

**ASSESSMENT OF GOVERNMENT EXPENDITURE MANAGEMENT (A  
CASE OF FINANCE AND ECONOMICS DEVELOPMENT OFFICE IN  
WOLKITE TOWN)**



*WE STRIVE FOR WISDOM*

**WOLKITE UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**A Research Paper Submitted to the Department of Accounting and Finance  
for Partial Fulfillment of Bachelor of Arts (BA) Degree in Accounting and  
Finance.**

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**MAY, 2023**

**WOLKITE, ETHIOPIA**

## DECLARATION

The research entitled “Assessment OF government expenditure management” a case of finance and economic development office in Wolkite town by individual is approved for bachelor of degree in accounting and finance.

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WOLKITE, ETHIOPIA, 2023

## **ABSTRACT**

*This research was conducted at the town of Wolkite to assessment of government expenditure management in the finance and economic development office. The main objective of this research was to asses' government expenditure management in the case of finance and economic development office management staff of Wolkite town. This study used primary data. The primary data was collected by questionnaire of Wolkite town. The collected data would be edited, coded and summarized. The target respondents that we would use are manager, auditors and accountants of the organization. The questionnaire was collected with direct distribution to employees.*

**Keywords:** Government Expenditure Management, finance and Economics development office Wolkite town SNNP, Ethiopia.

## **ACKNOWLEDGMENT**

First and for most, I would like to express my sincere thanks Almighty God, the merciful who helped me throughout my academic life. Next my deepest gratitude goes to my advisor Mr. Andragachew H. For his help full and critical advice and appreciation in the preparation of this paper. Finally, I would not forget the valuable moral and financial support made by my family and to my friends for their appreciation.

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## **ACRONYM**

FGE-----Federal government of Ethiopia

GASB----General accounting standard board

GDP-----gross domestic product

MEFFW----micro economic and fiscal framework

MOFED----ministry of finance and economic development

PEP-----public expenditure program

SLG-----senior level of government

## CHAPTER ONE

### INTRODUCTION

#### 1.1 BACKGROUND OF THE STUDY

Expenditure is the actual expending that recognizes the fund and liabilities that are measurable and incurred. This usually means that expenditure is recognized if the related liability is expected to be liquidated through the use of expendable available financial resources. Expenditure results from operating activities capital assets and servicing debt. (Misraq, 2010)

*Government expenditure* is a term used to describe money that a government spends. Expenditure occurs on every level of government, from local city councils to federal organizations. There are several different types of government expenditure, including the purchase and provision of goods and services, investments, and money transfers (Jessica EllisLast, 2023)

Government financial expenditure and government expenditure can be financed by fees or government borrowing. The primary focus of governmental accounting was to expend public funds collected in various forms like taxes or fees is spend according to meet the need and demand of public ( Jenifer Piess, 2006 pages: 25)

The public expenditure can be used as a lever to raise aggregate demand and thereby to get the economy out of recession, on the other hand through variation in government expenditure, aggregate demand can be managed to check inflation in the economy. It can also be used to improve income distribution to direct the allocation of resources in desired lines. In developing countries also; the role of government body expenditure is high significance (M.F. Oladele, 2017)

A government body usually representing elected officials interprets the public desires and legally adapts a budget or a plan of how much is to be spent. For normal operating purposes the budget period is defined as fiscal year. It was the legitimate power governing body to authorize the spending of money for a specific purpose during specific time based on the governmental accounting practice. At an international level public expenditure is faced with numerous

problems of wastage of resources mainly due to weak planning and account system, poor financial management and poor procurement practice and procedure. The researcher was motivated to investigate such problems (Gary Bandy, 2<sup>nd</sup> e, 2015).

Expenditure in the study includes all amounts of money paid out by a government during its fiscal year. Hence, expenditure assignment is an assignment given to the town level of government to finance assignment responsibilities. Expenditure assignment is given to towns of government largely on efficiency ground, although they do also have stabilization and distributed roles. A stable and meaningful decentralization requires an unambiguous and well-defined institutional framework in the assignment of expenditure responsibilities among the different levels of government together with the sufficient budgetary autonomy to carry out the assigned responsibilities at each level of government (Charles et al, 2009).

## **1.2 STATEMENT OF THE PROBLEM**

Expenditure is the foundation of planning, organizing, controlling and evaluating activities of government funds and measure of fund liabilities incurred. Public expenditure is faced with numerous problems of resources mainly due to weak planning accounting system, poor financial management and poor procurement practice and procedure. Nevertheless, in most countries central government budget allocation is used as an indicator of supply of public deficit.

(Leong, 2008)

The government expenditure can be used as the satisfaction of collective needs of the citizens for promoting their economic and social welfare, government expenditure not only the most important but also the central part of public finance (OECD, 2015)

Poor financial management is the effect of a lead spend budget beyond your means without being aware of it, over time this could leave you with substantial debt as you head towards retirement (Diriba et al, 2008).

In adequate accounting systems there is a lack of proper collecting, storing, processing financial and accounting data that are used by decision makers (Aystex book).

Poor procurement leads to short term issues and long-term issues, short term issues are like confusion, redundant spending and misinterpretation of contracts and needs, long term issues like

loss of money and profitability, bad reputation and negative publicity. Poor planning will result in the assignment of redundant tasks thus increasing the cost and time taken to complete a project and leads -over budgeting such as poor-quality customer satisfaction, schedule failure and loss of business. In effective expenditure management and financial allocation lead the country towards a budget deficit at this time Ethiopia needs improvement on the effectiveness of public expenditure management and service delivery in general. In these studies we would attempt to see whether the wolkite town finance and economics development office expands the budget effectively. This study is considering assess of effectiveness of Expenditure and related problems and provide possible solutions for the problem identified.

### **1.3 RESEARCH QUESTIONS**

In this study I will try to identify the following basic research problems.

1. What system in the office is used to evaluate the government expenditure management?
2. What is the level of public expenditure both on capital and recurrent?
3. To what extent is government expenditure management effective in the town?
4. How the managerial control of government budget is effective?

In this study we would attempt to see whether Wolkite town finance and economic development office would expend the budget effectively. This study is considering assessing effectiveness of expenditure and related problems and providing possible solutions for the problem identified.

