

**EFFECT OF BUDGETARY PROCESS ON BUDGET PERFORMANCE IN  
COUNTY GOVERNMENTS IN KENYA**

**BY**

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**MASTER OF SCIENCE IN COMMERCE (FINANCE AND INVESTMENT)**

**KCA UNIVERSITY**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE AWARD OF MASTER OF SCIENCE IN COMMERCE (FINANCE AND  
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AT KCA UNIVERSITY**

**NOVEMBER, 2021**

**DECLARATION**

I declare that this Dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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And i have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

**Sign: .....**

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**Dr. Peter Njuguna**

**Dissertation Supervisor**

## **DEDICATION**

I dedicate this dissertation to my supervisor, parents, siblings and classmates. Thank you for your unending love, encouragement and support during the entire period of the dissertation.

## **ACKNOWLEDGEMENT**

I thank the Almighty God for granting me the gift of life and good health throughout the entire course.

I also wish to specially thank my supervisor Dr. Peter Njuguna for his effective supervision, guidance, availability and professional advice as I undertook this proposal.

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## **ABSTRACT**

Budget is a very powerful tool in management and serves as a tool for controlling the use of limited financial resources in the accomplishment of organizational goals. The study sought to determine the effect of budgetary process on budget performance in county governments in Kenya. The specific objectives of the study were budgetary planning, budgetary implementation and budgetary monitoring. The study is of great significance to the management of county governments, policy makers such as top management, budget officers, internal auditors and accountants in both the national government and the county governments in Kenya, and scholars in the field of finance and accountancy as the study is important in adding to scholarly work of the existing body of knowledge. The study employed a descriptive survey research design to establish the effect of budgetary controls on budget performance in county governments in Kenya. The study employed both quantitative data and qualitative data. Primary data used was collected using questionnaire while secondary data was collected using data collection sheet. Judgmental sampling was used in determining the sample size. The population of the study were the heads of budget departments of the forty-seven counties in Kenya with a sample of forty-seven budget officers. Multiple regression model was used to model the cross-sectional data employed. STATA software was used to analyze the data collected. The study findings were presented using graphs, tables and figures. The study concludes that budgetary process has a positive significant effect on budget performance in the county governments in Kenya. The study recommends that county governments should that budgetary planning policy documents and regulatory frameworks are in place. The study further recommends staff to be engaged in continuous professional development programs and ensure IFMIS are trained and also that internal audit reports, controller of budget reports and auditor general reports are effectively and timely prepared.

**Key words:** Budgetary planning, Budgetary implementation, Budgetary monitoring, Budget performance and County government.

## LIST OF FIGURES

FIGURE 1 Conceptual Framework .....	<b>Error! Bookmark not defined.</b>
FIGURE 2 Response Rate .....	268
FIGURE 3 Age Distribution .....	269
FIGURE 4 Experience of the Respondents .....	30
FIGURE 5 P-P and Q-Q Plots .....	37

## LIST OF TABLES

TABLE 1 Operationalization of Variables .....	264
TABLE 2 Gender Distribution.....	269
TABLE 3 Academic Qualification .....	30
TABLE 4 Budgetary Planning and Budget Performance .....	31
TABLE 5 Budgetary Implementation and Budget Performance .....	32
TABLE 6 Budgetary Monitoring and Budget Performance .....	34
TABLE 7 Correlation of Variables.....	38
TABLE 8 Regression Co-efficient results .....	40

## TABLE OF CONTENTS

<b>DECLARATION</b> .....	<b>iii</b>
<b>DEDICATION</b> .....	<b>iv</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>v</b>
<b>ABSTRACT</b> .....	<b>vi</b>
<b>LIST OF FIGURES</b> .....	<b>vii</b>
<b>LIST OF TABLES</b> .....	<b>viii</b>
<b>TABLE OF CONTENTS</b> .....	<b>ix</b>
<b>ACRONYMS AND ABBREVIATIONS</b> .....	<b>xii</b>
<b>OPERATIONAL DEFINITION OF TERMS</b> .....	<b>xiii</b>
<b>INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the Study.....	1
1.2 Statement of the problem .....	8
1.3 Objectives of the Research.....	10
1.4 Research Questions .....	10
1.5 Justification of the Study.....	<b>Error! Bookmark not defined.</b>
1.6 Significance of the Study .....	10
1.7 Scope of the Study.....	11
<b>CHAPTER TWO</b> .....	<b>11</b>
<b>LITERATURE REVIEW</b> .....	<b>11</b>
2.1 Introduction .....	11
2.2 Theoretical Review .....	11
2.3 Empirical Review.....	16
2.4 Knowledge gap.....	23
2.5 Conceptual Framework .....	24
2.6 Operationalization of Variables .....	26
<b>CHAPTER THREE</b> .....	<b>27</b>
<b>RESEARCH METHODOLOGY</b> .....	<b>27</b>
3.1 Introduction .....	27

3.2 Research Design.....	27
3.3 Target Population.....	27
3.4 Sample and Sampling Procedures.....	27
3.5 Data collection Instrument.....	27
3.6 Data Collection Procedures.....	28
3.7 Validity and Reliability of Research Instruments.....	28
3.8 Data Analysis.....	29
3.9 Data Presentation.....	29
3.10 Research Ethics.....	30
<b>CHAPTER FOUR.....</b>	<b>31</b>
<b>DATA ANALYSIS, FINDINGS AND CONCLUSION.....</b>	<b>31</b>
4.1 Introduction.....	31
4.2 Descriptive Statistics.....	31
4.3 Discussion of Results.....	34
4.4 Exploratory Data Analysis.....	39
4.5. Model Fitting.....	41
<b>CHAPTER FIVE.....</b>	<b>44</b>
<b>SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>44</b>
5.1 Introduction.....	44
5.2 Summary of Findings.....	44
5.3 Conclusions.....	45
5.4 Recommendations.....	46
5.5 Limitation of the Study.....	47
5.6 Areas for Further Research.....	47
<b>REFERENCES.....</b>	<b>47</b>
<b>APPENDICES.....</b>	<b>53</b>
APPENDIX I: COUNTY GOVERNMENTS IN KENYA.....	53
APPENDIX II: INTRODUCTION LETTER.....	55

APPENDIX III: QUESTIONNAIRE.....	56
APPENDIX IV: DATA COLLECTION SHEET .....	60

## ACRONYMS AND ABBREVIATIONS

<b>CBROP</b>	County Budget Review and Outlook Paper
<b>CBIRR</b>	County Budget Implementation Review Report
<b>CECM-F</b>	County Executive Committee Member for Finance
<b>CFSP</b>	County Fiscal Strategy Paper
<b>CGA</b>	County Government Act
<b>CIC</b>	Commission for the Implementation of the Constitution
<b>CIDP</b>	County Integrated Development Plan
<b>COB</b>	Controller of Budget
<b>CoK</b>	Constitution of Kenya
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>IASB</b>	International Accounting Standards Board
<b>IBP</b>	International Budget Partnership
<b>ICPAK</b>	Institute of Certified Public Accountants of Kenya
<b>IEA</b>	Institute of Economic Affairs
<b>IFAC</b>	International Federation of Accountants
<b>IFMIS</b>	Integrated Financial Management Systems
<b>IFRS</b>	International Financial Reporting Standards
<b>IMF</b>	International Monetary Fund
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>IPSASB</b>	International Public Sector Accounting Standards Board
<b>KHRC</b>	Kenya Human Rights Commission
<b>KIPPRA</b>	Kenya Institute for Public policy, Research and Analysis
<b>MCA</b>	Member of County Assembly
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OLS</b>	Ordinary Least Square
<b>O&amp;M</b>	Operations and Maintenance
<b>PB</b>	Participatory Budgeting
<b>PFMA</b>	Public Finance Management Act
<b>RoK</b>	Republic of Kenya
<b>SME's</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package for Social Sciences
<b>TISA</b>	The Institute of Social Accountability

## OPERATIONAL DEFINITION OF TERMS

<b>Budget</b>	Budget is a summary of the projected expenditure over a certain period of time, together with a proposal on how to finance the expenditure (Mitchell, 2005).
<b>Budgetary Process</b>	Budgetary process defines the way a particular institution builds its budget through the process of budget preparation, planning, implementation and monitoring the actual budget so that budgeted performance may be achieved (Cook, 2008).
<b>Budget Performance</b>	Budget performance is a quantifiable expression of the amount, cost, or result of activities that indicate how much, how well, and at what level, products or services are provided to clients/customers/the public during a given time period (Naylor, 2012).
<b>County Government</b>	A county government refers to a geographical region of a country used for administrative or other purposes (Republic of Kenya, 2010).
<b>Devolution</b>	Devolution is the transfer of political powers and autonomy to sub-national units which are in turn politically accountable to the local communities as opposed to the center (Republic of Kenya, 2010).
<b>Performance</b>	Performance is a set of financial and non-financial indicators which offer information on the degree of achievement of objectives and results (Lebans & Euske, 2006).

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The Constitution of Kenya, 2010 ushered in a new era in governance which led to the creation of the forty-seven devolved units with each unit having a similar government structure as the central government. Devolution led to decentralization of government operations and equitable distribution of resources. The decentralization of government operations from the central government has led to increased efficiency and effectiveness at the county level (Lubale, 2012). Even after ushering of the Constitution of Kenya, 2010, the Kenyan government still continue to face challenges in budgeting. This problem dates back to independence with main concern being problem of delivering service to the citizens this has resulted in most of the allocated funds not being utilized.

Sach (2008) notes that many countries such as United States, Norway New Zealand, Canada, and Sweden have been successful in implementation and performance of their budgets. Sach (2008) further adds that some African countries such as Mauritius, South Africa and Rwanda have also noticeable success in their budgeting due to accurate forecasting, adequate coordination, effective communication, acceptance and cooperation. Many African countries however still lags behind in budget implementation because of the following reasons: non-participatory system of budgeting, lack of budget review, budget is super-imposed, extra-budgetary affairs and budgets not reflecting the underlying economic realities.

The budget making process in New Zealand's continues to be hailed as model throughout the world (Shah, 2007). The public finance management system in New Zealand has also earned international acclaim. The jurisdiction has its parliament as the supreme law making authority. The legislature has authority to scrutinize and control the government by way of controlling fiscal appropriation. The budget making process in New Zealand is based on the principles of increased transparency and greater accountability (Haque, Knoghts & Jayasuriya, 2012). The budget making process also takes into account the long-term fiscal intentions and assesses them against principles of responsible fiscal management. The budgetary appropriations take into account the financial forecasts with the consumer prices, employment and current account of the balance of payments being the critical driving factors (Haque, Knoghts & Jayasuriya, 2012). In South Korea the country has established measures to get public information in the budget making process. Field trips are taken by government technocrats countrywide. Public hearings are organized for the proposed budget measures (Walter, 2014). Exploitation of social media enables the government to get views from the populace on the proposed budgets. The budget making process is thus people centered owing to the citizen capacity and awareness creation. This has been motivated by the use of an inclusivity

principle in the structure of administration and governance (Walter, 2014). The country has always ensured that there is timely disclosure of fiscal data to enable public participation. The budget making process in the country thus entails the executive directly engaging the citizens devoid of using their representatives (Batley et al., 2012).

A number of empirical studies on the effect of public participation on budget performance have been conducted in European countries such as France, Portugal and Italy (Ebdon, *et al*, 2012). The studies indicate that success in most of the European countries is due to presence of democratic process, proof that resources are mostly allocated to regions lagging in infrastructural development. Most of these studies conclude that participatory budgeting becomes a success when there is: autonomy to both local and national levels of governments, a robust regulatory framework for public participation, vibrant civil organizations capable of mobilizing citizens towards public participation in budget making and budget implementation process, together with public and experts willing to enlighten citizens on budget making and implementation process. These findings are consistent with that of (Shah, 2007).

In South Africa, the jurisdiction operates a three-tier government system at various levels such as municipality, provincial and national. The budget making system entails each of the three tiers of government putting in place activities geared towards budget making (International Monetary Fund, 2012). The national governance structure ensures that it makes a unitary budget and the other tiers follow suit. Legislation ensures that the national treasury introduces uniform treasury codes of ethics and prescribes measures to enhance transparency and expenditure control in levels of government. The legislation also sets in place the operational procedures for borrowing and provision of guarantees and oversight in the different tiers of the provincial and municipality structures. The budget making process thus entails the synergy between the three levels of government working in concert to ensure that the public finances are well distributed nationally (International Monetary Fund, 2012)

### **1.1.1 Budgetary Process**

Budgetary process defines the way a particular institution builds its budget through the process of budget preparation, planning, implementation and monitoring the actual budget so that budgeted performance may be achieved (Cook, 2008). Cook (2008) further argues that preparation of budget, conducting investigation on the difference between budgeted and actual performance and taking corrective measure as key elements of budgetary control. Further, Kiringai (2012) asserts that budgeting entails activities whereby the government allocates resources to various ministry and institute various control mechanisms on the spending of those ministries. Santa et al (2010) asserts that enhancing efficiency and effectiveness

of a particular institution entails establishing key objectives of organizational performance and instituting benchmarks.

Public participation is a very essential process to the budgeting process as stipulated in Public Finance Management Act, 2012. Citizens participate in budgeting process by highlighting flagship projects and key priority areas in terms of budgeting. Whittington (2012) states that during public participation, citizens in addition to identifying flagship project, also outline stalled projects and major challenges faced and the solutions to the challenges.

Budgetary control process is characterized by identifying the targeted performance for each budget unit through coming up with realistic and achievable targets (Drury, 2006). The stakeholders feel involved in the budgeting process and ownership of the results of budgeting when there is effective and timely communication on the part of the management and budget officers. The citizens feel part and parcel of the process of budget implementation and making when involved in public participation and when there are periodic updates on the budget performance. This is key in identifying factors leading to variance in budgeted and actual budget and further aligning the budget items and objectives to the organizational objectives. Needles (2011) and Preetabh (2010) posit that budget preparation is and continues to be perceived only as an accounting activity that is only centered on yearly recurrent and capital budget whereas planning continues to be perceived as a medium-term activity.

