8	9.3	7.0	33.7	44.2	15.25
B2	Budget proposal is prepared by DA management and passed onto operational staff members for implementation.	18.6	52.3	5.8	18.6	4.7	16.57
B3	Employees who are directly involved in various operations contribute input during budget preparation.	14.0	53.5	7.0	20.9	4.6	7.01
B4	DA budget proposal is prepared on the basis of approved budget for the previous financial year.	27.9	50.0	9.3	9.3	3.5	16.45
B5	The budget is started from a zero base, with a fresh decision on every function (activity) budgeted for.	5.8	19.8	31.4	31.4	11.6	9.91
B6	More time, resources and efforts of many participants are devoted to the budgeting process every year.	9.3	43.0	15.1	22.1	10.5	11.88

Table 3: Budgetary control systems and the influence they have on recurrent expenditure budget execution

No	Statement	Strongly Agree (%)	Agree (%)	Don't Know (%)	Disagree (%)	Strongly Disagree (%)	Standard Deviation (S)
C1	Budget is used to forecast the future and is therefore good for planning.	50.0	38.3	2.3	4.7	4.7	19.33
C2	Budget helps departments achieve goals and objectives.	33.7	58.1	1.2	3.5	3.5	21.68
C3	Budget is used to monitor and control resources of the department.	31.3	60.5	2.3	1.2	4.7	22.22
C4	Budget measures performance and motivates employees to do better.	19.77	41.85	10.47	19.77	8.14	11.45
C5	Budget is used to communicate to other levels of management.	23.26	54.65	12.79	4.65	4.65	17.91
C6	Budget helps management learn from past experiences and avoid failures.	33.72	44.19	6.98	10.46	4.65	15.32

Table 4: Challenges of recurrent expenditure budgets during implementation

No	Statement	Strongly Agree (%)	Agree (%)	Don't Know (%)	Disagree (%)	Strongly Disagree (%)	Standard Deviation, (S)
D1	The budget preparation process at DA takes enough time.	3.49	43.02	12.79	26.75	13.95	13.16
D2	All operational staff participate during budget implementation within their sections.	13.95	44.19	5.81	24.42	11.63	12.99
D3	The quarterly warrants for DAs are released on time.	0	2.33	10.46	37.21	50.00	19.23
D4	Released funds meet all needs specified on the Budget Proposal.	1.16	1.16	6.98	37.21	53.49	20.61

D5	The funds are always spent on activities budgeted for (according to procurement plan).	3.49	25.58	12.79	40.70	17.44	12.09
D6	Approved budget is usually clear, fair and objective.	1.16	13.96	9.30	53.49	22.09	17.37
D7	There is proper monitoring and evaluation of budget performance.	4.65	20.93	22.09	31.40	20.93	8.29
D8	There is no need to prepare budgets at DA departments as the proposed budgets are always cut, disregarding the importance of DAs operational activities and functions budgeted for.	38.37	20.93	2.33	22.09	16.28	11.12

Findings from the data reveal that DA departments are not considered during the determination of budget ceilings. As a result, other significant programmes of the departments are compromised due to budget ceilings being determined without approval of chief accounting officers at the DAs (Hawkesworth & Klepsvik, 2013:107). Hawkesworth and Klepsvik (2013:107) further indicate that the Ministry of Finance can shrink the proposed budgets without the consent of Line-Ministries in order to overcome these fiscal challenges. There is also a clear indication that the budget is prepared by DA management and passed to operational staff for implementation, leading to an authoritarian budget development approach adopted at DA departments.

The budget preparation process is therefore centralised, as there is little or no involvement of lower level managers (Shcherbina & Tamulevičienė, 2016:167). However, the centralisation of budget can affect budget implementation negatively, as employees can show less or no participation in budget goals established without their input.

The findings further reveal that employees who are directly involved in various operations make input during budget preparation, denoting that a participative approach is also adopted at some point within DA departments. However, by examining results for B2 and B3 (Table 2), both top-down and bottom-up approaches are implemented at DA departments,

depending on the suitability of each approach to management during a particular budget period.

Apart from that, a greater percentage of respondents confirmed that the DA budget proposal is prepared based on the approved budget for the previous financial year. This signifies that the incremental budgeting model is invigorated, where departments have limited or no control over changes in funding. Even though the majority of participants were of the view that the zero-based budgeting approach is not implemented at DA departments since DA budgets do not originate from zero, 31.4% of respondents were unsure and 25.6% of participants had contradictory opinions. However, these variances in interpretations of respondents denote a lack of clarity on budget related issues among employees at DA departments.

In consideration of budgetary limitations, the zero-based approach may not be effective at DA departments as it is thought to be the most costly approach in departments operating within predetermined budget ceilings (CIPFA, 2016). Results also reveal that more time, effort and resources of many participants are devoted to the budgeting process every year, even though quite a larger number of participants viewed the statement negatively, implying that there is a low to moderate commitment towards the budget development process which can eventually yield unproductive budget results (Owusu et al., 2014). The study further discloses that the budget permits management to plan ahead and predict the future. Notwithstanding some constraints on budget, most operational staff observe the budget as a powerful device without which strategic planning would not be possible (Shcherbina & Tamulevičienė, 2016).

The research further verified that having a budget helps departments achieve goals and objectives. As discovered, the budget has not lost its prominence to most officers at DA departments despite several factors which impact the budget negatively (Mitchell & Thurmaier, 2016). A larger number of operational staff members at DA departments are convinced that it is through effective budgetary control systems that financial resources of the department can be accurately monitored and controlled (Wines & Scarborough, 2015).