### **1.4 OBJECTIVE OF THE STUDY**

#### **1.4.1 GENERAL OBJECTIVE**

The general objective of the study is to assess the government expenditure system of the government finance to show the accounting control system in appropriate disbursement and explore the trend of the organization.

#### **1.4.2 SPECIFIC OBJECTIVE**

- ✓ To identify the system of government expenditure management in the town.
- ✓ To assess the effectiveness of government expenditure on capital and recurrent in the town.
- ✓ To assess the effectiveness of managerial control in government spending in the town.
- ✓ To know their effective manipulation as per the budget expenditure.

### **1.5 SIGNIFICANCE OF THE STUDY**

This study would be believed that it has significance for research, institution, future researchers and government. Effective and efficient government resource management and implementation process is very essential for developing countries effective utilization but it is nothing without budget control management. The following are some of the significance of the study. Government expenditure management is one instrument of government policy. Government expenditure management is a basic means of government policy distributing and utilizing sources productively, effectively and sensitively. The study was very important for financial decision maker, it would help to improve effectiveness of expenditure system, It helps the organization in maintaining and implementing public expenditure, It serve as reference for the future researcher who would conducted their senior research project on similar title, It give awareness to the society, It also upgrade our understanding of how the government expenditure system is applied.

### **1.6 THE SCOPE OF THE STUDY**

This study would be conducted on assessment of government expenditure management in Wolkite town finance and economic development office. Due to the time and cost the study would delimit to Wolkite town, we would emphasize on how the government expenditure expands effectively in Wolkite town. This research study only focuses on the problem associated with government expenditure and related weakness of Wolkite town in 2015 E.C.

### **1.7 LIMITATION OF THE STUDY**

A research is a function of sufficient amount of finance and time. As most researcher faces, this research is not exceptional to encounter these problem as well because the researcher are full time students. Other limitations that will faces are as follows:

- ❖ Absence of enough documents perfectly elaboration about expenditure government management in the office.
- ❖ Lack of sufficient information from the bureau.
- ❖ Lack of willingness and carelessness of employee in giving information by some respondents.

## **1.8 ORGANIZATION OF THE PAPER**

The study would be organized into five chapters with different characteristics. The first chapter deals with the introduction part that includes background of the study, statement of the problem, objective of the study, significance of the study, scope of the study, limitation of the study and organization of paper. The second chapter deals with review of related literature which includes theoretical literature, empirical literature and summary of literature. The third chapter deals with research methodology which includes research design, source of data, type of data, and method of data analysis and presentation. The fourth chapter is data analysis, interpretation and discussion and chapter five deals with conclusion and recommendation.

## CHAPTER TWO

### LITERATURE REVIEW

#### INTRODUCTION

In this chapter the concept of Government expenditure management related to budget expenditure preparation and the budget implementation and some theoretical and empirical literature are discussed. This is achieved by gathering the available literature by Scholars and academics on the subject. (Misraq, 2010)

Expenditure Budget of the government highlights the allotment of funds for disbursement to different ministries, sectors, departments for their proper functioning in a financial year. The Expenditure Budget is further divided into capital expenditure and revenue expenditure:

**Capital Expenditure:** This expenditure pertains to amount spent on the creation of assets and is a cause for a reduction in liabilities for the government. It is non-recurring in nature and adds to the capital stock of the economy, increasing its productivity through long-term developmental programs and welfare schemes — for instance, construction of metro rail networks, highways, ports, etc. It also includes the loans given to a state, and repayment of borrowings.

**Revenue Expenditure:** This section details of expenditure that neither creates assets nor causes a reduction in liability for the government. It is recurring in nature and is incurred on the normal functioning of the government. The allocations under Revenue Expenditure include payment of salaries, pension, interests, expenditure on administration, defense, health, and other services in the countries. (Gary Bandy, 2<sup>nd</sup> e, 2015)

#### 2.1 THEORETICAL LITERATURE REVIEW

Expenditure is the measure of fund liabilities incurred (expendable fund financial resources used during a period for operations, capital outlay and debt service (Kennedy, 2011)

Expenditure: when the vendor supplier performs on a contract or purchase order and goods or services are received, an expenditure has taken place, expenditures are organized in the accounting period in which fund liability is incurred, except for un matured interest on long-

term debt, which is recognized when due and certain compensated absences and claims and judgments which are recognized when obligations are expected to be liquidated with expendable available resources, thus an expenditure and a corresponding liability or cash disbursement is recorded at the time goods or services are received or at the time funds are granted to an authorized recipient (Thomson, 2005).

Government expenditure refers to government budget expenditure as reported in final government accounts. The appropriations transferred to the next year are included according to their actual use during the year in question. Government expenditure does not include unincorporated state enterprise or extra –budgetary funds belonging to the state sector, but it does include transfers in to them (Stephen Coate. 2008).

Government expenditure includes all government consumption, investment, and transfer payments .In national income accounting the acquisition by governments of goods and services for current use, to directly satisfy the individual or collective needs of the community ,is classed as government final consumption expenditure .government acquisition of goods and services intended to create future benefits ,such as infrastructure investment or research spending, is classed as government investment (Diribe,et al,2008) .

Every country (developed or developing, rich or poor, small or big) needs serious financial resources for its existence. All governments have to: collect resources from the economy, in a sufficient and appropriate manner; and allocate and use those resources responsively, efficiently and effectively. The national budget is the main instrument through which this transaction is planned and carried out (Gary Bandy, 2<sup>nd</sup> e, 2015).

However, the growing physical burdens as a result of the expansion of the state economy have become a barrier in the development of the economy. The government expenditure as in the past still remains important. Especially, despite the fact that it has already been proved in literature that the public expenditure has continually been increasing owing to various reasons, the problems related to essentials, effective, productive, and on time –use of the increasing public expenditure have gradually been enlarged. But in every situation where we talk about public expenditure, we have to keep in mind the integral relationship between revenue and expenditure

i.e., between the money collected directly or indirectly from the people, and the use of that money in a manner that reflect most closely the people's preferences (M Tommasi, 2012)

## **2.2 TYPES OF EXPENDITURE**

There are various broad types of expenditure, capital outlay expenditure, and debt service, intergovernmental and current operating expenditure as well as inventories and prepayments (Freeman, 2003)

### **2.2.1 CAPITAL OUTLAY EXPENDITURE**

It is government spending on goods and services intended to create future benefits, such as infrastructure investment in transport (roads, rail airports), health (water collection and distribution, sewage system. communication (telephone, radio and TV) and research spending (defense, space, genetics) (Diriba, Eliasabet and Abebu, 2008).