The classification and format of the budget is determined by the system put into place by the different countries. Abernethy and Brownell (2009) adds that the International Monetary Fund Manual of Government Financial Statistics explains different types of expenditures such as functional and economic expenditures. Kiringai (2012) further explores the two key classification of expenditure: capital expenditure and recurrent expenditure. Recurrent expenditure includes employer contributions, wages and salaries, interest payments, transfers and subsidies capital. This indicates difference between capital creation and the projects in progress which results to additional recurrent expenditure once they are completed.

Kiringai (2012) continues to highlight key elements to budgetary controls as: planning of key budgeting activities and controlling key budget variables. He further adds that budgetary control is considered important in any organization be it private or public in that it is: a standard of planning and control, promoting effectiveness and efficiency, promoting organizational morale, a tool in enhancing managerial performance, and is finally considered as a cost control tool in any organisation.

### **1.1.2 Budget Performance**

Mitchell (2005) defines a budget as a summary of the projected expenditure over a certain period of time, together with a proposal on how to finance the expenditure. It quantitatively expresses a plan for a certain period of time and include planned estimates of revenue and expenditure of a given organization over a given period of time.

Performance refers to non-financial and financial indicators which offer information on attainment of organizational goals (Euske & Lebens, 2006). Key financial indicators in an organization are return on equity, return on assets, profitability index and return on investment. Key non-financial indicators on the other hand include customer satisfaction, efficiency, effectiveness, productivity and Employee training and development. Budget performance refers to a quantifiable expression of the amount, cost, or result of activities that indicate how much, how well, and at what level, products or services are provided to clients/customers/the public during a given time period (Naylor, 2012).

Organisations measure their performance to ascertain their growth. Santa et al (2010) posit that benchmarking is an effective and efficient organizational tool that is used to measure an organizational performance against a laid down standards; whether relative or absolute to other organisation. Benchmarking is an important organizational tool in that it helps in assessing objectively an organizational performance, exposing areas in an organisation that requires improvements, identify other organisations with superior performance, with an aim of adoption and testing whether improvement instituted have been successful (Cowper & Samuels, 2011). Organisations which employs benchmarking in performance measurement are in a better position to highlight areas of operational weaknesses and strengths and come up with ways of improvements with the main aim of improving effectiveness and efficiency in service delivery in an organisation (Ammons, 2007).

In many developing economies mostly in Asia and Africa, for a budget to be effective it must first be adopted by a duly constituted authority (Pierre & Peters, 2011). The government should involve the citizens on budget making and implementation. According to Mwenda and Gachocho (2013) the budget approval and debate in the parliament is critical and is given much coverage through the media and the budget reading day by the minister. Contrary to other budget making stages, the budget reading day is graced by key government officers and the president. They further state that the budget making process depends on the success of each and every preceding stage.

Shard and David (2010) states that budget making and implementation process must be in line with the laid down government priorities and policies. They further asserts that the budget policies must achievable, efficient, effective, transparent, corruption free and must be cost effective. Smith (2014) further classifies government budgets as either deficit budget, surplus budget or balanced budget. Smith (2014) further states that a budget is in surplus when revenue is more that expenditure whereas a budget is in deficit when expenditure is more than revenue, a balanced budget is when expenditure and revenue are at equilibrium.

### **1.1.3 Budgetary Process and Budget Performance**

Service delivery continues to decline in devolved governments. In order to correct his scenario, county governments need to implore various ways to monitor budget performance. For budgets to be effectively and efficiently monitored, county governments must come up with measures to combat poor planning and unrealistic budgetary targets. There is need for management of every devolved unit to come up with measures to arrest poor budget performance. Budget officers must carry out regular reviews to ensure the budgets are in line with the organizational goals. For budgetary control process to be effective, a budget must first be prepared thereafter be put into practice. Budget preparation, variance analysis, budget flexibility and budget revision are key budgetary processes.

Budgetary tools are critical control tools to the economic development of any nation in regards to budget implementation and performance as it necessitates prior planning before incurring expenditure hence resulting to systematic spending (Margah, 2005). Each and every organization strive towards attaining its goal, effective and efficient budgetary control measures are key towards enhancing organizational performance. Budgetary control process is key to each and every organisation; it helps in co-ordination of resources, helps in organizational planning and departmental organisation, it helps in motivation of employees, key in performance evaluation process and also helps in definition of standards needed in the control system.

According to Cook (2008), budgetary process defines the way a particular institution builds its budget through the process of budget preparation, planning, implementation and monitoring the actual budget so that budgeted performance may be achieved. Budgetary process is key in co-ordination of resources, definition of required standards, provision of guidelines on organizational expectations and performance evaluation. Surajkumar (2005) continues by stating that budgeting is a procedure used in maximizing public expenditure contributions to the national welfare. This is achievable by making ensure the budget implementation allocates the limited organizational resources to the various departments. According to

Needles (2011) in determining how to allocate limited resources to various department, the budget should be aligned to national development goals which in turn leads to realization of county and national development agenda.

Kiringai (2012) concurs that despite Kenya ushering in devolution through the constitution of Kenya, 2010; the budgeting process and implementation has not been given the attention it deserves for the realization of national agenda and enhancing effectiveness and efficiency in public service. Most developing nations, Kenya included, have struggled with the issue of efficiency and effectiveness in service delivery due to factors as inadequate accountability, lack of integrity and objectivity, and the culture of corruption among public officers. The thieving culture in many African corporations and public entities puts the entities at the verge of collapsing hence the urgent need to come up with ways of curbing the menace through effective budgetary controls.

Kibunja (2017) studied the relationship between Budgetary Process and Financial Performance of Murang'a County Government in Kenya. Budget monitoring aspects reviewed revealed weaknesses in internal controls, lack of stakeholder oversight, non-compliance to regulatory frameworks and inefficiencies in technology adoption. The study concluded that the budgetary process involving planning, implementation, monitoring and evaluation had a significant positive relationship on financial performance of the county government.

Nafisatu (2018) researched on the effect of budget and budgetary control on firms' performance: A case study of the East African Portland cement company limited. The study concluded that there was a high positive correlation between budgetary control and firm's financial performance. The study concluded that there was a high correlation between budgetary control and employee behavior and a low positive correlation between budgetary controls and sales turnover. Wacera (2016) investigated the effect of Citizen Participation on Budget Implementation in Kenyan Counties with a special focus on Nyandarua County. The independent variables for the study were citizen participation and funds availability. The study concluded that citizen participation has a significant positive effect on budget implementation in Kenyan Counties.

#### **1.1.4 County Governments in Kenya**

Devolution is a new system of governance which was adopted on the promulgation of the new constitution in the year 2010 and implemented in the year 2013 after the general elections held in March (RoK, 2010). The key defining features of devolution are autonomy to sub-national units and transfer of political power.

The devolved units are decentralized system of governance which are directly accountable to the local communities (Oloo, 2006). Devolution gave birth to forty-seven devolved units now known as counties which full mandate to come up with policies and legislation in line with the constitution.

Each County Government consist of a County Executive and a County Assembly. The County Executive is headed by the Governor who is deputized by the Deputy Governor with the aid of the county executive committee members and administration. The County Assembly on the other hand is headed by the Speaker assisted by the deputy Speaker and the Leader of majority party.. The County Assembly constitute of elected members, nominated members and the Speaker. The Clerk of the County Assembly is the head of the County Assembly Service.

According to the report from the Office of the Controller of Budget (OCOB, 2020) for the FY 2019/20, The approved budget for FY 2019/2020 for the forty-seven County governments totaled to Kshs. 499.62 billion. Sixty-two per cent (Kshs. 311.63 billion) represented recurrent expenditure while thirty-eight per cent (Kshs. 187.98) billion represented development budget. The budget was financed using equatable share, grants from national government and development partners, own source revenue and cash balance from the previous FY at Kshs. 316.5 billion, Kshs.22.9 billion, Kshs.39.09 billion, Kshs.54.9 billion and Kshs. 51.23 billion respectively. The report further enumerates that the county governments recorded a Kshs. 4.53 billion decrease in revenue collected in the FY 2019/2020 as compared to FY 2018/2019 representing 9.6 per cent decrease. The FY 2018/2019 generated revenue of Kshs. 40.30 billion 2019/2020 as compared to the FY 2019/2020 whereby a total of Kshs. 35.77 was generated.

During the FY 2019/2020, only five counties namely; Bomet, Machakos, Lamu, Homa Bay and Taita Taveta exceeded their annual targets. On the contrary, the following seven counties recorded below fifty per cent against annual targets: Kajiado, Wajir, Meru, Nandi, Kisii, Siaya and Busia (Office of Controller of Budget, 2020). According to the Office of the Controller of Budget (2020), in the FY 2019/2020 the county governments had a total expenditure of Kshs.383.79 billion representing 76.8% rate of budget absorption of the budget of the forty-seven counties.

The county governments recorded a decline in budget absorption rate of 1.1 per cent from the previous financial year (FY 2018/2019). Further, the county governments had a total expenditure of Kshs. 376.43 billion out of which only ten per cent accounts for development expenditure while the remaining ninety per cent accounts for recurrent expenditure. This implies a decrease of 2.4 per cent from the previous financial year results (FY 2018/2019) where the total development expenditure was Kshs. 107.44 billion. This expenditure is further classified in terms of personnel emoluments, operations and maintenance

(O&M) and development which accounts for 45 per cent, 28 per cent and 27 per cent respectively of the total budget.

Kiriria (2013) states that the county executive through the Ministry of Finance is solely responsible for preparation, implementation and performance of the county budget. The basis of preparation of the county budget is guided by various legal documents: The PFM Act, the County Government Act, the County Assembly Service Act, the Constitution of Kenya 2010 and other Acts. The underlying principle of budgeting is efficient allocation of public resources to the various county entities. He further argues that as the country begins the implementation of devolution, much emphasis is on the ability of the Exchequer to sustain the centralized and decentralized functions. He further questions the effectiveness and efficiency of the PFM system at both the national government and county government. The objective of preparing of the county budget should be to attain the mission and vision of the county as stated in the County budget outlook paper, annual development plan (ADP) and county integrated development plan (CIDP).

## **1.2 Statement of the problem**

Despite the promulgation of the Kenya Constitution 2010, not much progress has been seen in regards to budgetary process. The budgeting process is still very critical to any management process in Kenya and Kiringai, (2012) notes that much attention has been on decentralization of power thus giving the budget implementation and performance a big blow. Pierce (2014), further states that key to budget implementation and performance is adequate planning and effectively control of scarce resources to realize the government plans and policies in an effective and efficient manner leading to better performance of both the national and counties' budget. Budget is an important tool for planning and expenditure for any organization.

Sach (2008) notes that many African countries such as Mauritius, South Africa and Rwanda have experienced success in the implementation of their budgets. He further states that in as some African countries have experienced success in budgeting, many are still lagging behind as far as budgeting is concerned due to poor planning, inaccurate forecasting, low budget absorption rates and inadequate monitoring. According to Nambajimana (2019), budgetary controls have effect on financial performance of Public Institutions In Rwanda. The study concluded that public institutions in Rwanda are performing below par due to budgetary concerns such as poor budgetary execution and monitoring.

Flexible budgetary systems have hindered service delivery in both the two levels of governments. This has contributed to slow economic growth and increased the awaiting expectations by the demography

(Commission on Revenue Allocation, 2015). The proper budgeting with poorly structured tax system otherwise viewed as biased in some context of business and enterprise taxation provide inclusion to huge budget deficits leading to external borrowing or dependence on the Foreign Direct Investments. This has led to high levels of debt magnitudes created by the national government that ought to ensure compliance towards tax returns submissions for budgetary financing. A country with over 15 Million manpower and effective tax system will have good tax collections returns annually however this is the opposite of Kenya with increasing cases of evasions or avoidance.

Some scholars also argue that the issue of budget performance is not only an issue to other African countries but also Kenya. Scholars such as Kibunja (2017), Kiringai (2012) and Nafisatu (2018) all assert that budget performance in both private and public institutions in Kenya is below par. They state that the budget performance of county governments in Kenya is mainly affected by weak budgetary controls, low expenditures on the development budget, high level of pending bills, under-performance in own source revenue collection, high expenditure on personnel emoluments. The informal sector is always left un-taxed resulting to reduced revenue and consequently leading to deficits in budgets and embezzlement of funds by various organizations (Franzen, 2007). In addition, Lack of continuous professional development (CPD) programs and capacity building on revenue collection results to mismanagement and misuse of revenues collected or otherwise creates constraints in accessibility of the resources required for the implementations.

According to the Office of the Controller of Budget (2020), the county governments recorded a decline in budget absorption rate of 1.1 per cent from the previous financial year. Further, the county governments had a total expenditure of Kshs. 376.43 billion out of which only ten per cent accounts for development expenditure while the remaining ninety per cent accounts for recurrent expenditure. This implies a decrease of 2.4 per cent from the previous financial year results (FY 2018/2019) where the total development expenditure was Kshs. 107.44 billion. This expenditure is further classified in terms of personnel emoluments, operations and maintenance (O&M) and development which accounts for 45 per cent, 28 per cent and 27 per cent respectively of the total budget.

High level of pending bills, weak budgetary controls, low expenditures on the development budget, under-performance in own source revenue collection and high expenditure on personnel emoluments were highlighted as main challenges hindering the performance of county budgets in Kenya. With effective budgetary process in place, all the county governments will experience increase in budget performance in terms of budget absorption. In view of the background information above, this study sought to investigate the effect of budgetary process on budget performance in county governments in Kenya.

## **1.3 Objectives of the Research**

### **1.3.1 General Objective**

To determine the effect of budgetary process on budget performance in county governments in Kenya.

### **1.3.2 Specific Objectives**

- i. To establish the effect of budgetary planning on budget performance in county governments in Kenya.
- ii. To determine the effect of budgetary implementation on budget performance in county governments in Kenya.
- iii. To evaluate the effect of budgetary monitoring on budget performance in county governments in Kenya.

