BUDGETARY PROCESS AND FINANCIAL PERFORMANCE OF MURANG’A COUNTY GOVERNMENT, KENYA

BY

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-2017-
DECLARATION

This Research Project is my original work and has not been presented for a degree or diploma in any other University.

 Signed: [Signature] Date: 23/11/2017

ESTHER WANJIKU KIBUNJA


I confirm that this research project was done by the candidate under my supervision.

Signature: [Signature] Date: 27/11/2017

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DEDICATION

This project is dedicated to my dear Mother Mrs Grace Kibunja, my caring sister Anastasia Wambui, my Lovely daughters: Brenda Waithera, Medline Wambui, Christine Njeri, Amanda Nyambura and my grandson Lawrence Kuria, for their patience, support, encouragement and understanding during the entire duration of my Masters study.
ACKNOWLEDGEMENT

Above all, I thank God for his grace, provision and seeing me through the project. Individually I take the formatting errors that would be spotted in this script. My special gratitude goes to my supervisor Mr. Joseph Theuri who tirelessly through his effort and initiative guided me through the whole process. I would like to acknowledge all the MBA colleagues, friends and my family especially for their moral and material support for the completion of this project.
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<tr>
<td>CA</td>
<td>County Assembly</td>
</tr>
<tr>
<td>CARPS</td>
<td>Capacity assessment and rationalization of the public service.</td>
</tr>
<tr>
<td>CBEF</td>
<td>County budget and economic forum</td>
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<td>CBK</td>
<td>Central bank of Kenya</td>
</tr>
<tr>
<td>CBROP</td>
<td>County Budget Review and Outlook Paper</td>
</tr>
<tr>
<td>CECM-F</td>
<td>County executive committee member for finance.</td>
</tr>
<tr>
<td>COB</td>
<td>Controller of budget.</td>
</tr>
<tr>
<td>CRA</td>
<td>Commission on Revenue Allocation.</td>
</tr>
<tr>
<td>CRF</td>
<td>County Revenue Fund</td>
</tr>
<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
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<tr>
<td>IFMIS</td>
<td>Integrated Financial Management Information System.</td>
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<td>MCA</td>
<td>Member of County Assembly.</td>
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<tr>
<td>OCOB</td>
<td>Office of the Controller of Budget.</td>
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<td>ERS</td>
<td>Economic Recovery Strategy.</td>
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OPERATIONAL DEFINITION OF TERMS

Appropriation: Authority granted by a County Assembly to pay money out of the relevant County Revenue Fund or out of any other County Public Fund.

Budget: A detailed and quantitative plan. It shows the information about the acquisition and use of financial and other resources over a specific time period, either a long-range period (two- to ten-year) or a short-term period (one- to two-year, or monthly, or daily-based).

Budgetary Process: The way an organization goes about building its budget including planning, implementation, monitoring and evaluation.

Chart of Account: A structured list of accounts used to classify and record budget revenue and expenditure transactions as well as government assets and liabilities on a standard budget classifications system.

County Government: A geographical unit envisioned by the 2010 Constitution of Kenya devolution for administrative purposes.

Financial Performance: A general measure of a firm's overall financial performance over a given period of time.
ABSTRACT