Capital outlay expenditures typically financed from the general fund and special revenue funds. The general fund and special revenue funds are typically used to finance and account for most general government activities of states and local governments. General government activities include police protection, fire protection, central administration, street maintenance and general operating activities of independent school districts and nonproprietary special districts (Diriba, elasbet and abebu, 2008).

### **2.2.2 DEBT SERVICE EXPENDITURE**

Debt service expenditures represent the payment of principal and interest *needed to* service debt. Such payments are usually recorded as expenditures in the Debt Service Fund on the due date. Debt service expenditures are recognized 'when due' mainly because most levy the related property taxes and budget on a 'when due' basis. Thus, the appropriations for principal and interest expenditure are equal to the payments to be made during the year regardless of any accruals at year end. Debt service expenditures include principal retirement, interest and other fiscal charges made in the current fiscal year (Rev Econ, 2012)

### **2.2.3 INTERGOVERNMENTAL EXPENDITURE**

It is an expenditure provide or paid to other governments as fiscal aid in the form of shared revenue and grants –in –aid ,as reimbursement for performance of general government activities and for specific service for the paying government, or in lieu of taxes .excludes amounts paid to other governments for purchase of commodities ,property, or utility services, any tax imposed

and paid as such ,and employer contributions for social insurance ,example , contributions to the federal government for old age ,survivors’ , disability, and health insurance for government employees (W Yamamoto ,2017)

State governments in particular often incur intergovernmental expenditures under state revenue sharing, grant and other financial assistance programs to countries, cities, schools and other local governments (Portela, M, 2015).

#### **2.2.4 CURRENT OPERATING EXPENDITURE**

All governmental fund expenditures other than those for capital outlay, debt service or intergovernmental purpose are referred as current operating expenditures or simply operating expenditures. It is an expenditure on goods and services for current use to directly satisfy individual or collective needs of the members of the community. Payroll and related personal costs are the largest current operating expenditures of most state and local governments (YHristozov, 2022).

### **2.3 THE PURPOSE OF GOVERNMENT EXPENDITURE**

Spending by the government sector including both the purchase of final goods and services, or gross domestic product, and transfer payments. Government expenditures are used by the government sector to undertake key functions, such as national defense and education. These expenditures are financed with a combination of taxes and borrowing (Portela, M, 2015).

Government expenditures are used either to purchase a portion of gross\_domestic\_product (government\_purchases) or as gifts to members of the other sectors (transfer\_payments). Both types of expenditures have an impact on the macro economy. They can trigger business-cycle instability or be used to address the unemployment and inflation problems of this instability (Lowe, S. 2012)

Generally, government spends money for a variety of reasons, including: To supply goods and services that is not supplied by the private sector, such as defense, roads, and bridges; merit goods such as hospitals and schools, and welfare payments and benefits including unemployment and disability benefits. To achieve improvements in the supply-side of the macro-economy, such as spending on education and training to improve labor productivity. To provide subsidies to industries that may need financial support for either their operation or

expansion. The private sector is not able to meet such financial requirements and, hence, the public sector plays a crucial part in lending necessary support. For example, transport infrastructure projects do not attract private finance unless the government provides expenditures for the industry. To help redistribute income, promote social welfare. (Misraq, 2010)

Local government is extremely important in terms of the administration of spending. For example, spending on education is administered locally, though local authorities. Approximately 75% of all public spending is by central government, and 25% is by local government (Alegre J. G. 2010)

### **2.3.1 CENTRAL AND LOCAL GOVERNMENTAL (PUBLIC CENTER) SPENDING**

Central and local governments spend most of their resources on education, health, and social service programs. Using public spending to stimulate economic activity has been a key option for successive governments. Public spending should be increased when private spending and investment are inadequate. There are two types of spending (Alegre J. G. 2010)

*Current spending*, current spending is short term and has to be renewed each year. Current spending is for costs that are related to specific revenue transactions or operating periods, such as the cost of goods sold or repairs and maintenance expenses.

*Capital spending* is expenditure for fixed assets, which are expected to be productive assets for a long period of time. This is spending on physical assets like roads, bridges, hospital buildings and equipment. Capital spending is long term as it does not have to be renewed each year - it is also called spending on 'social capital.

### **2.4 INVENTORIES AND PREPAYMENTS**

The GASP permits inventories and prepayments to be charged as expenditures immediately because from a cash or convertible to cash perspective such items are not financial resources available for financial future expenditures. (Baubion C, 2013).

## **2.5 GOVERNMENT EXPENDITURE COMPOSITION**

There are many government expenditure compositions. Some of them are as follows.

### **1. Defense and related Expenditure**

National defense is the classic case of pure public goods, once it is provided there is no way anyone can be excluded from its benefits. Thus, it is indivisible in consumption and its benefits are equally available to all persons; benefits to one person do not reduce the benefits available to others. Military personnel, operation and maintenance, procurement comprise the bulk of defense expenditures. (Baubion C, 2013).

### **2. Justice and Securities**

In tracing the gradual development of state function, we found what the maintenance of internal security, the protection of each other member of the society against the injustice or operation of the other member of its or in more modern phase of law and order was a task that was attempted in the earlier stages of social evaluation (Al-Shatti, A. 2014)

### **3. Income Maintenance**

Income maintenance is the most important function of government. This consists of various social security's and welfare programs and farm price support programs to maintain farm incomes. The bulk of these expenditures go for social security payments and other forms of social insurance, unemployment, and retirement programs. The remainder is spent on public assistance and farm support programs (Baubion C, 2013).