## **1.4 Research Questions**

- i. What is the effect of budgetary planning on budget performance in county governments in Kenya?
- ii. What is the effect of budgetary implementation on budget performance in county governments in Kenya?
- iii. What is the effect of budgetary monitoring on budget performance in county governments in Kenya?

## **1.5 Significance of the Study**

The research is significant to management, policy makers, management and scholars.

### **1.5.1 Management**

The study is significant to the management of the devolved systems of governments as regards to budget formulation and performance. Further, the management are in a better position to assess the effect of budgetary controls on budget performance in County Governments in Kenya.

### **1.5.2 Policy Makers**

The study gave insights on the on goings with a view of making policy recommendations on budget performance. This may stem the common occurrences of fall outs between the two arms of governance in the county budget making process. The study interrogated the statutory provisions as pertains to the Public Finance Management Act, 2012, the County Government Act, 2010 and related pieces of legislation enacted by the counties with a view of confirming any gaps which impair their implementation process. This is with an aim of proposing amendments to deter the occurrence of conflict between the legislature and the executive in the budget performance.

### **1.5.3 Government**

The government uses the findings to come up with the regulatory procedures on how to allocate revenue to both the national and county level of governments. The government may also explore ways of relaxing the regulatory procedures on budget allocation to the devolved governments.

#### **1.5.4 Scholars**

The study contributes to the body of scholarly works in the realms of budget performance in the county governance structures and in the relations between the legislature and the executive arms of government. The study will also be of great value to future researchers undertaking related research works in future.

#### **1.6 Scope of the Study**

The population of study are the budget officers of the County Governments in Kenya. The study aims at collecting views from the budget officers of the five county governments. The study will be confined to the three independent variables of budgetary planning, budgetary implementation, and budgetary monitoring. The relationship between the dependent variable will be measured against the three independent variables. The study will cover 2019/2020 financial year. This will ensure recent data is captured and utilized in decision making by the management.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The literature review presents a summary of the theoretical review, empirical review and knowledge gap to be filled by other scholars. Literature review further presents both the conceptual framework and operationalization of variables.

#### **2.2 Theoretical Review**

##### **2.2.1 Agency Theory**

Agency Theory was developed by Jensen and Meckling in the year 1976 together with Fama and Jensen in the year 1983. Thereafter, the theory has continued to attract scholars in the fields of economics, finance and strategic management leading to more studies being done on these fields. Hoskisson et al., (1999), defines agency theory as a theory that results as a result of separation of control and ownership in various organisations further leading to a divergence of principal and agent interests. Shareholders of the organisation becomes principals when they engage professional services of managers to manage their venture on their behalf. The shareholders heavily invest their resources in the venture and come up with systems of governance that they deem fit to maximize their earnings.

The agency relationship arises as the management team accepts the responsibility of the principals hence becomes the agents. As agents, they owe the principals the duty of: performance, obedience, care and skills, confidentiality, disclosure and duty of non-delegation. The principals on other hand has the duty to fair remuneration and compensate the agent for loss or liability arising during the agency relationship. The managers accept the agency responsibility in expectation of compensation on a regular basis in the form of wages or commissions. Davis (1997) states that key to the agency relationship is that the principals delegate authority and the agents act on the delegated authority. Davis (1997) further states that it is due to this delegated relationship that the agents abuse the trust bestowed on them by the principals, and start acting in a way that does not maximize the shareholders returns.

The key concern of agency theory is corporate governance, i.e., how the shareholders (principals) ensure that the managers (agents) take consideration of their interest while making key decisions concerning the company. Eisenhard (1989) argues that agency problems arise under circumstances of uncertainty and circumstances of incomplete information. Further, agency relationship is hindered by two key risks: moral hazard and adverse selection. Under moral hazard, the shareholders (principals) cannot ascertain whether the managers (agents) are doing their best as far their role is concerned. Adverse selection on the other hand is where the managers (principal) fail to establish whether the agent fulfills the requirements the job he or she currently holds.

Jensen and Meckling (1976) argues that both the principal and agent are motivated by their own benefits and conflict arises when there is divergent of interest of the two parties. Eisenhard (1989) further adds that the conflict of interest of the two parties may result to losses for either party. To the agent, it may result to loss of employment, reduction in income and even jail terms whilst for the principal, it may result to reduction in wealth, information asymmetry and even abuse of delegation authority.

According to Meckling and Jensen (1976), the objective of agency theory therefore is to reduce the agency costs in order to ensure the agents act as stewards on behalf of the principals. In addition to the challenges and objectives, the agency theory came up with principles and policies to protect the principal's interest in the organisation and to align the actor's interest. These principles and policies helps in coming up with corporate governance mechanisms some of which are shareholders direct intervention, threats of corporate takeover and firing, and managerial compensation. Daily (2003) further states that some are financial incentive such as bonus issues to dedicated directors, financial reward to long serving executives and offering promotional opportunities to best serving management team. Further, Jensen and Meckling (1976), the main model underlying this theory is that of a rational actor who seeks to maximize his or her utility with the least possible expenditure.

According to Eisenhard (1989) the theory assumes that a human beings are egocentric, rational and opportunistic. Donaldson and Davis (1991) further states that human beings seek only rewards mainly financial and avoids punishment at all cost. The theory perceives a company an appendix and hypothesizes that a contract as opposed to permanent engagements can act as a motivating factor to executives (Hoskisson et al., 1999). According to Ghoshal and Moran (1996), an organization's economic view has greatly been criticized in the recent days because the theory is perceived to be more simple to derive an arithmetical model and also that the model has reduced managerial motivation in organizations.

According to Donaldson (1990) that despite the reduction theory, the scientific model validity has traditionally not relied on the accuracy of its assumptions but instead relied on its predictions. Donaldson (1990) further states that the agency theory is considered scientifically valid due to its simplicity understand and existence of less assumptions. Ferraro (2005) further posit that the main concern of the agency theory is that its reductionist assumptions on managerial compensation guides the building of the theory of management and organization. Ghoshal (2005) adds by stating that a managerial perspective that is human such as stewardship theory may not realize much benefits to an organisation due to its underlying assumptions and due to the fact that it provides not simple and realistic propositions.

The study considers citizens as the principal whereas the management acts as the agents because they are charged with the responsibility of preparation, implementation and formulation of the budgets and it is for this reason that the theory is relevant to the study of the effect of budgetary process on budget performance in county governments in Kenya.

### **2.2.2 Stakeholders' Theory**

Stakeholders' theory was developed by Edward Freeman in 1994. It is a theory of organizational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, and others. Stakeholder theory is based on the assumption that values are part of doing business and that managers need to articulate the shared sense of value they create to bring its key stakeholders together. According to Strand and Freeman (2015), stakeholder theory was developed from four lines of strategic organizational planning, systems theory, corporate social responsibility and organizational theory.

It is argued that when stakeholder's interest is well taken care of they will likely return for more. System roles, alignment to the problem, stakeholder agency, power and transformational potential are the key pillars of stakeholder theory. Stakeholders are key to the success of a firm hence the need for corporate leaders to take into consideration their interest when conducting business and when making decisions (Ulrich, 2008). white (2019) posit that stakeholder theory argues that managers should not only make decisions concerning finances but also society, government, employees and the clients.

Stakeholders' theory is a critical theory in the field of management and economics. The proponents argues that stakeholders' theory does not specify mechanisms of making trade-off between the interests of the various stakeholders. These competing interests makes it difficult for the top management to make and implement critical decisions in an organisation (Freeman, 1994). Stakeholders' theory enables top management to be unaccountable for the actions they make. This makes the managers adopt various approaches which in long-run locks out the stakeholders from participating in the process of making decisions(Kaptein & Van, 2003). According to Mackenzie (2007), the stakeholders' theory may lead to misalignment of demand of the various stakeholders to the objectives of their institution.

Managers as good stakeholders should ensure that shareholders' value is maximized. Shareholders' value maximization as a corporate score card together with corporate mission, vision and strategy should should all complement each other (Wheelen & Hunger, 2002). When for a long time the top management acts in the best interest of the organization as opposed to their own interest, they are viewed as stakeholders (Clerk, 2004). According to Freeman (1994), if an organization does not cater for the long term interest of stakeholders then the market value cannot be maximized.

According to Mallin (2004), stakeholders' theory is different from agency theory in many areas. The success of agency theory is mainly hindered by agency conflict whereby the interest of principals are not well taken care of by the agents. Agency conflict is not a concern to Stakeholders' theory as the managers are perceived to be stewards hence will uphold the interest of the shareholders. Freeman (2015) further,

states that the market value of an organization cannot be maximized if in the long run the stakeholders' interest is not well taken care of.

Stakeholder theory has been critiqued by various scholars on competition, litigation, international interest, distribution of benefits and power. According to Freeman (1983), the competitors of a firm should be classified as stakeholders because they are directly impacted when the objectives of the firm are attained. The theory is further criticized for failure to stipulate how power to protect interest of the shareholder is provided. Stakeholder theory asserts that not only employees of the county governments in Kenya are critical to the budgetary planning, implementation and monitoring but also key stakeholders such as the citizens, the society and the government. Stakeholders' theory therefore is employed by the study to examine whether budget performance is affected by budgetary process.

### **2.2.3 Stewardship Theory**

Stewardship theory was developed in 1993 by Donaldson and Davis. Stewardship theory states that managers left on their own will act as responsible stewards of the assets they control. According to this theory, a steward is considered to be trustworthy, pro-organizational and collectivists. Stewardship theory assumes that a steward will prefer cooperation than defection given a choice between pro-organizational behaviour and self-serving behaviour (Donaldson & Davis 1993).

Stewardship theory assumes that managers are good stewards hence they strive to protect and maximize the wealth of the firm shareholders. According to this theory, stewards are the top management working towards maximizing the shareholders value hence the stewards, top management, are motivated when a firm achieves its objectives and goals. This theory further stresses on the importance of responsibility and team work more so on the part of employees in order to achieve organizational goal.

Stewardship theory was developed as a result of flaws in agency theory. The conflict of interest between principals and agents gave birth to this important theory. Critics consider agency theory as being static while analyzing the agency relationship between principals and agents. Further they questioned the no learning assumption of agency theory. According to Donaldson and Davis (1993) the theory on stewardship makes assumption that no conflict of interest exist between principals and agents, and that given the choice between organizational and personal concerns, a steward will prefer organizational concern. Donaldson (2008), asserts that there is no concern of organizational control in stewardship theory thus agents (stewards) critically study their course of action. Its key assumption is derived from the main weakness of agency theory of the conflict of interest between agents and principals, this assumption is that stewards (managers) do not have conflict of interest and as such adheres to the interest of the

principals. The theory emphasizes on aligning organizational goal with that of the managers instead of advocating for the goals of the agents (Van Slyke, 2006).

The key issue of stewardship theory is ensuring that the interest of both the shareholder (principal) and manager (steward) are aligned (Donaldson & Davis, 1993). Stewardship theory further maintains that there are various factors that influence managers to being stewards and agents. These factors are either psychological or situational.

The psychological and situational factors affect managers in various levels such as enthusiastic beginner, disillusioned learner, reluctant contributor and peak performer. Situational factors are factors without the organisation while psychological factors within the organisation. Some of the most important situational factors that affect a steward are relationship, task, and authority and maturity level while the psychological factors that are mainly considered to influence manager's decision are decisiveness, competence, integrity and vision. Davis, Schoorman and Donaldson (1997) concludes that the situational and psychological characteristics of the main actors (principal and steward) are subject to their choice between stewardship and agency relationship.

Stewardship theory is relevant to the study as the various managers mostly budget officers in the devolved governments in Kenya are considered to be stewards of the public resources entrusted to them. This is mostly evidenced in the fact that as stewards, the managers, should have no conflict of interest and their main objective is to advance ways of facilitating effective and efficient use of resources through aligning their objectives to those of the principals. In this regard, the stewardship theory is considered key to studying the effect of budgetary process on budget performance in county governments in Kenya.

All these theories underscore the importance of budgetary process not only on the budget making and implementation process, but also on the entire budget performance in the county governments in Kenya.

## **2.3 Empirical Review**

### **2.3.1 Budgetary Planning and Budget Performance**

Omolo (2010) defines to planning as the process of achieving an organization's desired goals. Further, he posits that planning entails short term and long term elements. Omolo (2010) further emphasizes the need for sharing of information and consultation in the three key stages of budget control (budget planning, budget implementation and budget monitoring). Stakeholders in budget making process need to be engaged through citizen participation. Communication is critical in budget planning stage. Organisations should devise means of ensuring information is freely shared with stakeholders. Budgets have an important part to play in the communication of objectives, targets and responsibilities throughout the

organization. Carried out properly, this can have considerable benefits in promoting co-operation at all levels.

Kibunja (2017) conducted a research on the effect of budgetary process on Financial Performance of Murang'a County Government in Kenya. The independent variables of the study were budgetary planning, implementation, monitoring and evaluation. The study employed both Primary and Secondary data. In addition, a descriptive research design was used establish the relationship between dependent and independent variables of the study. Thirteen heads of departments were considered as the target population of the study from 2,074 members of county staff. The study employed descriptive analysis and inferential statistics analysis while both excel and SPSS software were employed in data analysis. Charts, tables and graphs were used to present the data analyzed. The study concluded that the budgetary process significantly influences financial performance of the county government. The study recommended a review to be done on the budget process and public participation policy. In addition, the study recommended county governments to ensure their study undertake continuous professional development programs and other programs on capacity building to enhance their skills.

Kiriria (2013) analysed the capacity and performance implications of the budgetary process on the Kenya National Economy. The study employed the use of primary data and exploratory data techniques were used. Budget planning, implementation and budget monitoring were used as independent variables. Kiriria (2013) argues that PFM Act, 2012 clearly spells out ways in which both the two levels of government can finance and spend its budget. Section 125 of the PFM Act enumerates the processes of making a budget at the devolved government level. Prudent management of public resources requires an effective and efficient public finance management system (Kiriria, 2013).