The purpose of this study was to investigate the relationship between Budgetary Process and Financial Performance of Murang’a County Government in Kenya. The specific objectives of the study were: to determine the effect of budgetary planning, implementation, monitoring and evaluation on financial performance of Murang’a County Government. The study of their relationship was important since it enabled decision makers to understand the basis of their governance decisions. There is a need for proactive efforts to maintain the county existing investments while creating new ones and increasing the county’s bargaining power in the National economy. This can only be achieved by motivating the County management and public through strict budget process adherence and evaluation. To meet the broad objective the study derived both Primary and Secondary data of the Murang’a County audited financial statements and reports for financial years 2013/2014 and 2014/2015. The study design was an explanatory non experimental descriptive research design. The target population was 2,074 County staff members in the 13 Operational departments and through systematic sampling the sample size composed 83 staff members was established. The main chosen respondents in the study were preferred due to the good availability of budgetary process information: the County financial performance is the barometer of the County’s Public Finance Management and a major stimulant of a country’s economic growth to support the economic pillar of Vision 2030. The study employed quantitative data analysis technique: descriptive and inferential statistics analysis using multiple regression was done using SPSS software. Analysed data was reported using frequency distributions, percentages and charts. The study found that though financial management had been decentralized to departments, there were inefficiencies in regards to technology adoption, controls, oversight and timely supplementary budgeting. Budget monitoring aspects reviewed revealed weaknesses in terms of internal controls including auditing, stakeholder oversight and compliance to regulatory frameworks. In the same line, budget evaluation processes were not very effective since county financial reports were not timely, with oversight being poor. The study thus concluded that the budgetary process involving planning, implementation, monitoring and evaluation had a relationship and significantly influenced financial performance of the county government. The study recommended that the county government should review its policy on public participation in the budget process, budget monitoring and the enhancement of capacity building programmes. Further studies should be undertaken to establish; the factors affecting the adoption of IFMIS for financial management in county governments and the influence Members of County Assembly competence in budgetary process and financial of county governments.
CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The primary goal of the government is the provision of the essential goods and Services to the citizenry which are normally provided through Ministries, County Governments, State Corporations, Independent Commissions and authorities. For a government to deliver, it has become a routine at all levels to prepare and approve into law a summary of a plan of the revenues and expenditures which are made in advance of government financial year concerning a document called budget, (Maritim, 2013). Government is held accountable by the citizenry on allocation, custody and use of state resources through budget. These functions should be performed in accordance with established rule, policies and practices contained in the Government financial regulations. A well formulated and properly implemented budget has capacity to promote socio-economic well-being of the people, finance development projects and support public service administration. This cannot be achieved without a good budgeting process (Adongo, 2013).

Financial stability is important for public institutions and according to Anderson (2011) it ranges from enabling an organization to have sufficient resource for quality service delivery, maximizing the potential of service delivery, enhancing the ability to pay staff, vendors and creditors on time and maintenance of good credit risk. Fiscal measures embodied in financial planning enable government by means of its aggregate expenditures and taxation to influence and shape incomes, production and employment in desired directions (Rahaman, 2010). Silva and Jayamaha (2012), contended that governments can, and often do use a well-coordinated revenue, expenditure and debt programs to influence not only the national economy but also
to stimulate development. This makes financial performance an important area of concern that has attracted the attention of researchers, organizational managers, government and the public at large.

The performance of local governments can be a measure of financial strength through the budget process. In Bangladesh, as reported by Cagatay et al (2006), the Institute for Development Analysis vat Proshika began work in the mid-1990s analyzing the national budget and its impact from the perspective of poor people. It found that the poor were excluded from a voice in budgetary process and financial performances and that there were serious leakages in the flows of resources allocated for poverty alleviation. This was followed by a participatory study with poor people in the slums of Dhaka and in rural areas which investigated how poor people understood the budget and its impact on them and what their priorities were for public expenditure. On the basis of this, a report was prepared advocating the reform of the budget process, with recommendations for decentralization to local governments; pre-budget consultations with civil society; and gathering feedback from citizens.

According to the World Bank (2012), effective public financial governance is key to development and reduction of poverty in Africa. Transparent and efficient management of public financial resources means improved service delivery by governments and citizens getting critical services such as education, healthcare and clean water. There is still a lot to be done to improve budgeting and public financial management in Africa. However, in the last decade, there have been achievements on various aspects of PFM reforms in the region.

Qwabe (2014) indicates that the budget is increasingly recognized as the key tool for economic management. Without losing its control and accountability mechanisms, modern
budgeting can better support performance management by integrating known financial outcomes with frequent re-forecasting of the budget and linked to analysis of performance trends. It is nevertheless also recognized that a country can have a sound budget and financial system and still fail to achieve its intended targets. This suggests that the rules of the game by which the budget is formulated and implemented are equally important and that they do influence outcomes.

Budgetary process and financial performance is used by most organizations as a tool for proper management of resources in the organization and its activities. An organization with well formulated budgetary controls easily assigns its managers the responsibility for the use of designated financial resources to achieve their assigned operational objectives, (Owili, 2010). Budget process provides comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors, this is essential is reducing inefficiencies and poor budget practices leading to efficient allocation of scarce resources (Kanyinga, 2014). In Kenya’s County governments, budget accomplishment is far from reality and the disparity between budget and accomplishment are so wide and kept on abating as years pass by

Governments have embarked on restructuring fiscal policies and inculcating technology advances to enhance financial performance. Among the modernization strategies is the implementation of Integrated Financial Management Systems (IFMIS). It is an automated system that is used for public financial management and control, accounting, audit and reporting. Njenga, Omondi, and Omete (2014) contended that IFMIS programme in the public sectors promotes efficiency and effectiveness of service delivery, once well implemented. All manner of reports can be generated: balance sheets, sources and uses of
funds, cost reports, returns on investment, aging of receivables and payables, cash flow projections, budget variances, and performance reports of all types, (Mwaniki, 2013).