### **4. Health and Education**

With the inception of Medicare and Medicaid, health expenditure is become a major activity of the federal, state and local governments, some health expenditures are a public good quality, basic medical research, prevention and control of health problems and etc. expenditure on education and manpower has comprised a large portion went for federal aids to vocational secondary and elementary education and manpower training. To the extent that overall level of productivity income in society is dependent upon educated and skilled workforce, federal aid for

education or man power training reflects the existence of production externalities that cannot be captured by the private market (Baubion C, 2013)

## **5. Transportation and Communication**

The largest portion of their expenditures are made from surface transport such as highways, mass transit, railroads, and air transport, water transport and also postal service. (John, 2002)

### **2.6 CAUSE OF INCREASING GOVERNMENT EXPENDITURE**

There are several factors that have led to enormous increase in public expenditure and -It is very difficult to identify specific 'causes' of increasing government expenditure. However, some major factors definitely related to increasing size of government expenditure are increase in income, population, urbanization and human resources (Al-Shatti, A. 2014).

#### **A) Income**

Raising real income is associated with raising government expenditure in two ways. First, as income increases in an economy there is a shift from manufacturing and merchandising industry to service industry. Second, service activity tends to have lower rate of productivity increase over time (Al-Shatti, A. 2014)

#### **B) Urbanization**

Urbanization over some range should lead to decreased cost of the same public goods and services as economies of scale are achieved. However, more goods and services are provided in urban than rural areas causing higher public expenditure, and many cities of such size that all potential economies of scale have been exhausted (Al-Shatti, A. 2014).

#### **C) Population**

We note population itself is increasing in most causes which thus becomes a major contributing factor to the growth of public expenditure. The sheer scales of various public services have to increase in harmony with the population growth (Al-Shatti, A. 2014).

#### **D) Education and Human Resource**

The proportion of government expenditure for human resource has been growing steadily with some relative decline during war time almost all countries, the most expenditure class for human

resource development are education, health, hospital, public welfare and social insurance (Al-Shatti, A. 2014)

## **2.7 GOVERNMENT ACCOUNTING**

It is the process of recording, analyzing, classifying, summarizing, communicating and interpreting financial information about government in aggregate and in detail reflecting transactions and other economic events involving the receipt, spending, transfer, usability and disposition of assets and one unique aspect of the government environment is that government may be involved in both governmental type and business type activities include fire and police protection, courts and other general governmental activities. Business Mope activities include public utilities (e.g. electricity, water) and other activities for which users feel are charged and that are operated similarly to private business (Freeman, 2003).

## **2.8 SOURCE OF FINANCIAL RESOURCE**

Because the primary sources of the financial resources of business are not available to governments for governmental type activities, governments must raise financial resources from other sources. Two primary examples of these revenue sources are taxes and intergovernmental grants and subsidies. Taxation the power to tax is unique to the government and most governmental services are financed by tax most general government services for example, police and fire protection elementary and secondary education and streets and highways are usually financed almost exclusively by tax revenues. The power to tax causes taxpayers to be involuntary resources providers. Individual taxpayers cannot refuse to pay taxes if they think the government is using the resources improperly, or pay a lesser amount if they do not use as many of the government's services as do others (Freeman, 2003).

Many governments also have other powers, similar with taxation such as, levying license and permit fees, fines and other charges, this ability of governments to exact resources from individual, business and others by taxation and similar levies without an arm's length exchange transaction means that the types levels and quality of service that government provides are not automatically dictated or regulated by what constituents are willing to pay for the services (Freeman, 2003).

Intergovernmental Revenue subsidies from higher level governments are another significant source of revenues. The federal government provides hundred billion dollars of revenue every year, and states provide additional resources and local governments. Most intergovernmental revenues are not provided as a direct result of services received by the resource provider but rather to help finance certain services for the recipient's constituency (Freeman, 2003).

## **2.9 FINANCIAL RESOURCE ALLOCATION MECHANISM**

General government financial resource allocation is derived from processes clearly different from business enterprise, absence of direct relationship between the financial resource provided by an individual taxpayer and the service provided to that individual taxpayer makes it impossible for the resource allocations to be made in the same manner as for business enterprises. Various restrictions on resource use and the budget process determine how the allocations are made (Freeman, 2003).

Restrictions on Resource use: - The primary mechanism used for allocating general government resources to various uses is for restrictions to be placed on financial resource use by the resource providers or their representatives. One level of restrictions requires that certain resources be used for a particular purpose or program; such restrictions arise as a result of Intergovernmental grantors requiring that the resources provided be used for a particular purpose, Taxes and similar resources being levied for a specific purpose such as for roads, education or debt services. And Debt proceeds being restricted to a specific purpose (Freeman, et2003).

The Budget: - Taxes and other revenues are allocated to various uses by placing more detailed (budgetary) restrictions on their use as well; budget is adopted into law and essentially becomes a contract between the executive branch, the legislative branch and the citizenry. The annual budgetary process and budget are extremely important in the SLG governmental type activities environment, the budget is an expression of public policy and intent. It is also financial plan that indicates the proposed expenditures for the year and means of financing them (Freeman, 2003)

## **2.10 ACCOUNTABILITIES**

The numerous environment features result in distinct SLG accountabilities, which are unique in both forms (1) to which SLGs and their officials are accountable and (2) the focus of their accountabilities (Freeman, 2003).

To whom accountants SLG are accountable to their constituencies and other governments arises in part because senior levels of governments often have some oversight authority over lower levels of government.

Accountability Focuses SLG accountability have various focuses, such as accountability for; The use of financial resource from various revenue sources or bond issues in accordance with any restriction on their use, Compliance with the budget ,Efficient and effective use of SLG resource and Maintain general government capital asset

## **2.11 ETHIOPIAN GOVERNMENT ACCOUNTING SYSTEM**

The Federal Government of Ethiopia accounting system used up to 2015 was in-service for more than half a century. Government decided to reform the accounting processes to achieve the following set of objectives. Simplify the accounting system by changing it from the single-entry bookkeeping system to the double entry bookkeeping system, Expand the current accounting system by changing the basis of accounting from cash basis to a modified cash basis of accounting. Improve cash and financial management practices by rationalizing the number of bank accounts and minimizing the amount of idle funds. Improve budget control by introducing procedures to record and monitor commitments against the available budget prior to the approving expenditure. Produce accurate, timely and complete information and improve the quality of information provided to Government and its development partners. Enhance transparency by implementing a system that is understandable to key stakeholders and the automation of the accounting system.