Galgallo (2015), conducted a study on strategy implementation challenges in the Devolved Government units: Case of Mombasa County, Kenya. The study employed qualitative data which was collected using an interview guide. A case study design was used by the researcher. The target population of the study were ten chief officers of Mombasa county government. The study found out that key strategy implementation challenges were ineffective communication, political and cultural factors, inadequate financial resources, poor leadership and lack of adequate control and evaluation measures. The study recommended that the county government should come up with appropriate policies on implementation of strategy, that the county staff be trained on the strategic plan. The study further recommends that sufficient resources for the implementation activities to be realized successfully.

Wacera (2016) investigated the effect of Citizen Participation on Budget Implementation in Kenyan Counties with a special focus on Nyandarua County. The independent variables for the study were citizen participation and funds availability. A descriptive research design was employed by the study. The target population of the study 255,984 registered voters in Nyandarua County. Simple random sampling method was used to establish a sample of 400 participants distributed across the county. The study employed both primary and secondary data with questionnaire and data collection sheet employed as a data collection instruments. The data collected was analysed using SPSS and presented using graphs and charts. The study concluded that citizen participation has a significant positive effect on Budget Implementation in Kenyan Counties. The study recommended is the government to conduct civic education across the county so that the public is informed of its civic rights, public participation being the most sovereign.

Gachithi (2010), investigated the challenges of budget implementation in Public Institutions using the University of Nairobi as the focus. The specific objective of the study was to examine the challenges facing budget implementation in public institutions in Kenya. The second specific objective was to establish the extent to which the challenges affect implementation of budget in public institutions in Kenya. The study employed secondary and primary data. The data collection form and questionnaire were used to collect secondary and primary data respectively. The study employed a descriptive research design. Excel and SPSS software were used to analyze the data collected. Tables, graphs and figures were used to present the data analyzed. The study concluded that weakness in internal controls, unsatisfactory methods for allocating funds to user departments, deficit budgets and lack of adequate budget preparation procedure as the key challenges in budget implementation in Public Institutions. The study recommended that public institutions devise means of improving departmental budget allocation and strengthening of internal controls in public institutions.

Kamau (2017) researched on the effect of budgetary process on budget performance in public sector: a case study of state corporations in Kenya. The specific objectives of the study were Budgetary Controls, Budget feedback, budget sophistication and budgetary participation. The dependent variable of the study was budget performance which was measured using value for money, budget goal achievement and budget compliance. The study further used a descriptive research design to explore the relationship between the dependent and independent variables. The target population of this study were four hundred fifty thousand staff of Kenyatta National Hospital with a sample of seventy-two staff. The study employed a descriptive research design. Both qualitative data qualitative data were collected using both questionnaire and data collection sheet respectively. The study concluded that budgetary participation has a significant positive effect on budget performance of State Corporations in Kenya. The study recommended that there should

be clear communications channels in all corporations and that staff proposals should be taken into consideration during budget preparation.

### **2.3.2 Budgetary Implementation and Budget Performance**

According to Mkasiwa (2011), budgetary control requires timely and comprehensive implementation and monitoring system which requires a complete change in the systems for accounting and reporting. The budgetary control system must be reviewed continuously to ensure efficiency and effectiveness. The review should incorporate various performance indicators such as inflation, interest rates and exchange rates.

Nafisatu (2018) researched on the effect of budget and budgetary control on firms' performance: A case study of the East African Portland cement company limited. Descriptive research design was used to describe the independent variable whereas explanatory research design was used to describe the relationship between the independent and dependent variables in the study. Budgetary control is the independent variable whereas budgetary control types, employee behavior and financial performance were used as the dependent variables. The study employed the use of quantitative and qualitative data. Published accounts and questionnaire were used to collect both secondary and primary data. The staff of East African Portland cement company limited constituted the population of the study. SPSS was used to analyze the data collected. The data collected was presented using graphs and charts. The study concluded that there was a high positive correlation between budgetary control and firm's financial performance. The study recommended that East African Portland Cement Company should encourage implementation of their budgets as planned. Further, the management should pay more attention to the budgeting processes since it improves firm performance.

Kathungu (2016) investigated the effect of budget utilization on the financial performance of county governments in Kenya. The independent variables Budget Utilization, Revenue Collection, Capital Structure and dependent variable is government performance. The target population were the county government staff. Data collection form and questionnaire were used to collect secondary and primary data. The study used descriptive statistics to analyse the collected data and regressed data on SPSS. The results were presented in form of graphs and tables. The study concluded that budget utilization has a significant positive effect on the financial performance of county governments in Kenya. The study made the following recommendations: county governments to engage experts on matters of financial management, citizen participation and frequent feedback on the part of management.

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Muita and Karanja (2018) researched on effect of IFMIS on the success of public sector budgeting process in Kenya. The study specifically determined the effect of budget preparation, implementation, monitoring and forecasting on the success of the public sector budgeting process. A descriptive research design was employed to answer the specific objectives of the study. Both qualitative and quantitative data were used in the study. Qualitative data was collected by questionnaire whilst quantitative data was collected by data collection sheet. The study established that integrated financial management information system affects the budgeting process in Kenya. The recommendation of the study was that participatory budgeting to be implemented in both levels of governments. Further, the government should implement capacity building programs and training on Information, Computer and Technological skills.

Kibunja (2017) conducted a research on the effect of budgetary process on Financial Performance of Murang'a County Government in Kenya. The independent variables of the study were budgetary planning, implementation, monitoring and evaluation. The study employed both Primary and Secondary data. In addition, a descriptive research design was used establish the relationship between dependent and independent variables of the study. Thirteen heads of departments were considered as the target population of the study from 2,074 members of county staff. The study employed descriptive analysis and inferential statistics analysis while both excel and SPSS software were employed in data analysis. Charts, tables and graphs were used to present the data analyzed. The study concluded that the budgetary process significantly influences financial performance of the county government. The study recommended a review to be done on the budget process and public participation policy. In addition, the study recommended county governments to ensure their study undertake continuous professional development programs and other programs on capacity building to enhance their skills.

Mohamed (2018), conducted analysis of Budget performance of county governments in Kenya. The specific objectives of the study were local revenue performance, expenditure performance and absorption rates. Panel data was used in the forty-seven county governments for a period of four financial years

between FY 2013/14 and FY 2016/17. The study adopted correlational research design. SPSS software was used in analyzing the quantitative data collected. The data analyzed was presented using graphs, tables and figures. The unit of analysis was the county governments. The study concluded that the three independent variables (local revenue performance, expenditure performance and absorption rates) have significant positive effect on Budget performance of county governments in Kenya. The study recommended that the county governments should enhance efforts in budget execution. Further, the counties should focus on diversifying their sources of revenue to reduce dependency on national government and finally benchmark with counties with higher absorption rates to improve their absorption rates.

Wambua (2014), studied the relationship between decentralization of government operations and service delivery performance by county governments in Kenya. The specific objectives were healthcare services, education services, agricultural sector and transport sector. The dependent variable (performance of county governments) was measured using service delivery, availability of resources and socioeconomic growth. The study employed qualitative data. The primary data was collected using questionnaire. Exploratory research design was adopted by the study. The study used both excel and STATA software in analyzing data. The data analyzed was further presented using graphs, tables and figures. The study concluded that decentralization of government operations positively affects service delivery of county governments. The study recommended county governments to adopt decentralization as a policy to improve on the performance of the county government.

### **2.3.3 Budgetary Monitoring and Budget Performance**

Budgetary monitoring is a process involving establishing targeted performance for each budget unit and communicating details of the budgetary policy to all the stakeholders (Drury, 2006). According to Drury (2006) budget monitoring process is done by conducting variance analysis between budgeted and actual performance and conducting corrective measure to the variance established thereafter coming up with a suitable corrective measure.

Kathungu (2016) investigated the effect of budget utilization on the financial performance of county governments in Kenya. The independent variables Budget Utilization, Revenue Collection, Capital Structure and dependent variable is government performance. The target population were the county government staff. Data collection form and questionnaire were used to collect secondary and primary data. The study used descriptive statistics to analyse the collected data and regressed data on SPSS. The results were presented in form of graphs and tables. The study concluded that budget utilization has a significant positive effect on the financial performance of county governments in Kenya. The study made the

following recommendations: county governments to engage experts on matters of financial management, citizen participation and frequent feedback on the part of management.

Muhunyo (2018) studied the effects of internal control systems on financial performance of public institutions of higher learning in Nairobi City County. The specific objectives were communication and information, risk assessment, control activities and control environment. The study employed a descriptive research design. Cross sectional data was used. The population of study was employees of the learning institutions where a sample of ninety-six employees were selected for data collection. Qualitative data was used both open and closed ended questionnaire being put into use to collect primary data. The study concluded that risk assessment, communication and information, control activities and control environment have a strong positive effect on financial performance of higher learning institutions in Nairobi City County. The study recommended higher learning institutions to incorporate internal control activities and risk assessment procedures to enhance financial performance.

Nafisatu (2018) researched on the effect of budget and budgetary control on firms' performance: A case study of the East African Portland cement company limited. Descriptive research design was used to describe the independent variable whereas explanatory research design was used to describe the relationship between the independent and dependent variables in the study. Budgetary control is the independent variable whereas budgetary control types, employee behavior and financial performance were used as the dependent variables. The study employed the use of quantitative and qualitative data. Published accounts and questionnaire were used to collect both secondary and primary data. The staff of East African Portland cement company limited constituted the population of the study. SPSS was used to analyze the data collected. The data collected was presented using graphs and charts. The study concluded that there was a high positive correlation between budgetary control and firm's financial performance. The study recommended the company to encourage implementation of their budgets as planned and to pay more attention to the budgeting processes.

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significant positive effect on Budget performance of county governments in Kenya. The study recommended that the county governments should enhance efforts in budget execution. Further, the counties should focus on diversifying their sources of revenue to reduce dependency on national government and finally benchmark with counties with higher absorption rates to improve their absorption rates.

Mpakaniye (2017) conducted a study on effect of internal audit on budgetary control of Rwanda Local Government. The population of the study were the employees of the local government of Rwanda. Primary data was used in the study. Descriptive data analysis was employed in the study. The study concluded that management of staff and assets are key to budgetary control. The study further asserts that budget planning, implementation and monitoring are key steps towards successful budget control. The study concluded that internal audit directly affects budget control in Rwanda Local Government.

Kanyinga (2014) studied the effect of parliamentary oversight on budget performance in public institutions in Kenya. The population of the study were the employee of the ministries in Kenya. Both primary and secondary data were employed in the study. Descriptive research design was employed. The study concluded that political bargaining and citizen participation affects budget performance. The study also emphasized on the importance of accountability among public officers. The study recommended the use of citizen report cards, public expenditure tracking surveys and social audits in monitoring social impact of public spending.

The previous studies reviewed above led to a conclusion that there is an increasing perception that budgets are useful in today's highly challenging economic environment. In government realm, the reviews cited that proper frameworks and strategies for budget planning should be integrated and stakeholder engagement to be enhanced in the county governments. However, the relationship of budget planning and financial performance of public sectors was vivid, and none focused on the study location. Consequently, knowledge about budgeting practices and financial performance of the forty-seven county governments in Kenya is still not clear and information available is useful to provide insight into whether budgets are still appropriate planning and control tools.

## **2.4 Knowledge gap**

Scholars have emphasized on the study of the effect of public participation on budget implementation in the devolved governments in Kenya and also on the impact of public participation on democracy and the economic development of the Kenyan government. Nyageng'o (2013) studied determinants of effective budget implementation among local authorities in Kenya.

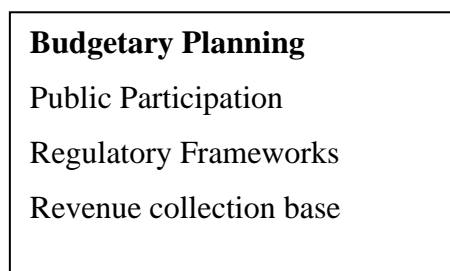
Kamau (2017) in addition assessed the effect of budgetary process on budget performance in public sector using state corporations in Kenya as a focus. The above study recommended further research to be done in the devolved governments. Further, Serem (2013) studied the effect of budgetary control on performance of non-governmental organizations in Kenya. The above studies failed to address budgetary process and budget performance. This study therefore seeks to fill this gap by studying the effect of budgetary process on budget performance in county governments in Kenya.

## 2.5 Conceptual Framework

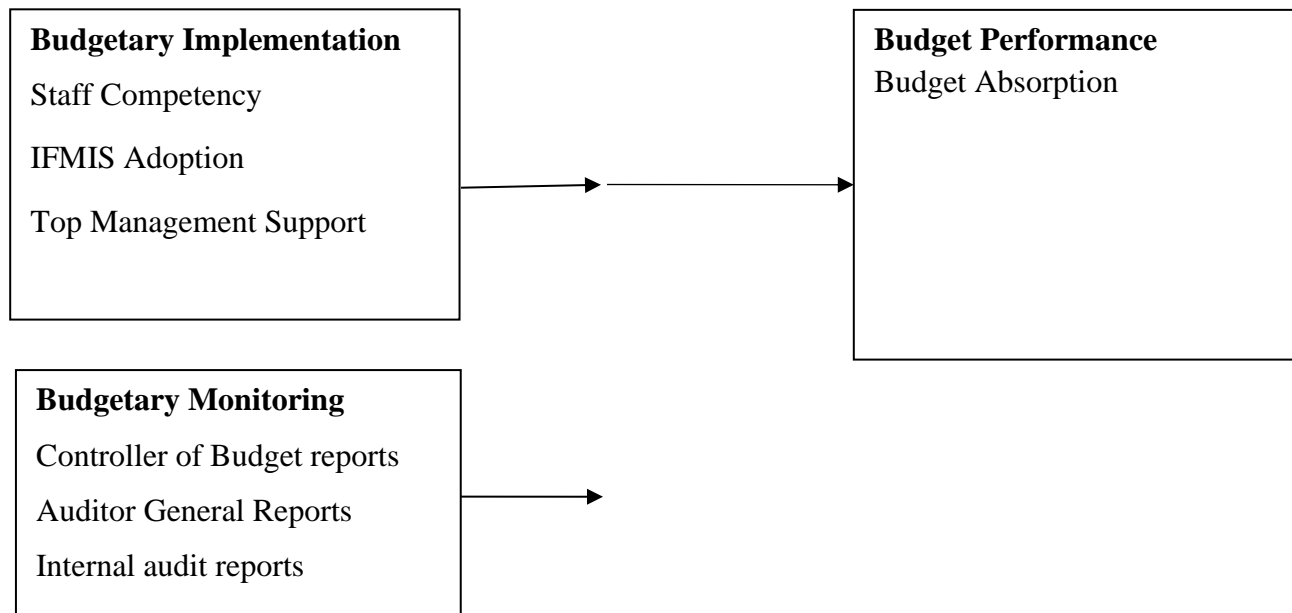
Conceptual framework refers to a graphical representation of both the dependent and independent variables of a particular topic of study (Borg, 2005). Budget performance is the dependent variable measured by budget absorption. The independent variables include budgetary planning, budgetary implementation and budgetary monitoring. Budgetary planning was measured using public participation, regulatory frameworks and revenue collection base; and Budgetary implementation was measured using staff competency, IFMIS adoption and top management support. While budgetary monitoring was measured using controller of budget reports, Auditor General reports and internal audit reports.