1.1.1 Budgetary Process

The budget is prepared for the prime motives of planning, enabling communication, harmonizing, allocating resources, control profits and operations, evaluating performance and providing incentives. According to Gustafsson and Parsson (2010), the budget has in the past had a control function, however today there are several objectives and purposes of the budget and the purposes vary among the various institutions. Instead of expressing a budget as astatically financial plan or blueprint, the term “budgeting” refers to the act of preparing a budget or the activities of predicting and qualifying future requirements for finance. Budgeting in this regard is viewed as enabling the different functions of management control further, state that the budget represents their numbers and their benchmarks against which their performance is measured, (Richard, 2015).

Budgeting involves the institution of programmed goals, the coverage of tangible performance domino effect and assessment of performance in terms of the predetermined goals. Budgetary control systems are worldwide and have been considered an indispensable tool for financial planning. According to Bose (2012), the principle of budgetary control is to provide a forecast of revenues and expenditures this is achieved through constructing a model of how business might perform financially speaking if certain strategies, events and plans are carried out. Nearly all firms use budget control as the chief way of corporate internal controls, it provides an all-inclusive administration platform for professional and successful provision of resources.
According to Dugdale and Lyne (2010), budgets tend to become more important for control, not for planning. Conversely, budgets become less important for control but more important for planning in a more uncertain environment. In addition, budgeting has been integrated with non-financial measures in general and the balanced scorecard in particular. The accounting system of the operation provides information on what has happened in the past and helps managers to keep track of whether or not they are meeting their current budgets. Budgets are therefore an expectation of what a manager agrees is achievable within the immediate future and are mostly expressed in financial terms (The Institute of working future, 2011).

Qwabe (2014) indicated that budgetary controls enable the management team to make plans for the future through implementing those plans and monitoring activities to see whether they conform to the plan, effective implementation of budgetary control is an important guarantee for the effective implementation of budget in the organization. He further adds that IFMIS solutions advance relations across the numerous organizational units within government on execution, reporting, and thoroughness of budget transactions. According to Bonventure (2015), the implementation of IFMIS is affected by factors like clear commitment of the relevant authorities to financial reform objectives, Information and Communication Technology (ICT) readiness, sound project design, a phased approach to implementation, project management capability, as well as adequate resources and human resource capacity allocated to the project.

According to Marginson and Sharma (2011), the budgetary practices and procedures encountered may be unique to the institution. They mention insights into the connections and interdependencies between budgeting and strategizing in day today activities within an organization. It appears that many aspects of the budgetary process, particularly budget
implementation and budgetary control in general, may differ from accepted view as firm’s design strategic objectives from budgetary information whilst simultaneously engaging in budgeting activities as strategies are developed. In these circumstances budgets may be used as a reflection of the performance of those responsible for specific areas of their operation. The budget process must be undertaken with the full cooperation of managers who understand the budgeting process. Staff should also be engaged through training and allocation of duties and responsibilities along the budget process. Importantly, budgets should produce figures that represent expected performance under current operational conditions, (The Institute of Working Future, 2011).

1.1.2 Financial Performance of County Government.

According to Ewa and Udoayang (2012) financial performance is used as a general measure of a firm's overall financial performance over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance describes a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It is also a general measure of a firms overall financial health over a given period of time and thus can be used to compare firms across the same industries or sectors in aggregation. The importance of financial stability according to Anderson (2011) ranges from enabling an organization to have sufficient resource for quality service delivery, maximizing the potential of service delivery , enhancing the ability to pay staff, vendors and creditors on time and maintenance of good credit risk . This makes financial performance an important area of concern that has attracted the attention of researchers, organizational managers, government and the public at large.
In an attempt to address the critical issues affecting financial performance, various authors have had documentation on factors affecting financial performance. Maritim (2013) established that employee participation in the budgeting process resulted in greater success in actualization of the plan set out in a particular period followed by budget planning. The results therefore reinforced the need for a participatory budgeting process whereby all cadres of staff through their sectional heads are involved and their views are incorporated in the budget process.

The Institute of Certified Public Accountants Kenya, ICPAK (2014) documents that the County Governments get their revenue from taxation, permit fees, cess, license fees and other sources. However, their over-reliance on the National Government for funds to a point of calling for a national referendum to have their allocation increased implies that there exists a myriad of challenges in revenue collection at County level. Actually, the resources collected by the county government in the financial year 2013/2014 was observed to be far below budget estimates and worse, less than what municipal and county councils collected before devolution.