The FGE has been using a modified cash basis of accounting in recording revenue and expense and double entry book keeping systems since the reform of government and non-government accounting. (Edward, 2001)

### **2.11.1 BASIS OF ACCOUNTING**

The basis of accounting is the basic set of principles and rules employed by the accounting system to determine when and how to record transactions. A term used to refer to when revenue,

expenditure, transfer and the related asset and liability are recognized in the accounts and reports in the financial statement. There are three bases of accounting:- modified cash basis of accounting, cash basis of accounting and accrual basis of accounting. The FGE accounting system employs a modified cash basis of accounting. The modified cash basis of accounting is consistent with the budgeting process and produces information for comparing budgeted and actual revenue and expenditure (Edward, 2001).

#### **2.11.2 CHART OF ACCOUNT**

Chart of account is a system of coding used by financial management systems to identify and classify financial entities and events. The current chart of accounts treats; all detailed account codes as temporary accounts. Temporary accounts are accounts that begin each year with a zero balance (David, 2005).

#### **2.12 BOOKKEEPING METHOD**

The FGE accounting system uses double-entry bookkeeping, double entry bookkeeping means that both aspects of each transaction are recorded in the accounting records with at least one debit and one credit so that the total amount of debit and the total amount of credit are equal to each other (Thompson,2005).

#### **2.13 PUBLIC EXPENDITURE IN ETHIOPIA**

Ethiopia's remarkable socio-economic transformation over the last decade has been marked by: a reorientation of expenditure from recurrent to capital; a significant devolution of resources from Federal Government to Region; and a clear prioritization of infrastructure spending, while protecting spending on education at four percent of GDP. The Government of Ethiopia has also leveraged external resources to boost spending in pro-poor sectors, particularly health and social protection. As a result, Ethiopia is home to the largest social safety net program in Africa, and has also achieved remarkable health outcomes using cost effective approaches (Misraq, 2005).

Recent investment has seen a significant build-up of capital stock, with capital spending at sector level pointing towards increased service capacity. The current public investment lead strategy requires it to be complemented by increased budgetary provisions in operations and maintenance so that new investments translate into enhanced service coverage and delivery (Misraq, 2005).

As Ethiopia lays the foundation to become a middle-income country, and the changing global environment implies declining external assistance, it is imperative that domestic taxation activity support this translation. The current – to -GDP ratio is low compared to poor countries, and the tax structure would benefit from increased contributions by direct tax sources. Therefore, there is an immediate need for advancing tax reforms and improving capacity and quality tax administration. Broadening the tax bases, through review of exemptions, as well as review of tax rates might be venues to consider. Additional revenues will create the much – needed fiscal space to increase funding for operations and service delivery, and support fiscal sustainability.as a follow – up to this public expenditure review, the government of Ethiopia has asked the world bank to provide further analytical support, with a view to enhance domestic revenue mobilization through simpler and more efficient taxation, while retaining equity priorities in public finances.

#### **2.13.1 EXPENDITURE MANAGEMENT AND ACCOUNTING SYSTEM IN ETHIOPIA**

Under the umbrella of the civil service reform project a component called the expenditure management and control program has been operating since 1997 to improve budget cycle management in Ethiopia starting from the federal level and then working its way to the regions under the public of the decentralization support (Misraq, 2005).

#### **2.13.2 EXPENDITURE PLANNING**

The government has been moving for some time towards a more systematized medium-term planning process using a locally adapted approach along the lines of the medium-term expenditure framework used in several other countries. The Ethiopian application of the general concept has involved a three-tier approach consisting of,

- a. A rolling macroeconomic and fiscal framework (MEFF) which would result in a three-year projection of the likely resource envelope for the country and breakdown by board of federal government expenditure and subsidies to the regions.
- b. A three-year public investment program which would derive its annual ceilings (indicative planning figures) from the MEFF and was intended to transfer into a full public expenditure program (PEP).
- c. A bidding budget calendar which would ensure that the regions in particular would receive timely information about the level of the federal subsidy, which constitute the back of the revenue of regions (L and Furceri, D. 2010)

## **2.14 EMPIRICAL REVIEW OF THE STUDY**

Government expenditure, especially its capital component has a positive impact on growth for developing countries like Ethiopia when it is combined with a lower budget deficit (Gupta and Mulas Granada 2002)

The current component of government spending has a positive impact on growth, while the capital component influence it's negatively (Ghost and Gregarious 2008)

Large public expenditure lowers growth for high income countries (schalteger and torgler 2006)

The combination of productive public investment and lower taxes increase growth and whether current government consumption and higher taxes lower it (Park 2006)

According to (Getachew, 20014) conducted a study on the analysis of medium term expenditure planning and budget allocation in Ethiopia stated that, even though there have been several attempts to address the weakness of the Ethiopian government expenditure management and try to resolve conflict between annual budget expenditure perspectives with medium term planning horizons, successful modern expenditure management remains a continuous problem of the country.

## **2.15. RESEARCH GAP**

The gap observed in the previous research is that. (1) Most of the study is not in Wolkite town; there are limited studies that are conducted related to government expenditure management. (2) Most studies are not similar with this topic. (3) Most are far apart from today, there are no recent studies based on the recently updated data. Therefore, taking into account of the importance effective public expenditures management to improve the finance and economic development and the fact that efficiently public expenditures management can be approved to the objectives of the government spend finance as per the arguments of few previous researchers, this study was to be undertaken to fill the above mentioned gapes as there have no enough previous studies on the same and even on related topics specifically in Wolkite town.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