**FIGURE 1**  
**Conceptual Framework**

### Independent Variables



### Dependent Variable



*Source: Author (2021)*

Mutungi (2017) while researching on the effect of budgeting and budgetary control on financial performance of devolved governments in Kenya used development index and compliance with set budget target to measure financial performance. Development index refers to the ratio of development expenditure to recurrent expenditure of an organisation for a given period of time.

Chege (2016) while studying the Effect of citizen participation on budget implementation in Kenyan Counties: A case study of Nyandarua County. Budget implementation was the dependent variable and both citizen participation and funds availability forms independent variables. Dependent variable is financial performance measured by development index, compliance with set budget and percentage of attained budgets. Independent variables are budgetary control, attainment of budget targets, programme based budgeting and county regulation.

Kibunja (2017) studied on budgetary process and financial performance of Murang'a County Government, Kenya. The specific objectives include budgetary planning, budgetary implementation and budgetary monitoring & evaluation. Budgetary planning was measured using regulatory framework, public participation, revenue collection base and human resource capacity. Human resource capacity development, IFMIS adoption and community engagement were considered as measures for budgetary implementation. Budgetary monitoring and evaluation was measured using Internal audit reports,

Accuracy of County Financial Reports, Controller of Budget reports and Auditor General Reports. Financial Performance was the dependent variable and was measured using spending as per the appropriations, development ratio and working capital ratio.

Kamau (2017) while researching on effect of budgeting process on budget performance of state corporations in Kenya: case study of Kenyatta National Hospital. The specific objectives were Budget Participation, Budget Sophistication, Budget Feedback and Budgetary Control.

## 2.6 Operationalization of Variables

**TABLE 1**

**Operationalization of Variables**

<b>Variable</b>	<b>Indicator</b>	<b>Specific Measure</b>	<b>Scale</b>
<b>Dependent variable</b>	Budget Performance	Budget Absorption	Interval
<b>Independent variables</b>	Budgetary Planning	Public Participation Regulatory Frameworks Revenue collection base	Interval
	Budgetary Implementation	Staff Competency IFMIS Adoption Top Management Support	Interval
	Budgetary Monitoring	Controller of Budget reports Auditor General Reports Internal audit reports	Interval

*Source: Author (2021)*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology chapter describes in brief procedures to be used in providing answers to the research hypotheses in chapter one of the study. The following aspects were analyzed under research methodology: target population, research design, diagnostic tests, sampling and sampling procedures, procedures of data collection and procedures. The chapter discussed data analysis and presentation methods together ethical considerations.

#### **3.2 Research Design**

A descriptive research design was employed to answer the research questions. A descriptive research design refers to a method of collecting either qualitative or quantitative data by the use of questionnaire or data collection sheet (Khan & Best, 2008). According to Bush and Burn (2010), a descriptive design helps quantitative description of variables in the form of what, where, who, when and how of the topic of study. They further state that the design is preferable because it enables scholars to gather first-hand information without manipulation.

#### **3.3 Target Population**

Kombo (2006) defines target population as all possible respondents to research questions. McColl and Easton (2012) defines population as a group of plants, animals, people, or things from which data can be collected. The unit of analysis were county governments in Kenya. The population of study were the heads of budget departments of the forty-seven counties in Kenya.

#### **3.4 Sample and Sampling Procedures**

Sampling is the process of selecting elements in a population from which one may draw out conclusion about the entire population (Hussey & Collins, 2006). Judgmental sampling method was used as the sample elements are picked mainly to enable answering of the research questions. Judgmental sampling eliminates sampling error and provides data on all the individuals in the population. The study employed forty-seven budget officers from the forty-seven county governments in Kenya.

#### **3.5 Data collection Instrument**

Qualitative data was collected by use of self-administered questionnaires. According to Orodho (2005), questionnaires ensures anonymity, can be self-administered and possibility of standardizing research

questions. Orodho (2005) further states that questionnaires can be used to reach many respondents. The questionnaire only comprised of closed-ended questions. The quantitative (secondary) data was collected using data collection sheet.

### **3.6 Data Collection Procedures**

Permission to collect data was sought from the university. The researcher on the strength of an introductory letter from the university administered questionnaire to the target population. Questionnaire was used due to ease of data collection and its convenience to respondents. The respondents were scattered over a wide geographical area, hence the researcher resorted to mail questionnaires. The mail questionnaire ensures convenience and anonymity of the respondents, and also helps in reaching respondents spread over a wide geographical area. An average was used to compress the various variables before running the regression model.

### **3.7 Validity and Reliability of Research Instruments**

#### **3.7.1 Validity of Research Instruments**

Khan and Best (1998), defines validity as the extent to which a test measures what we actually wish to measure. A measurement of a variable is valid if it measures what it is supposed to measure. Content, instrument and construct validity was tested by the researcher. Content validity is a based on a subjective assessment of the extent to which a measurement reflects the specific intended domain of content. Instrumental validity was used to demonstrate the accuracy of a measure by comparing it with another measure which has been demonstrated to be valid. Construct validity on the other hand sought agreement between a theoretical concept and a specific measuring device or procedure. The instrument was adequately prepared under close supervision to adhere to validity tests. The respondents were assessed to ensure they meet the objective of the study.

#### **3.7.2 Reliability of Research Instruments**

A measure is reliable to the degree that it supplies consistent results (Cooper & Schindler, 2006). Sekran (1996) observes that reliability of a measure indicates the stability and consistency with which the instrument is measuring the concept. Reliable instruments can be used with confidence that transient any situational factor. Reliable instruments are robust; they work well at different times under different conditions. Test-Retest reliability test was employed in ensuring the data collection instrument was reliable. An effective rest-retest reliability instrument ensures stability of the measurements obtained over time. The questionnaire was administered identical sets of scale items at two different times under the same conditions. A correlation co-efficient was used to establish the reliability of the questionnaire. The high correlation co-efficient implied a greater reliability.

### 3.8 Data Analysis

According to Khan (2006), data analysis involves the procedures of checking, editing, coding, transcription, cleaning and analyzing the data collected. Questionnaire and data collection sheet were used to collect the cross-sectional data. Microsoft Excel and STATA software were used in analyzing the data collected. To address the specific research objectives of the effect of budgetary process i.e., (budgetary planning, budgetary implementation and budgetary monitoring) on budget performance in county governments in Kenya, the study adopted a regression analysis. Budget performance of the forty-seven county governments forms the dependent variable while budgetary process forms the independent variables. An average was used to compress the various variables before running the regression model.

The hypothesized model took the form of equation one below.

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_{it}$$

Where:

**Y** = Budget Performance

**X<sub>1</sub>** = Budgetary Planning

**X<sub>2</sub>** = Budgetary Implementation

**X<sub>3</sub>** = Budgetary Monitoring

**β<sub>1</sub> – β<sub>3</sub>** = Regression coefficient for each Independent variable

**β<sub>0</sub>** = Constant or intercept

**ε** = Stochastic Error Term.

Normality test helps the researcher in establishing whether the residuals are normally distributed. According to Oscar (2007), residuals should be normally distributed about the predicted dependent variable scores. Q-Q plots was employed in checking for normality of residuals. “S” shaped elements indicate that residuals are normally distributed.

Multicollinearity test help in establishing the explanatory variables which are highly correlated. According to Kumari (2008) the correlation between any pair of independent variables should not be high as greater than 0.8. Multicollinearity was tested using correlation matrix. An independent variable with a higher standard deviation of more than 0.8 should be dropped when fitting a regression equation.

### 3.9 Data Presentation

The data collected and analyzed using the various diagnostic tests were presented by the use of graphs, figures and tables. The data presentation methods were considered in order to enhance clarity of information.

### **3.10 Research Ethics**

McMillan and Schumacher (2001) defines research ethics as beliefs about what is right or wrong, good or bad while undertaking a study. Information accessed was used purposely for research. Confidentiality was adhered to where the researcher ensured that the identities of the respondents remained anonymous. The researcher ensured that only willing respondents were administered the questionnaires in the course of the data collection exercise.

## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND CONCLUSION

#### 4.1 Introduction

The chapter presents data analysis, findings and conclusion on the effect of budgetary controls on budget performance of county governments in Kenya for the financial year 2019/2020. Exploratory data analysis was conducted on trend analysis, descriptive statistics such as the measures of central tendency, dispersion, skewness, and kurtosis. This chapter also presents discussion and interpretation of the study findings to answer the specific study objectives such as budgetary planning, budgetary implementation and budgetary monitoring.

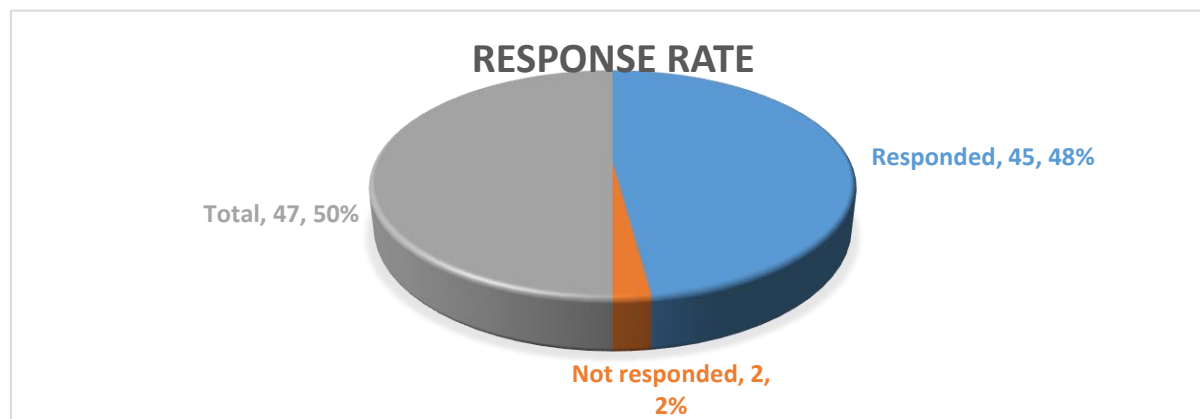
#### 4.2 Descriptive Statistics

##### 4.2.1 Response Rate

The researcher distributed a total of forty-seven (47) questionnaires to the heads of budget departments in the forty-seven county governments. According to Figure 2, out of the forty-seven questionnaire distributed only forty-five respondents (representing 96 per cent) filled and returned the questionnaires whereas two respondents never filled and returned their questionnaires. According to Mugenda and Mugenda (2003), a response rate of 50 per cent is adequate for analysis and reporting; a rate of 60 per cent is good and a response rate of 70 per cent and over is excellent. The response rate of the study was ninety-six per cent which is sufficient for reliable data in social studies. All the forty-seven county governments responded with exception of Garissa and West Pokot county governments.

**FIGURE 2**

**Response Rate**



*Source: Author (2021)*

#### 4.2.2 Gender Distribution

The study sought to find out the gender distribution of the respondents. The results in Table 2 below above shows that sixty per cent of the respondents were male while forty per cent were female. This implies that the county governments in Kenya implemented the two third gender rule by ensuring more than a third of the heads of budget departments are female. The study was critical in reducing biased and skewed response in terms gender.

**TABLE 2**  
**Gender Distribution**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Female	18	40
Male	27	60
<b>Total</b>	<b>45</b>	<b>100</b>

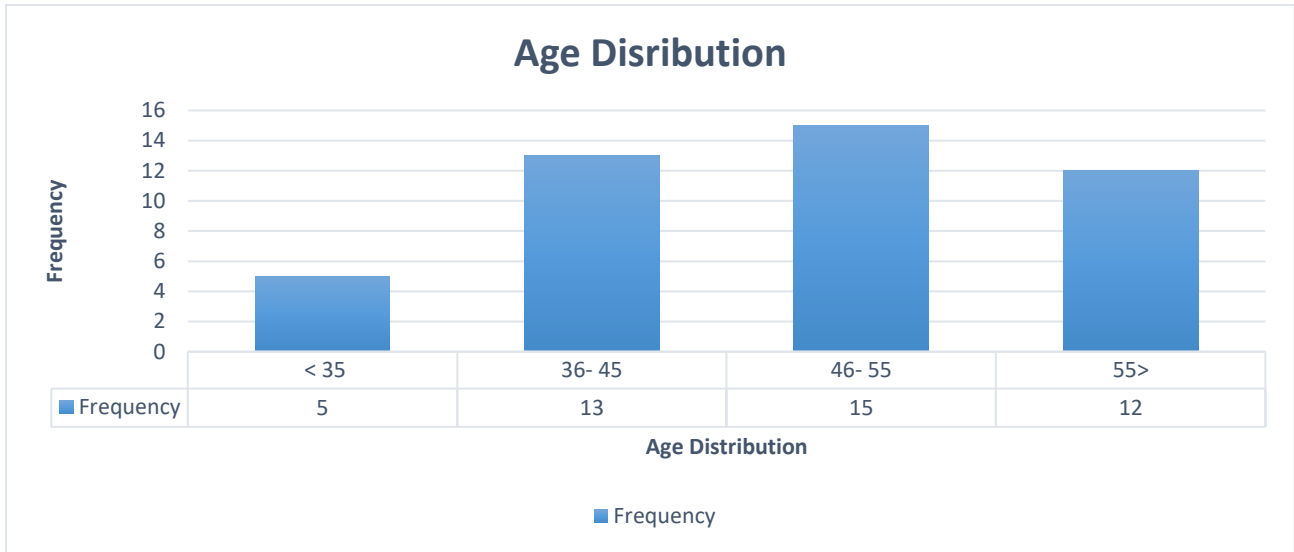
*Source: Author (2021)*

#### 4.2.3 Age Distribution

The study sought to find out the age distribution of the respondents. The results in the Figure 3 below indicate that thirty-three per cent of the respondents were aged between 46-55 years followed by respondents who were aged between 36-45 years at twenty-nine per cent. Respondents who were 55 years and above were at twenty-seven per cent and finally the respondents below the age of 35 years at eleven per cent.