Most participants attested that budgets measure performance and motivate employees to do better, even though a reasonable number of participants thought the opposite, indicating that the level of motivation among employees is stimulated by sound budgetary control systems. Where the budget appears to be prejudiced or sub-standard, employees become demotivated to perform their daily duties effectively (Wines & Scarborough, 2015). As confirmed by the results, it is through effective budgets that departments can identify and rectify errors to prevent their reoccurrence (Yalokwu, 2002:458).

Most participants held a contrary view to the statement that budget preparation at DA takes enough time. However, some had diverse observations, demonstrating that even though time is allocated for budget formulation processes at DA departments, it is not sufficient to bring forth superior budget results.

According to the findings, even though operational staff members participate during budget implementation, their level of participation is not satisfactory. A greater percentage of respondents also showed that funds are often not released on time, which in turn influences budget implementation negatively. Delays in the release of funds reduce the time within which funds can be spent before the financial year closure, also referred to as “March Final”.

The study revealed that released funds are limited, for they do not meet all scheduled needs on the budget proposal. Due to the rigid and restrictive nature of budgets at DA departments, some of the crucial programmes and activities are abridged in order to cater for scarce financial resources (IMF, 2018). A greater number of respondents noted that funds are not always spent appropriately, that is, as per budget, while a few viewed the statement positively. This is an indication that DA departments do not abide by regulations and guidelines during budget implementation, and they do not disburse funds in compliance with the procurement plan (Wines & Scarborough, 2015).

As indicated by most participants, the approved budget is not typically clear, fair and objective. Budget cuts by the Ministry of Finance without consulting the concerned departments, can make budgets lack clarity,

fairness and objectivity, given the criteria engaged during recurrent expenditure budget reductions, as well as how revised budget amounts were computed (Owusu et al., 2014). Apart from that, more than half of the DA operational staff believe that there is no proper monitoring and evaluation of budget performance at DA departments, implying that the supervision of fiscal expenditure is not strengthened at DA departments.

However, a reasonable number also viewed the statement negatively; others were unsure, demonstrating a lack of knowledge or ignorance on matters related to budget development processes among operational staff at DAs. A greater percentage of respondents were of the view that there is no need to prepare budgets at DA departments, given the condition of top-down spending cuts, while others were not sure, denoting that the budget lost its original significance for half of the DA's operational staff members, considering budgetary restrictions. Nevertheless, a reasonable number of participants expressed diverging sentiments on the statement, signifying that there is still a need to prepare budget proposals at DA departments, given the fundamental role played by the budget.

5. CONCLUSIONS AND RECOMMENDATIONS

The findings from both primary and secondary data have proven that factors such as budget development processes, approaches to budgeting and budgetary control systems, have significant impact on budget implementation at DA departments. Moreover, the level of commitment, attitude and motivation towards budget participation at DA departments, which is shaped by effectiveness and efficiency of budgetary control systems, has an impact on budget implementation. The results also reveal that the budget plays an essential role in DA departments, in terms of planning, coordination, control, goal orientation, performance evaluation, motivation, communication, cost awareness and learning from past experiences.

The study concluded that the challenges during budget implementation originate from various factors such as low budgetary allocation, which results in the suspension of other central programmes and activities of the departments; delays in the release of funds which hinder other fundamental activities of the departments; low commitment and participation during budget development process and implementation; unplanned expenditure caused by inability to comply with procurement plans, and a lack of clarity, fairness and objectivity on budget information. Finally, inadequate monitoring and evaluation of budget performance results in the repetition of irregularities.

It was discovered that these challenges impact recurrent expenditure budgets negatively, to an extent that employees are discouraged to participate during budget formulation and execution, as they believe that commitment is a waste of time and effort, and that it is through effective and comprehensive budgets that functional activities can be executed. The study also revealed that features which are alleged to make budgetary control systems effective are, among others, proper computations of budget estimates and planned top-down spending cuts aimed at overcoming short-to medium-term fiscal challenges.

Other features of effective budgetary control systems are spending reviews designed to achieve the maximum possible outputs and outcomes, with limited financial resources; performance-based budgeting, where funds are allocated based on goals and performance; the creation of a conducive environment for budget planning participants, and the implementation of budgetary law for accountability and control.

It is further concluded that for the budgeting process to be operational, there should be effective supervision of expenditure through procurement plans and budgetary performance evaluations; budgets should be clear, fair and objective, and released on time, and there should be seamless communication channels and decentralisation of budgeting processes at DA departments.

It is therefore recommended that, in order to address the challenge of low budgetary allocation at DA departments from the Ministry of Local

Government, the Ministry of Finance should be informed about the requirement for decentralisation of the budgeting process at DA departments; that is, the DA's approved budgets should not be released via the Ministry of Local Government to avoid extreme budget cuts by two ministries, both Finance and Local Government.

It is also recommended that the Ministry of Finance be urged to release funds on time, as delayed budgets deter budget implementation processes. Continuous communication channels should be developed at DA departments to address challenges which can arise due to lack of information on budgetary matters. Additionally, the budget preparation process should be allotted reasonable time for efficiency and effectiveness. Departments are encouraged to introduce performance-based budgeting and spending reviews in order to cater for the challenge of scarce financial resources.

The study further recommends that for DA departments to curb the challenges of unplanned expenditure and failure to monitor and evaluate budget performance, the budgetary law should be implemented for accountability, control, as well as effective supervision of expenditure and budgetary performance evaluation. DA departments are encouraged to establish detailed training plans for operational staff members, on budgeting processes and approaches. It is also recommended that departments establish clear budget goals, follow budgeting procedures, and identify the budgeting approaches engaged at DA departments.

A similar study can be undertaken at the Ministry of Finance to determine the challenges facing the whole country (Lesotho), the grounds for such challenges, the implications they have on the programmes and operational efficiency of government ministries, departments, and parastatals, as well as the recommended policies and strategies to address those challenges.

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