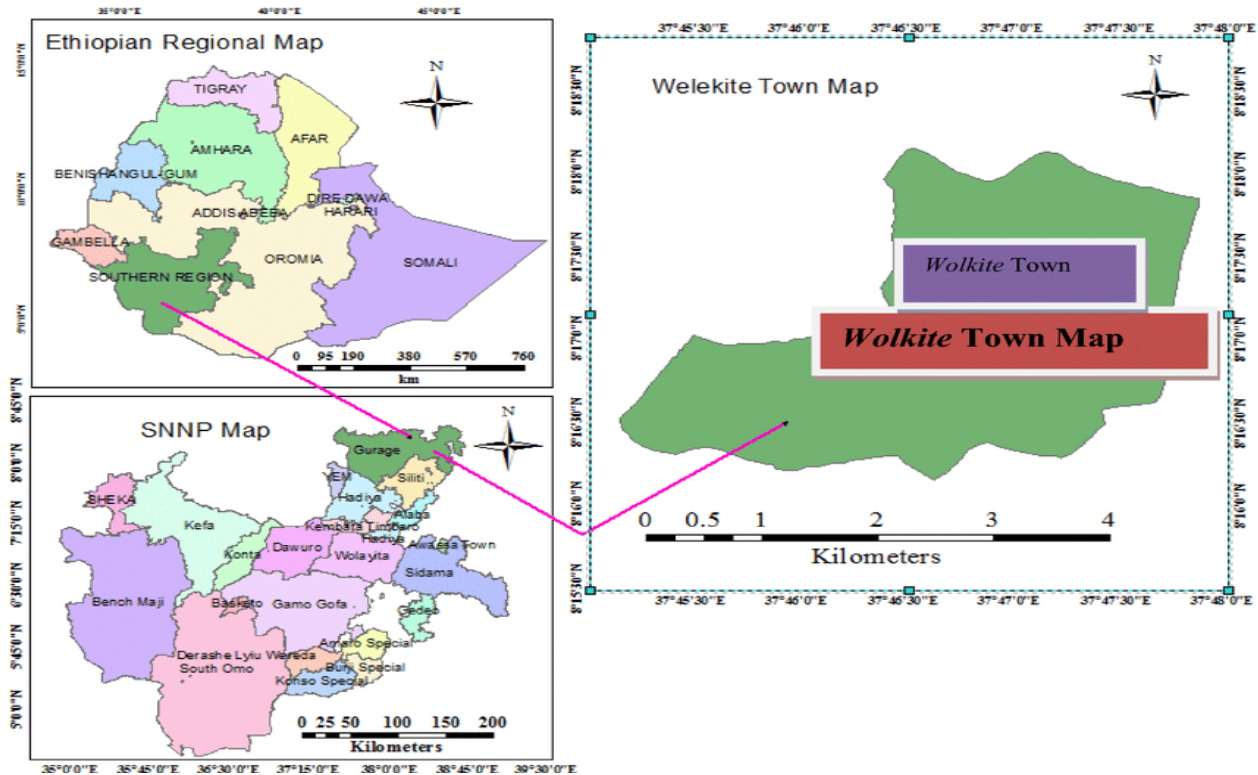
#### **INTRODUCTION**

This section would present research methods that contain the area of study, research design sources, type of data target population, method of data collection, method of data analysis and presentation.

#### **3.1 DESCRIPTION OF THE STUDY AREA**

The study would conduct the assessment of government expenditure management in the finance and economic development office in Wolkite town which is located near the center of the town.

Wolkite town is located in the southern part of Ethiopia. And also, the administrative center of the Gurage Zone of the Southern Nations, Nationalities and Peoples' Region (SNNPR), this town has a latitude and longitude of 8°17'N 37°47'E and an elevation between 1910 and 1935 meters above sea level. It is surrounded by cheha woreda. In Wolkite town finance and economic development main coordination department established in 1996 E.C the organization has three departments such as budget and finance department, Economic and development department and audit control department.



**Figure 1, Map of Wolkite Town.** Source: Wolkite Town Administration Office (2018 G C).

### 3.2 RESEARCH DESIGN

In order to achieve the objective of this study the researchers used descriptive research design. It describes the situations, problems, phenomena and it describes what was happening and happening. Because of this, the method is used to transfer the data into understandable form by easy means. The type of data that was used by the researchers is qualitative. Qualitative data is data that approximates or characterizes but does not measure the attributes, characteristics, properties etc. Of a thing or phenomenon by using qualitative method the researchers study reflect in to make sense or entrepreneur phenomena in terms of the money brings to them (john w creswell,2013)

### 3.3 SOURCE OF DATA

The researchers would be using primary data to its successful accomplishment. Primary data is the original data that has been collected specially for the purpose in mind. For the sake of achieving the purpose of this study relevant data would be collected from primary sources. The primary data would be collected by using closed ended questionnaires, which involves closed

choice or fixed questions where the respondent is required to answer by choosing an optional from a number of given answers.

### **3.4 TARGET POPULATION**

Target population of the study would be Manager, Accountant and Auditors of Wolkite town finance and economic development office.

### **3.5 METHODS OF DATA COLLECTION**

The relevant data collection to the study would be used as the primary source. The primary data would be collected by using close ended questionnaires to be distributed to all employees from the target population.

### **3.6 SAMPLING METHOD**

For this paper the target population has been the employees who work in assessment of government expenditure management in the finance and economic development office. The total number of employees is 16. From those employees, there are 9 Accountants, 6 Auditors and 1 manager. Since the population is small in number (i.e. less than 30) the researchers have used a census for this particular study. Census is complete enumeration of the elements of a population or study objects.

### **3.7 METHODS OF DATA ANALYSES**

The collected data would be carefully, edited, coded, tabulated and organized based on the type of basic question and nature of data that would be analyzed through chart, percentage and graph, and the qualitative data would be analyzed through detailed explanation depending on the response of respondent research process.

### **3.8 METHOD OF DATA PRESENTATION**

Finally, this study uses a descriptive type of analysis. The reason for the use of descriptive types of analysis is that conditions and factors that affect government expenditure management need to be well explained and described which were involved in the study. Tabulation and percentage was used to analyze the collected primary data.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

This chapter concentrates on a brief description of Wolkite town assessment of government expenditure in the finance and economic development office. Data analysis and interpretation also included in this chapter based on the data collected from documents of Wolkite town finance and economic development office and primary data collected by questionnaire and by accounting process and audit and management activities conclusion could be drawn based on the finding. The researchers are distributors 16 questionnaires for employees of the sector. All of the questionnaires were returned back with a complete response here. In this chapter, researchers assembled, presented and analyzed the relevant data as follows. The researchers have used only one type of data collection technique. Questionnaires from employees are the sector so the researchers drew 16 respondents to the study.

#### 4.1 ANALYSIS OF SURVEY QUESTIONNAIRE COLLECTED DATA FROM RESPONDENTS

Demographic background means general detail of personality of people or it describes features of personality .People have many kinds of features, such as gender, age, work experience, and educational status.