**FIGURE 3**

**Age Distribution**



*Source: Author (2021)*

**4.2.4 Academic Qualification**

The study sought to find out the academic qualifications of the respondents. The Table 3 below shows that 56 per cent of the respondents were bachelor’s degree holders indicating a higher literacy level among the heads of budget departments in the forty-seven county governments. Twenty-two per cent of the respondents were master’s degree holders while thirteen per cent and nine per cent were holders of diploma and other certificates (professional courses, higher diploma and doctor of philosophy) respectively. Of importance to note was that none of the respondents was a certificate holder.

**TABLE 3**

**Academic Qualification**

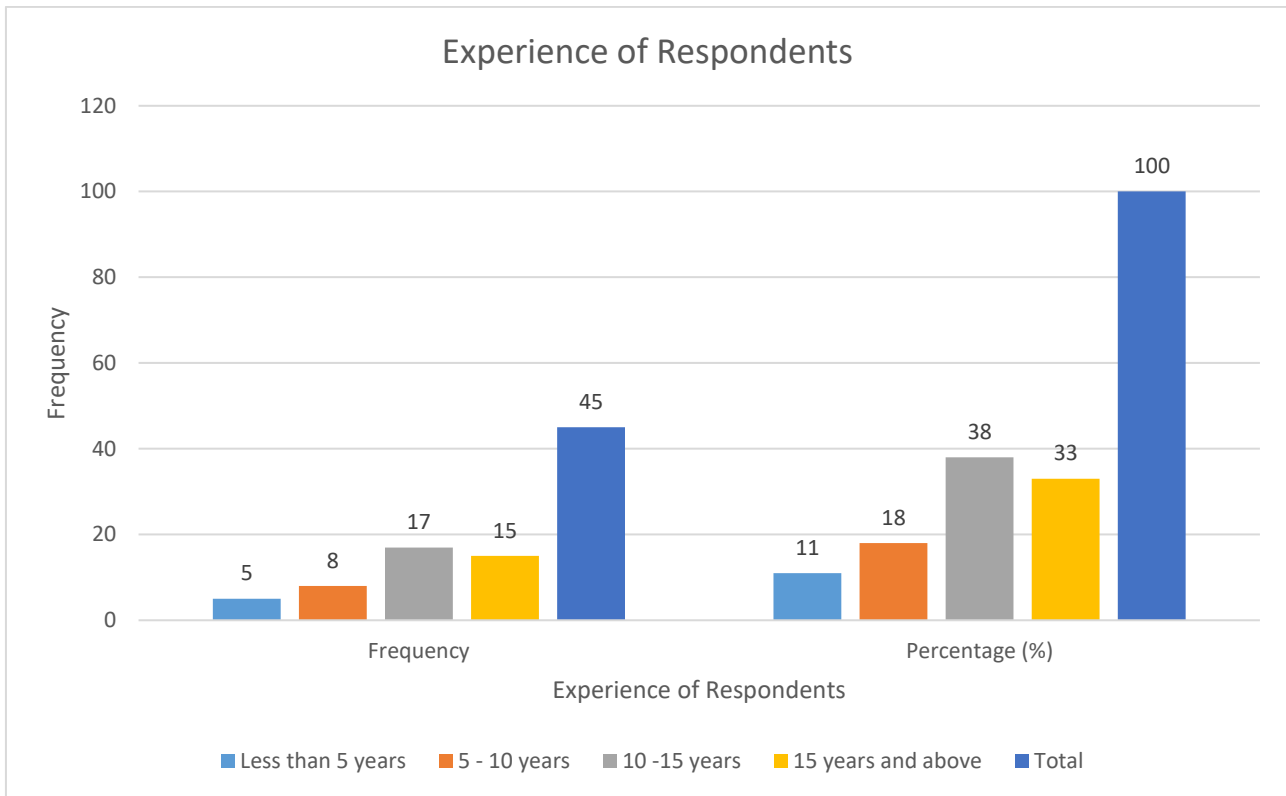
	<b>Frequency</b>	<b>Percentage (%)</b>
Certificate	0	0
Diploma	6	13
Bachelor’s Degree	25	56
Master’s Degree	10	22
Any other	4	9

Source: Author (2021)

**4.2.5 Experience of the Respondents**

The study sought to find out the respondents’ level of experience. Results in Figure 4 below indicate that 17 respondents had worked for their respective county governments for a period between 10 to 15 years representing 38 per cent. This is followed closely by respondents who had experience of 15 years and above at 33 per cent. Respondents with 5 to 10 years of experience were at 18 per cent while those with less than 5 years of experience at 11 per cent. The experience of the respondents was critical to the study in that it enabled the researcher to get critical information regarding budget performance form officers with the organizational memory.

**FIGURE 4**



Source: Author (2021)

**4.3 Discussion of Results**

**4.3.1 Budgetary Planning and Budget Performance**

This section was to establish the effect of budgetary planning on budget performance in county governments of Kenya. Table four (4) below shows represent response on effects of budgetary planning

on budget performance in county governments in Kenya. The respondents of the study answered by ticking appropriately the likert scale box below.

**TABLE 4**

**Budgetary Planning and Budget Performance**

Statement	% of Agreement of Disagreement				
	SD	D	I	A	SA
Budgetary Planning affects budget performance of your county	0	5	13	38	44
The public are effectively involved in the budget planning	3	4	13	42	38
County governments have adequate regulatory frameworks on budgetary controls	4	3	4	40	49
County governments have effective strategies formulated to enhance local revenue collection that is budgeted for	4	3	9	42	42
The county has measures to create county wide awareness on budget performance	2	6	9	36	47
The county's budgetary planning policy documents are prepared and approved as per the budget cycle	2	4	10	42	42
The public are involved in the public participation programs put in place for the budget making exercise	2	4	5	42	47

*Source: Author (2021)*

Table 4 above sought to examine the effect of budgetary planning on budget performance of county governments in Kenya. Majority of the respondents affirmed that budgetary planning affects budget performance. Eighty two per cent of the respondents assert that budgetary planning affects budget performance. Eighty per cent confirm that the public has been effectively involved in the budget planning before budgeting, ninety per cent further agreed that the county governments have adequate regulatory frameworks on budgetary controls. Eighty nine per cent agreed that the county have put into place effective strategies formulated to enhance local revenue collection budgeted for and eighty nine per cent of the respondents confirmed that the county government had measures in place to create county wide awareness on budget performance. In addition, eighty four per cent of the respondents agreed that county's budgetary planning policy documents are prepared and approved as per the budget cycle and ninety one per cent further agreed that the public is involved in the public participation programs put in place for the budget making exercise. On average 10 per cent of respondents agreed that budgetary planning does not affect budget performance in county governments in Kenya.

### 4.3.2 Budgetary Implementation and Budget Performance

The objective of this section was to determine the effect of budgetary implementation on budget performance of county governments in Kenya. Table five (5) below shows represent response on effects of budgetary implementation on budget performance in county governments in Kenya. The respondents of the study answered by ticking appropriately the likert scale box below.

**TABLE 5**

#### **Budgetary Implementation and Budget Performance**

<b>Statement</b>	<b>% of Agreement or Disagreement</b>				
	<b>SD</b>	<b>D</b>	<b>I</b>	<b>A</b>	<b>SA</b>
Budgetary implementation affects Budget performance in your county	1	7	9	42	42
Top management supports and embraces implementation of your county's budget	2	4	8	44	42
County has effectively adopted IFMIS for processing and reporting financial transactions.	1	4	4	44	47
Competency of budget officers affects budgetary implementation in your county	1	2	10	49	38
Adoption of electronic financial systems positively impacts budget implementation	1	3	11	38	47
The county has an effective human resource/ staffing structure to undertake the budgeting implementation.	0	2	9	42	47
Supplementary budgets are approved in good time to allow sufficient time for implementation of activities.	1	4	6	40	49

**Source: Author (2021)**

Table 5 above sought to examined the effect of budgetary implementation on budget performance of county governments in Kenya. Eighty-three per cent of the respondents confirmed that budgetary implementation affects budget performance of county governments. Eighty-eight per cent of the respondents agreed that top management supports and embraces implementation of the county's budget. In addition, ninety per cent of the respondents confirmed that county government has effectively adopted IFMIS for processing and reporting financial transactions. Further, eighty-three per cent of the respondents agreed that competency of budget officers affects budgetary implementation in county governments. Adoption of electronic financial systems positively impacts budget implementation of the county government is confirmed by seventy-three per cent of the respondents. Further, ninety per cent of the

respondents confirmed that county governments have effective human resource or staffing structure to undertake the budgeting implementation. Finally, eighty-eight per cent of the respondents assert that supplementary budgets are approved in good time to allow sufficient time for implementation of activities. However, nine per cent of respondents agreed that budgetary implementation does not affect budget performance of county governments in Kenya.

### 4.3.3 Budgetary Monitoring and Budget Performance

The objective of this section was to evaluate the effect of budgetary monitoring on budget performance of county governments in Kenya. Table six (6) below shows represent response on effects of budgetary implementation on budget performance in county governments in Kenya. The respondents of the study answered by ticking appropriately the likert scale box below.

**TABLE 6**

#### **Budgetary Monitoring and Budget Performance**

<b>Statement</b>	<b>% of Agreement or Disagreement</b>				
	<b>SD</b>	<b>D</b>	<b>I</b>	<b>A</b>	<b>SA</b>
Budgetary monitoring affects Budget performance in your County government	2	2	9	44	42
Controller of Budget reports effectively monitor budget performance in your county	2	4	7	40	47
Auditor general submits quarterly and end of year financial reports that monitor the budget process.	0	2	11	38	49
Internal audit department submits in year and end of year reports to the management	7	4	11	38	40
Budget officers prepares and execute their functions to the best interest of the citizens in regards to budgetary control	2	4	11	40	42
County assemblies carry out their oversight role in ensuring county budget is monitored	9	4	4	40	42
County government has effectively acted upon submitted financial statements and reports	2	2	9	42	44

**Source: Author (2021)**

Table 6 above sought to examined the effect of budgetary monitoring on budget performance of county governments in Kenya. Eighty-three per cent of the respondents assert that budgetary monitoring affects budget performance in county governments in Kenya. Eighty-three per cent of the respondents assert that Controller of Budget reports effectively monitor budget performance in county governments in Kenya.

The question on whether the office of the Auditor General submits quarterly and end of year financial reports that monitor the budget process is confirmed by eighty-eight per cent of the respondents. Seventy-five per cent of the respondents agreed that internal audit department submits in year and end of year reports to the management. Further, eighty-six per cent of the respondents asserts that budget officers prepares and execute their functions to the best interest of the citizens in regards to budgetary control. Eighty-six per cent of the respondents agreed that county assemblies carry out their oversight role in ensuring county budget is monitored. Finally, eighty-five per cent of the respondents agreed that county government have effectively acted upon submitted financial statements and reports. However, ten per cent of the respondents averagely agreed that budgetary monitoring does not affect budget performance of the county governments in Kenya.

#### **4.4.4 Budget Absorption and Budget Performance**

The dependent variable of the study was budget performance measured by budget absorption rate. This chapter presents the status of budget implementation in aggregated terms by County Governments in the FY 2019/2020. In FY 2019/2020, the combined approved county governments' budgets amounted to Kshs. 499.62 billion 37.6 % being for development expenditure while 62.4% being for recurrent expenditure. In the FY 2019/2020 the county governments were expected to receive exchequer releases amounting to Kshs. 499.62 billion. According to Figure 4.4.4, the budget was financed by equitable share at 65.3 per cent, own source revenue at 11.3 per cent, cash balance from FY 2018/2019 at 10.6 per cent, conditional grants from development partners at 8.1 per cent and conditional grants from government at 4.7 per cent.

In the financial year ended June 2020, the total expenditure of the county governments was Kshs.383.79 billion representing an absorption rate of 76.8 per cent of the total annual County Government's Budgets. The absorption rate was a decline from the 77.9 per cent attained in the FY 2018/2019. Development expenditure's absorption rate was 55.6 per cent representing a reduction of 2.2 per cent from 57.8 per cent attained in the previous financial year. Analysis of development expenditure against the approved annual development budget shows that Murang'a, Isiolo, Mandera and Marsabit Counties attained the highest absorption rate at 85.7 per cent, 79.7 per cent, 79.7 per cent and 79 per cent respectively. Laikipia, Nandi, Nakuru and Nairobi City Counties reported the lowest absorption rate of their development budget at 39.3 per cent, 39 per cent, 37.4 per cent, and 6.9 per cent respectively as per Appendix (iv). The county governments spent 72.8 per cent of the total expenditure on recurrent activities representing 89.6 per cent of the annual county government's budget for recurrent activities, and a decline from 90.4 per cent in the previous financial year. Nairobi City County attained the highest expenditure on recurrent activities

followed by Kiambu county and Nakuru county. County governments with the lowest expenditure on recurrent activities included Isiolo, Tharaka Nithi and Lamu.