**Table 4.1 Demographic background**

Factor	Alternative	frequency	Percent %
Gender	Male	12	75 %
	Female	4	25 %
	Total	16	100%
Age	< 24	0	0 %
	25-35	1	6.25 %
	36-45	14	87.5 %
	> 45	1	6.25 %
	Total	16	100 %
Education status	Diploma	4	25 %
	Degree	12	75 %
	Master	0	0 %
	Others	0	0 %
	Total	16	100%
Work experience	1-5	4	25 %
	6-10	6	37.5 %
	> 10	6	37.5 %

	Total	16	100%
Marital status	Married	14	87.5 %
	Unmarried	2	12.5 %
	Total	16	100 %

Source, sample survey data, 2023

The above table shows that 75 % of the respondents were males and 25 % were female respondents and Age scale of responders 0(0 %) of respondents age less than 24, 1(6.25 %) of respondents age between 25-35 age scale ,14(87.5%) of respondents were age between 36-45 and 1(6.25 %) of respondents age responders above 45 ,educational status of respondents 25 % of respondents were diploma and 75 % of respondents were degree, work experience of respondents 25 % were 1-5 years' work experience 37.5 % were 6-10 years' work experience and others 37.5 % were above 10 years work experience .It implies that most respondents were males, degree ,age 36-45 , 6-10 and above 10 years work experience and married.

**Table 4.2 the rate of financial administration in the office.**

Rate of financial administration	Excellent	Very good	Good	Medium	Weak	Total
Frequency	10	4	2	0	0	16
Percent	62.5%	25%	12.5 %	0%	0%	100%

Source survey data 2023

The above table shows respondents on expenditure administration effectiveness. Thus 10(62.5%) of the respondents responded that the expenditure administration is implemented by following the budget action plan and internal control of finance activity or auditing control activities is excellent and the remaining 4(25%) of the respondents rate of finances administration very good and 2(12.5%) of the respondents rate of financial administration good. No one is said to have ineffective (weak) expenditure administration in the office. It implies that most respondents were excellent expenditure administration in office.

**Table 4.3 Extent of budgeted assisted to achieve the plan**

Rank	Very strong	strong	medium	weak	Total
Frequency	6	8	2	0	16
Percentage	37.5%	50%	12.5%	0%	100%

Source survey data, 2023

Table 4.3 further indicates that 37.5 % of the respondents' extent of budget assisted to achieve the plan were very strong and 50 % of the respondents' extent of budget assisted to achieve the plan were strong and 12.5 % of the respondents' extent of budget to achieve a plan were medium. It implies that the extent of budgeted assistance to achieve the plan shows that expenditure management is strong.

**Tables 4.4 which budget category do you think effectively administered?**

Type of expenditure	Frequency	Percentage
Current expenditure	8	50%
Capital expenditure	8	50%
Total	16	100%

Source sample survey data 2023

The above table shows that 50 % of the respondents where the organization is effectively administered recurrent expenditure and on the other hand 50 % of the respondents responded to capital expenditure effectively administered so this office is used for both types of expenditure.

**Table 4.5 is there any training given by the office for employees regarding budget administration and control.**

Alternatives	Frequency	percentage%
Yes	16	100%
No	0	0%
Total	16	100%

Source survey data, 2023

The above table shows that 100% of the respondents responded that there is training given by the office to employees and the training is given to employees twice a year or within 6 months.

**Table 4.6 do you think that your organization properly implemented the budget system developed by MOFED**

Alternative	Frequency	Percentage
Yes	16	100 %
No	0	0%
Total	16	100%

Source survey data, 2023

The above table reveals that 16 (100%) of the respondents responded to the Wolkite finance and economic development office implemented and developed by MOFED.

**Table 4.7 what type of strategic planning is prepared for expenditure**

Type of strategic planning	Frequency	Percentage
Short term	0	0%
Long term	0	0%
Both term	16	100%
Total	16	100%

Source survey data, 2023

The above table depicts that respondents respond to the preparations of a plan for the expenditure. Thus all 16(100%) respondents replied that the office prepares both short term and long term plans for expenditure. This is the goal that you want to spend money on in common short and long term.

**Table 4.8 method of recording transactions used in the office**

types of accounting system	Items	Number of respondents	Respondent in percentage
	Double entry	14	87.5 %
	Single entry	2	12.5 %
	Total	16	100%

Source survey data, 2023

The above table summarizes the system of recording transactions used in office out of 87.5% respondents were related to double entry and 12.5 % of the respondents responded to single entry and there were no respondents for another entry. From this one understand that the majority of the respondents respond that the double entry method is used in the office.

**Table 4.9 Accounting system is effective and accurate in your office**

	Item	Respondents in number	Respondents in percentage
Accounting system is effective and accurate in your office	Double entry	14	87.5%
	Single entry	2	12.5%
	Total	16	100%

Source survey data, 2023

The above table indicates the employee's responses of expenditure administration effectiveness. Thus 87.5% of employees responded that the double entry recording system was effective and accurate in the office and the remaining 12.5% responded that the single entry recording system was effective and accurate in the office. Thus the majority of the respondents answered that the double entry recording system is more effective.

**Table 4.10 Expenditure administration of budget is a plan of action expressed in?**

	Description	respondents in number	respondents in percentage
A budget is a plan of action expressed in?	financial term	1	6.25%
	non-financial term	1	6.25%
	Both	14	87.5%
	Total	16	100%

Source survey data, 2023

In the above table 6.25% of employees respond that financial term expenditure is used in the office, 6.25% of employees respond that financial term expenditure is used in the office and the remaining 87.5% of employees respond both financial and non-financial terms of expenditure used in the office. Financial expenditure expressed in terms of cash and non-financial expenditure expressed in terms of material, equipment and other fixed assets. Based on this information the researchers concluded that both financial and non-financial expenditure are used in wolkite town.

**Table 4.11 Expenditure administration the success of budgetary control depends on the willingness of?**

	Description	Respondents in number	Respondents in percentage
The success of budgetary control depends on the willingness of?	Office manager	1	6.25%
	Employee	1	6.25%
	Society	1	6.25%
	All	13	81.25%
	Total	16	100%

Source survey data, 2023

The researchers understand from the above tables that all office managers, office employees, and the society are needed for the effectiveness of government expenditure.