County Governments spent Kshs.171.83 billion on personnel emoluments in the FY 2019/2020, representing 61.5 per cent of the total recurrent expenditure and 44.8 per cent of total expenditure, an increase from the Kshs. 162.77 billion spent in FY 2018/2019 when expenditure on Personnel Emoluments translated to 43.2 per cent of the total expenditure. Expenditure on personal emoluments represented 41.7 per cent of total available revenue of Kshs. 411.96 billion. A total of Kshs.106.23 billion was spent on Operations and Maintenance (O&M) during the reporting period, which translated to 28.2 per cent of the total expenditure. During the reporting period, the County Assemblies spent Kshs. 2.17 billion on MCAs Sitting allowances against an approved budget allocation of Kshs. 2.65 billion. This expenditure translates to 82 per cent of the approved MCAs sitting allowance budget, and a decrease from Kshs.2.2 billion spent in FY 2018/19.

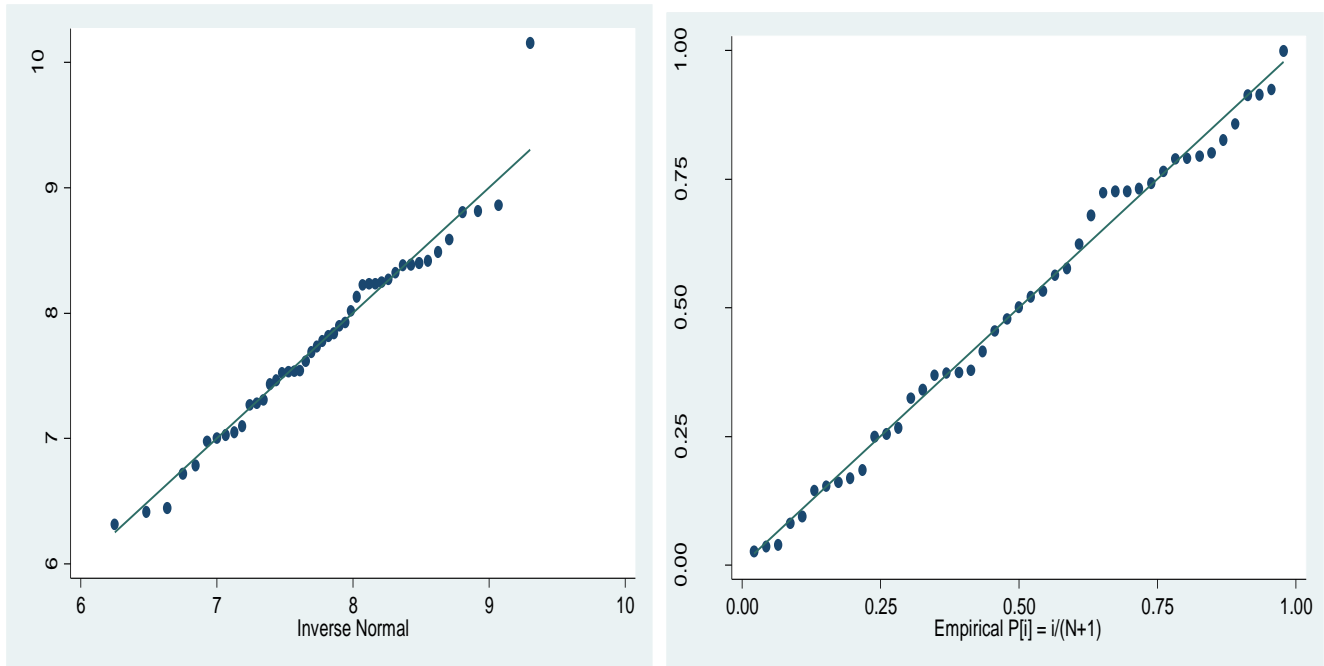
#### **4.4 Exploratory Data Analysis**

Exploratory data analysis involves checking whether the dependent variable is normally distributed and whether both dependent and independent variables have linear relationships. Cross-sectional analysis requires that the dependent variable should be normally distributed and all the independent variables should not have very high correlations. The exploration involves within firm and between firms' analysis.

##### **4.4.1. Test for Normality**

Normality test was done to check whether the residuals of the dependent variable are normally distributed. The study used both P-P plot and Q-Q plot to test for normality of residuals in order to examine the existence of outliers. Both P-P plot and Q-Q plot shown in Figure 5 below have an element of an “S” shape showing that budget performance is indeed normally or symmetrically distributed hence okay for further analysis.

**FIGURE 5**  
**P-P and Q-Q Plots**



*Source: Author (2021)*

#### 4.4.2 Test for Multicollinearity

Multicollinearity is a condition in which the explanatory variables are highly correlated and the correlation between any pair of independent variables should not be high as greater than 0.8 (Kumari, 2008). Multicollinearity was tested using correlation matrix. An independent variable with a higher standard deviation of more than 0.8 should be dropped when fitting a regression equation. All the variables used in fitting independent variables had low standard deviation according to Table 7 hence absence of multicollinearity in the model.

**TABLE 7**  
**Correlation of Variables**

. pworth planning implementation monitoring performance, sig star (0.05)

	planning	implem~n	monito~g	perfor~e
planning	1.0000			
implementa~n	0.4566*	1.0000		
	0.0016			
monitoring	0.5657*	0.5735*	1.0000	
	0.0001	0.0000		
performance	0.8330*	0.7208*	0.7906*	1.0000
	0.0000	0.0000	0.0000	

*Source: Author (2021)*

#### 4.5. Model Fitting

This section present model fitted after both exploratory tests and diagnostic tests are run. The below is the model fitted:

$$\text{Budget Performance} = 0.68682 + 0.85297 \text{ Planning} + 0.49642 \text{ Implementation} + 0.43707 \text{ Monitoring}$$

$$(0.38465) \quad (0.10165) \quad (0.10171) \quad (0.08691)$$

The general objective of the study was to determine the effect of budgetary process on budget performance in county governments in Kenya. The R-squared of the study is 90.12 per cent implying that 90.12 per cent variations in the dependent variable (budget performance) is measured by the independent variables (budgetary planning, budgetary implementation and budgetary monitoring). We accept null hypothesis when P-value of less than 0.5. The Table 6 below shows p-value of 0.0000 indicating that the regression model was statistically significant hence we accept the null hypothesis and conclude that budgetary planning, budgetary implementation and budgetary monitoring have significant effect on budgetary performance of all the county governments in Kenya. Further, the budget performance in the absence of the influence of independent variables (budgetary planning, budgetary implementation and budgetary monitoring) was 0.6868202, holding all other factors constant.

The first objective of the study was to establish the effect of budgetary planning on budget performance in county governments in Kenya. The results in Table 8 shown below indicates the coefficient of budgetary

planning at 0.8529739 with a p-value of 0.000. Budgetary planning was key element in budget performance since it strongly affected budget performance due to a coefficient of more than 0.5. The study concluded that budgetary planning significantly affects budget performance of the county governments in Kenya. Thus a decrease in budgetary planning results to a proportionate decrease in budget performance. The conclusion is similar to Koech (2015) who studied on effect of budgetary controls on financial performance of manufacturing companies in Kenya and concluded that budgetary implementation significantly affects financial performance of manufacturing companies in Kenya. The study also agrees with Mutungi (2017) who studied on the effect of budgeting and budgetary control on financial performance of devolved governments in Kenya and concluded that budget planning significantly affect financial performance of devolved governments. The conclusion was also in line with Nafisatu (2018).

The second objective of the study was to determine the effect of budgetary implementation on budget performance in county governments in Kenya. The results in Table 8 shown below indicates the coefficient of budgetary implementation at 0.4964201 with a p-value of 0.000. The study thus concluded that budgetary implementation had a significant positive effect on budget performance of the county governments in Kenya. The result implied that a unit increase in budgetary implementation led to an increase of 49.64201 per cent in budget performance of the county governments in Kenya. The results were consistent with that of Kibunja (2017) who researched on budgetary process and financial performance on Murang'a county government and concluded that budgetary implementation significantly affect financial performance of Murang'a county government. The study conclusion was in line with that of Wacera (2016) on the effect of citizen participation on budget implementation in Kenyan counties: case study of Eastern Kenya region. The results were further consistent with Nafisatu (2018) who studied on the effect of budget and budgetary controls on firm's performance: case study of the East African Portland cement company limited. The above to studies concluded that budgetary implementation significantly affect budget performance.

The third and the last objective of the study was to evaluate the effect of budgetary monitoring on budget performance in county governments in Kenya. The findings presented coefficient of 0.4370725 with a p-value of 0.000. The findings concluded that budgetary monitoring has a significant positive effect on budget performance of county governments in Kenya. The p-value of 0.000 and co-efficient of 0.4370725 showed that the independent variable (budgetary monitoring) had a significant positive effect on budget performance. The result implied that a unit increase in budgetary monitoring led to an increase of 43.70725 per cent in budget performance of the county governments in Kenya. The result of the study agreed with Kamau (2017) who studied on the effect of budgeting process on budget performance of state corporations in Kenya: case of Kenyatta National Hospital. The study concluded that budgetary control and monitoring

have a positive effect on budget performance of state corporations in Kenya. The study results also agreed with Kibunja (2017) who concluded that budgetary monitoring has a positive significant effect on financial performance of Murang'a county government. The study further agreed with the results of both Nafisatu (2018) and Koech (2015).

**TABLE 8**  
**Regression Co-efficient results**

. regress performance planning implementation monitoring

Source	SS	df	MS			
Model	22.6434194	3	7.54780645	Number of obs =	45	
Residual	2.48177419	41	.060531078	F( 3, 41) =	124.69	
Total	25.1251935	44	.571027126	Prob > F =	0.0000	
				R-squared =	0.9012	
				Adj R-squared =	0.8940	
				Root MSE =	.24603	

performance	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
planning	.8529739	.1016504	8.39	0.000	.6476868	1.058261
implementa~n	.4964201	.1017189	4.88	0.000	.2909946	.7018456
monitoring	.4370725	.0869197	5.03	0.000	.2615346	.6126104
_cons	.6868202	.3845608	1.79	0.081	-.0898161	1.463457

**Source: Author (2021)**

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents a summary of major findings of the study, discussions, conclusions, and recommendations together with the areas that require further research. The key objective of the study was to establish the effect of budgetary process on budget performance of county governments in Kenya.

#### 5.2 Summary of Findings

This section summarizes the study findings after descriptive statistics and exploratory data analysis were done and the regression model fitted. The findings on the relationship between each of the three specific objectives (budgetary planning, budgetary implementation and budgetary monitoring) and budget performance of county governments were discussed and presented in this chapter.

##### 5.2.1 Budgetary Planning and Budget Performance

The objective of the study was to establish the effect of budgetary planning on budget performance in county governments in Kenya. Budgetary planning was measured using public participation, regulatory framework and revenue collection base. Key areas of concern were involvement of the public in budget planning, existence of adequate regulatory frameworks on budgetary planning and controls and existence of effective strategies formulated to enhance local revenue collection. The respondents were further asked to confirm whether the county has measures to create awareness on budget performance, whether the budgetary planning policy documents are prepared and approved as per the budget cycle and the public involvement in public participation programs put in place for the budget making exercise. The study found out that budgetary planning significantly affects budget performance of county governments in Kenya. The study concluded that budgetary planning significantly affects budget performance of the county governments in Kenya. The result implied that a unit increase in budgetary planning led to an increase of 85.29739 per cent in budget performance of the county governments in Kenya.

##### 5.2.2 Budgetary Implementation and Budget Performance

The second objective of the study was to determine the effect of budgetary implementation on budget performance in county governments in Kenya. Budgetary implementation was measured by the use of staff competency, IFMIS adoption and top management support. The respondents were put to task to

confirm whether top management supports and embraces budget implementation, whether the county government has effectively adopted IFMIS in processing and reporting financial transactions and whether competency of budget officers affects budgetary implementation. The respondents were further asked effect of adoption of electronic financial systems on budget implementation, whether the county has an effective human resource or staffing structure for budget implementation and whether the supplementary budgets are approved in time. The study concluded that budgetary implementation had a significant positive effect on budget performance of the county governments in Kenya. This implied that a unit increase in budgetary implementation led to an increase of 49.64201 per cent in budget performance of the county governments in Kenya.

### **5.2.3 Budgetary Monitoring and Budget Performance**

The third objective of the study was to evaluate the effect of budgetary monitoring on budget performance in county governments in Kenya. Budgetary monitoring was measured using Controller of Budget reports, Auditor General Reports and Internal audit reports. The sought responses on whether the Controller of Budget reports effectively monitor budget performance, whether Auditor general submits quarterly and end of year financial reports to the county and whether internal audit department submits in year and end of year reports to the management. The study also sought to establish whether the budget officers prepares and execute their functions to the best interest of the citizens in regards to budgetary control, whether the county assemblies carry out their oversight role in regards to budget monitoring and whether the county has effectively acted upon submitted financial statements and reports. The study concluded that budgetary monitoring has a significant positive effect on budget performance of the county governments in Kenya. This therefore implied that a unit increase in budgetary monitoring led to an increase of 49.64201 per cent in budget performance of the county governments in Kenya.

### **5.3 Conclusions**

The conclusions of the study were based on the summary of findings after running the descriptive and diagnostic tests as enumerated in chapter four above. The study generally concludes that budgetary process affect budget performance of the county governments in Kenya. The study further concludes that budgetary planning have significant effect on budget performance of county governments in Kenya therefore failure to adequately involve the public in budget planning, failure to formulate effective budget strategies and create awareness on budget planning.

The study also concludes that budgetary implementation have significant effect on budget performance of county governments in Kenya. This implies that top management supports, IFMIS adoption, competency of budget officers and in time approval of supplementary budgets were key to budget implementation. In

addition, the study concludes that budgetary monitoring affects budget performance of county governments in Kenya thus the reports of the Controller of Budget, the Auditor general and the internal auditor were confirmed as key elements in monitoring the budgets of county governments. This further implies that county assemblies oversight role is of great importance in budget monitoring.