**Table 4.12 The budget period depends upon**

	Description	Respondents in number	Respondents in percentage
The budget period depends upon	The types of budget	16	100%
	The nature of budget	0	0%
	The length of budget cycle	0	0%
	Total	16	100%

Source survey data, 2023

The above table tells us the budget period depends on the types of budget because the majority of respondents or 100% of answers thus choose. The researchers concluded that the type of budget is used to manage the type of budget of expenditure. So, it is very mandatory for expenditure administration.

**Table 4.13 who are responsible for setting a plan of expenditure in the office?**

Alternative	Frequency	Percentage
Board of director	5	31.25 %
Employee	10	62.5 %
Management	1	6.25 %
Total	16	100%

Source survey data, 2023

The above table reveals who is responsible for setting a plan of expenditure in the office. Thus 62.5 % of respondents replied that employees are responsible for setting plans for expenditure and 31.25 % of respondents replied that the board of directors is responsible for setting plans for expenditure and the remaining 6.25 % replied that managements are responsible for setting plans of expenditure. It implies that most respondents were employee's responsible for setting plans for expenditure.

**Table 4.14 what methods of accounting systems used for expenditure modified cash basis**

Accounting method	Frequency	Percentage
Accrual basis	0	0%
Cash basis	0	0 %
Modified cash basis	16	100 %
Total	16	100 %

Source survey data, 2023

The above table reveals that the respondents responded to methods of accounting for expenditure in their office .Thus 4(25%) of them responded that there was a method of accounting for expenditure in the office. The respondent replied that in a government expenditure account modified cash basis of accounting is used. Revenue is recognized when payroll is processed at the end of the year and grace period is recognized when goods are received or service rendered.

## CHAPTER 5

### CONCLUSION AND RECOMMENDATION

#### 5.1 SUMMARY

This study was designed to assess government expenditure management in the finance and economic development office. It is also intended to suggest possible solutions to the problem identified on the basis of the data collected from questionnaires. In order to reach these objectives the researchers used descriptive research design. The data collection method used for this research was the primary source of data that was collected through census surveys with employees related to government expenditure in Wolkite town.

Finally the data collection method used revealed the following specific important basic conclusions and recommendations regarding expenditure in the office.

♣The respondents' response shows that Wolkite finance and economic development office the expenditure implemented and developed by MOFED principle.

♣ According to the response of almost all respondents or target population in the Wolkite town finance and economic development office, recurrent expenditure and capital expenditures used both effective for governmental expenditure management.

♣Wolkite town finance and economic development office play an important role in giving employees training, setting strategic plans and most employees are degrees and less diploma.

♣It ensures effective organizational performance management accountability effectively coordinating the activity. The offices prepare strategic plans of government expenditure based on efficient allocation of resources, equitable provision of service to citizens and promotion of economic growth. The response shows expenditure management the organizations are authority division among employees in authority level.

#### 5.2 CONCLUSION

Conclusions of the study presented briefly as follows

Wolkite town finance and economic development office uses a modified cash basis of accounting and method of recording transactions used double entry.

The plan set for expenditure in the town is both short term and long term and budget period depends up on the types of budget.

Wolkite town finance and economic development office expenditure implemented and developed by MOFED principle.

To ensure effective management the organization gives to employee's expenditure management training.

Generally the financial administration of the town is excellent and extent of budgeted to achieve the plan is strong.

### **5.3 RECOMMENDATION FOR ORGANIZATION**

In view of the conclusion the following build suggestion and recommendation were made in the hope that they would minimize the problem identified in the study area.

As the data gather, analyzed and interpreted capital and recurrent expenditure management is equal. Thus the researcher takes it at both used is satisfied residents' demand.

In order for the managerial control to be effective the Wolkite town finance and economic development office should develop or establish the mechanism used to control government expenditure for both capital and recurrent expenditure that reduced errors appeared about government expenditure from top to down.

The organization must prepare open meetings with residents as a result of open meetings to help managers to know positive signs and negative signs and correct manager's negative signs.

Planning system of the organization should have to be improved.

This can be improved through the town finance and economic development office. As the main responsibility for preparation of the town plan is its mandate. Thus the sector should have to give training on the standardized way of preparing annual plans and for the sector in the town. Building institutional mechanism for the coordination and conflicts resolution assigned expenditures responsibility in the authorized level.

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**APPENDIX**  
**WOLKITE UNIVERSITY**

**FACULTY OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**QUESTIONNAIRE**

The main objective of this questionnaire is to gather primary data for the topic entitled, Assessment of government expenditure management in case of finance and economic development in Wolkite town. The purpose of this research paper is to complete the partial fulfillment of bachelor of art degree in accounting and finance. The aim of data collected is for academic knowledge of research and fulfillment of the objective of this study.

Dear respondent, your answer will be kept confidential and you are kindly requested to fill all questions properly.

**Instruction:** please attempt each question according to the type of the question specified, choose and circle your own answer, put a tick mark on the box provided and write the best answer on the explanation type of question.

**Personal data questions**

1. Age

Below 24  25-35  36-45  Above 45

2. Gender

Male  Female

3. Education level

10 complete  12 complete  Diploma  Degree

4. Marital status

Married  Unmarried

**Organizational data**

5. A budget Allocate of action expressed in?

A, financial term B, non-financial term, C, both

6. The success of budgetary control depends on the willingness of?

A, office manager B, employee C, society D, all

7. The budget period depends upon?

A, the types of budget B, the nature of budget C, the length of budget cycle

8. What types of accounting systems does Wolkite town use?

A, single entry B, double entry C, manual system D, computerized system

9. What accounting system is effective and accurate?

A, double entry B, single entry C, manual system

10, what accounting method does wolkite town use?

A, accrual base B, cash base C, modified cash basis

11. How do you rate the administration of expenditure in your office?

A. Excellent B, very good C, Good D. medium E, Weak

12. To what extent the budget assisted you to achieve the plan

A, Very strong B, Strong C, Medium D, weak

13. Who is responsible for setting a plan of expenditure in your office?

A. Board of director B, employee C, Management

14. What type of expenditure item are your office records?

A, Current expenditure B, Capital expenditure C, Both

15. What items are included in current expenditure?

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16. What items are included in capital expenditure?

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