## **5.4 Recommendations**

Derived from the conclusions above, the study recommends following on in the quest of improving budget performance of the county governments using the budgetary process.

### **5.4.1 Budgetary Planning**

The study recommends proper guidelines and procedures to be put into place to ensure budgets are prepared in time. In addition, county governments should devise means of enhancing public participation. Further, the management should ensure existence of adequate regulatory frameworks on budgetary planning are put into place and ensure effective strategies are formulated to enhance local revenue collection. The study further recommends that the county governments should ensure budgetary planning policy documents are prepared and approved as per the budget cycle. Finally, the study recommends measures be devised to ensure revenue collection base is enhanced to increase the county own source revenue.

### **5.4.2 Budgetary Implementation**

The study recommends that county government staff involved in budgeting should be engaged in continuous professional development programs to ensure they are competent enough to handle issues of budget implementation. The county governments should also ensure they adopt the use of IFMIS in payment process and reporting. The IFMIS users should be trained on the IFMIS modules on payments and reporting. The study further recommends that top management should embrace the budgetary controls put in place by the respective counties and support all mechanisms put in place by the respective county government. Supplementary budgets should also be approved in good time to allow sufficient time for implementation of budget items.

### **5.4.3 Budgetary Monitoring**

The study recommends the office of the controller of budget to prepare reports on regular basis to effectively monitor budget performance. The study further recommends the office of the auditor general to submit continuous reports on the quarterly financial statements and reports. The budget officers should also prepare and execute their functions to the best interest of the citizens in regards to budgetary

preparation, implementation and monitoring. Further, the Members of County Assemblies should also effectively out their oversight role in line with budgetary control and monitoring. The study also recommends internal audit departments to prepare continuous reports on budget performance.

### **5.5 Limitation of the Study**

The study was limited to only the forty-seven county governments in Kenya hence other researchers should consider researching on the effect of budgetary controls on other government and non-government entities in Kenya and beyond. Further, the study was limited to one financial year i.e., FY 2019/2020. Subsequently, the study was limited to heads of budget departments in the forty-seven county governments in Kenya therefore other scholars should consider incorporating other officers in the population of study.

### **5.6 Areas for Further Research**

The study was limited to only the forty-seven county governments in Kenya. The study therefore recommends that another study be done on the effect of budgetary controls on other government and non-government entities in Kenya and beyond. Further, the study was limited to only one financial year i.e., FY 2019/2020. This study recommends that in the future other studies be done in a period of more than one financial year. Subsequently, the population of the study was limited to only heads of budget departments in the forty-seven county governments in Kenya. This study therefore recommends other scholars to incorporate other officers charged with the responsibility of budgeting apart from the budget officers.

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## APPENDICES

### APPENDIX I: COUNTY GOVERNMENTS IN KENYA

Code	County	Area (km <sup>2</sup> )	Population (2019 census)	Capital
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1	Mombasa (County)	212.5	1,208,333	Mombasa (City)
2	Kwale	8,270.30	866,820	Kwale
3	Kilifi	12,245.90	1,453,787	Kilifi
4	Tana River	35,375.80	315,943	Hola
5	Lamu	6,497.70	143,920	Lamu
6	Taita–Taveta	17,083.90	340,671	Mwatate
7	Garissa	45,720.20	841,353	Garissa
8	Wajir	55,840.60	781,263	Wajir
9	Mandera	25,797.70	867,457	Mandera
10	Marsabit	66,923.10	459,785	Marsabit
11	Isiolo	25,336.10	268,002	Isiolo
12	Meru	7,003.10	1,545,714	Meru
13	Tharaka-Nithi	2,609.50	393,177	Kathwana
14	Embu	2,555.90	608,599	Embu
15	Kitui	24,385.10	1,136,187	Kitui
16	Machakos	5,952.90	1,421,932	Machakos
17	Makueni	8,008.90	987,653	Wote
18	Nyandarua	3,107.70	638,289	Ol Kalou
19	Nyeri	2,361.00	759,164	Nyeri
20	Kirinyaga	1,205.40	610,411	Kerugoya / Kutus
21	Murang'a	2,325.80	1,056,640	Murang'a
22	Kiambu	2,449.20	2,417,735	Kiambu
23	Turkana	71,597.80	926,976	Lodwar
24	West Pokot	8,418.20	621,241	Kapenguria
25	Samburu	20,182.50	310,327	Maralal
26	Trans-Nzoia	2,469.90	990,341	Kitale
27	Uasin Gishu	2,955.30	1,163,186	Eldoret
28	Elgeyo-Marakwet	3,049.70	454,480	Iten

29	Nandi	2,884.50	885,711	Kapsabet
30	Baringo	11,075.30	666,763	Kabarnet
31	Laikipia	8,696.10	518,560	Rumuruti
32	Nakuru	7,509.50	2,162,202	Nakuru (City)
33	Narok	17,921.20	1,157,873	Narok
34	Kajiado	21,292.70	1,117,840	Kajiado
35	Kericho	2,454.50	901,777	Kericho
36	Bomet	1,997.90	875,689	Bomet
37	Kakamega	3,033.80	1,867,579	Kakamega
38	Vihiga	531.3	590,013	Vihiga
39	Bungoma	2,206.90	1,670,570	Bungoma
40	Busia	1,628.40	893,681	Busia
41	Siaya	2,496.10	993,183	Siaya
42	Kisumu	2,009.50	1,155,574	Kisumu(City)
43	Homa Bay	3,154.70	1,131,950	Homa Bay
44	Migori	2,586.40	1,116,436	Migori
45	Kisii	1,317.90	1,266,860	Kisii
46	Nyamira	912.5	605,576	Nyamira
47	Nairobi (County)	694.9	4,397,073	Nairobi (City)
		<b>581,309</b>	<b>47,564,296</b>	

## APPENDIX II: INTRODUCTION LETTER



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## SCHOOL OF GRADUATE STUDIES AND RESEARCH

KCA/SGS/Sept. 21/1

3<sup>rd</sup> September 2021

### TO WHOM IT MAY CONCERN

Dear Sir/Madam,

#### **RE: LISPER WANJIRU MBUTHIA REG NO. 1800114**

It is my distinct pleasure to introduce to you Ms. Lisper Mbuthia who is a student in our institution pursuing a Master of Science in Commerce at the College of Business.

Lisper is conducting a research on a topic titled: "*Effect of Budgetary Controls On Budget Performance in County Governments in Kenya*" which is part of the requirements of the program her is pursuing. The research as well as the data procured thereof shall be used for academic purposes only.

Any assistance accorded to her is highly appreciated.

In case of further inquiry, do not hesitate to contact the undersigned.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Nyaribo Misuko'.

Dr. Nyaribo Misuko  
Dean, School of Graduate Studies & Research

## APPENDIX III: QUESTIONNAIRE

This Questionnaire is divided into five sections. It is designed to collect data on the *effect of budgetary process on Budget Performance in County Governments in Kenya*. Being an important stakeholder, your opinion counts, and as such, you are requested to spare some time and respond to this questionnaire.

- i. Does budgetary planning affect budget performance in county governments in Kenya?
- ii. Does budgetary implementation affect budget performance in county governments in Kenya?
- iii. Does budgetary monitoring affect budget performance in county governments in Kenya?

All the information provided shall be treated with strict confidence and used only for academic purposes.

### SECTION I: BACKGROUND INFORMATION

Please tick ONE appropriate box below

1.1	What is your Gender? <input type="checkbox"/> Female <input type="checkbox"/> Male
1.2	Age of the budget officer: <input type="checkbox"/> From 0- 25 <input type="checkbox"/> From 26-35 <input type="checkbox"/> From 36-45 <input type="checkbox"/> From 46-55 <input type="checkbox"/> above 55
1.3	Which county government do you work for? -----
1.4	What is your highest level of academic qualifications? <input type="checkbox"/> Certificate <input type="checkbox"/> Diploma <input type="checkbox"/> Bachelor’s Degree <input type="checkbox"/> Master’s Degree                      Any other _____
1.5	For how long have you worked for the county government <input type="checkbox"/> Less than 5 years <input type="checkbox"/> 5 to 10 years <input type="checkbox"/> 10 to 15 years <input type="checkbox"/> 15 years and above

### SECTION II: BUDGETARY PLANNING

By ticking an appropriate box below in the five point Likert Scale (Where Strongly Disagree has a weighting of 1, Disagree=2, Indifferent=3, Agree=4 and Strongly Agree=5), please indicate the extent to which you agree with the following statements about service environment.

<b>SN</b>	<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>I</b>	<b>A</b>	<b>SA</b>
2.1	Budgetary Planning affects budget performance of your county					
2.2	The public are effectively involved in the county government budget planning					
2.3	The county government have adequate regulatory frameworks on budgetary controls					
2.4	County governments have effective strategies formulated to enhance local revenue collection that is budgeted for					
2.5	The county have effective measures to create county wide awareness on budget performance					
2.6	The county's budgetary planning policy documents are prepared and approved as per the budget cycle					
2.7	The public are involved in the public participation programs put in place for the budget making exercise					

### **SECTION III: BUDGETARY IMPEMENTATION**

By ticking an appropriate box below in the five point Likert Scale (Where Strongly Disagree has a weighting of 1, Disagree=2, Indifferent=3, Agree=4 and Strongly Agree=5), please indicate the extent to which you agree with the following statements about service environment.

<b>SN</b>	<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>I</b>	<b>A</b>	<b>SA</b>
3.1	Budgetary implementation affects Budget performance in your county					
3.2	The top management supports and embraces implementation of your county's budget					
3.3	Your county has effectively adopted IFMIS for processing and reporting its financial transactions.					
3.4	Competency of budget officers affects budgetary implementation in your county					

3.5	Adoption of electronic financial systems is affected by budget implementation					
3.6	The county has an effective human resource or staffing structure to undertake the budgeting implementation.					
3.7	Supplementary budgets are approved in good time to allow sufficient time for implementation of activities.					

**SECTION IV: BUDGETARY MONITORING**

By ticking an appropriate box below in the five point Likert Scale (Where Strongly Disagree has a weighting of 1, Disagree=2, Indifferent=3, Agree=4 and Strongly Agree=5), please indicate the extent to which you agree with the following statements about service environment.

SN	Statement	SD	D	I	A	SA
4.1	Budgetary monitoring affects Budget performance in your County government					
4.2	Controller of Budget reports effectively monitor budget performance in your county					
4.3	The Auditor general submits quarterly and end of year financial reports that monitor the budget process.					
4.4	The internal audit department submits in year and end of year reports to the management					
4.5	Budget officers prepares and execute their functions to the best interest of the citizens in regards to budgetary control					
4.6	The county assemblies carry out their oversight role in ensure the budget is monitored					
4.7	County government has effectively acted upon submitted financial report errors and frauds					

**Thank You**

**APPENDIX IV: DATA COLLECTION SHEET**

<b>S/No.</b>	<b>County</b>	<b>Budgeted performance (Kshs. Billion)</b>	<b>Actual performance (Kshs. Billion)</b>	<b>Budget Absorption (%)</b>
1	Mombasa	13,670.00	10,795.46	78.97
2	Kwale	13,246.02	8,899.51	67.19
3	Kilifi	15,034.62	11,324.63	75.32
4	Tana River	8,035.32	8,159.35	101.54
5	Lamu	4,736.32	3,052.50	64.45
6	Taita/Taveta	5,664.53	4,440.00	78.38
7	Garissa	10,868.38	8,385.32	77.15
8	Wajir	11,468.33	9,618.41	83.87
9	Mandera	13,118.31	11,550.32	88.05
10	Marsabit	8,348.53	7,166.35	85.84
11	Isiolo	5,733.10	5,052.30	88.13
12	Meru	11,243.65	9,462.14	84.16
13	Tharaka-Nithi	5,119.07	4,213.48	82.31
14	Embu	6,780.22	5,163.47	76.15
15	Kitui	11,795.25	10,011.08	84.87
16	Machakos	13,329.65	9,461.87	70.98
17	Makueni	11,186.28	8,603.31	76.91
18	Nyandarua	7,983.71	6,572.79	82.33
19	Nyeri	8,974.92	7,381.65	82.25
20	Kirinyaga	6,131.62	4,769.72	77.79
21	Murang'a	8,823.42	7,410.60	83.99
22	Kiambu	17,861.84	14,974.64	83.84
23	Turkana	14,842.63	12,351.69	83.22
24	West Pokot	6,421.80	5,351.18	83.33
25	Samburu	6,968.61	5,064.08	72.67

26	Trans Nzoia	7,974.39	6,318.23	79.23
27	Uasin Gishu	11,567.61	8,099.77	70.02
28	Elgeyo/Marakwet	5,773.52	4,343.25	75.23
29	Nandi	8,720.45	6,084.09	69.77
30	Baringo	8,385.35	6,323.67	75.41
31	Laikipia	7,173.11	5,403.61	75.33
32	Nakuru	21,951.18	14,078.80	64.14
33	Narok	11,998.13	10,631.37	88.61
34	Kajiado	10,252.32	7,229.57	70.52
35	Kericho	8,746.13	6,499.89	74.32
36	Bomet	7,512.70	6,212.60	82.69
37	Kakamega	15,407.06	12,524.60	81.29
38	Vihiga	6,955.03	4,886.43	70.26
39	Bungoma	13,836.13	10,815.86	78.17
40	Busia	9,275.98	6,751.25	72.78
41	Siaya	8,881.77	6,870.49	77.35
42	Kisumu	12,215.96	9,120.60	74.66
43	Homa Bay	8,969.58	7,188.26	80.14
44	Migori	9,727.33	6,600.15	67.85
45	Kisii	12,925.56	9,444.23	73.07
46	Nyamira	7,001.98	5,772.17	82.44
47	Nairobi city	36,981.39	23,353.44	63.15
	<b>Total</b>	<b>499,618.79</b>	<b>383,788.18</b>	<b>76.82</b>