To ensure financial management success, the County Government Act, 2012 provides various types of plans at the county level. In addition, the PFM Act requires every county Government to prepare a development plan that includes strategic priorities for the medium term; a description of how the County Government is responding to changes in the financial and economic environment, programmes to be delivered and a summary budget among other requirements. In addition, since government performances often concern residents,
performance measurement can facilitate the communication between residents and
governments and involve residents in the budgetary decision making, (Ng’ang’a, 2011).

According to Transparency International Survey conducted in 2014 on County Governments
Performance in Kenya clearly indicated that 41% of the Kenya populations from the 47 were
unsatisfied with the performance of their Counties. Majority of the population measured
performance of their County Governments based on; Success for effective and efficient use
of County revenue on development projects including infrastructure, health, education, trade
and corporate social responsibility.

1.1.3 Budgetary Process and Financial Performance in Public Sector

To enable effective decision making, budgeting and financial management systems in an
organisation should be evolved and integrated to provide timely, accurate and comprehensive
information for all tiers of management. To be effective, performance measurement must be
thoroughly integrated into a government's budgetary process. The introduction of
performance budgeting has been linked to broader efforts to improve expenditure control as
well as public sector efficiency and performance, (Ustawi, 2013).

According to Gacheru (2012), the budget process in Kenya passes through three major phases
(i.e. stages): which include; budget planning and preparation, budget presentation and
approval by the parliament and budget execution. In the first stage, budget planning and
preparation is done by the Ministry of Planning and National Development alongside other
players. The medium term expenditure framework (MTEF), the latest budgetary system in
Kenya, links policy making with planning and implementation of budgeted projects in a
three-year rolling framework. The actual budget preparation begins with a Treasury circular
which defines the broad parameters of the budget and sets expenditure ceilings to be adhered to. This, inter-alia, spells out the budget finalization calendar, which includes public hearings as one of the activities, and proposed estimates by government departments and state corporations. At this stage, citizens have an opportunity to generate and contribute issues of interest in the budget.

The government budgetary process is a deliberate and systematic attempt to allocate public resources to various ministries and departments in order to finance activities and programs within their specific mandates. The Principal Law on public finance specifies procedures for releasing money from consolidated fund for accounts of operating ministries. The minister of finance has an obligation under the constitution to provide parliament with drafts estimates of revenues and expenditure for approval before start of financial year. The key responsibilities of government regarding county budget process are elaborated in Section 117-118 of the Public Finance Management (PFM) Act. According to the Strategy for Public Finance Management (PFM) Reforms in Kenya (2013 – 2018) the Government of Kenya (GOK) aims at building a public finance management system that is efficient, effective and equitable for transparency, accountability and improved service delivery.

The County Treasury is to prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval. The County Treasurer will then submit the strategy paper to the County Assembly for approval. Thus, the principle of responsible financial management with clear fiscal reporting is upheld. The County Treasury is also required to prepare a County Budget Review and Outlook Paper, to be submitted to the County Executive Committee. Subsection 2(a) gives specifications on how the budget review and outlook papers are to be prepared, (Lubale, 2012). Where the budgets are delayed or
erroneously prepared, the treasury can fail to disburse county allocations. This might affect the operations of the counties as well as financial performance.

Bonventure (2015) contended that the practices of integrating strategic management and budgeting which enables it to be competitive and increase financial performance. Budget facilitates the creating and sustaining of competitive advantage in the following management functions: forecasting and planning; communication and coordination; motivational device; evaluation and control; and decision making. Qi (2010) mentions that the selected budgetary planning, budgetary control, budgetary sophistication, budgetary participation, budget goal clarity and budget goal difficulty as variables are impact of the budgetary process and financial performance of SME’s in China.

Kimani (2014) opinionates that organizations should develop policies that allow proper budgetary control procedures and processes. To facilitate effective implementation of budgetary control, the management should define proper budgetary control processes, this is achieved through planning, monitoring and control and evaluation. Effective implementation of budgetary control highly impacts on the performance of government institutions in Kenya. Despite all the counties having a budget in place, most of them have failed in effective budget implementation (CRA, 2015). Kibugi (2014) revealed that most of the county governments could not implement their budgets in 2013. This was partly attributed to the financial weakness experienced by the county governments.

A study by Adongo (2013) shows that since independence Kenya has introduced a number of reforms to the budgetary process with an aim of maximizing benefits accruable from spending through budget reforms in the public sector. These reforms are necessitated by
perceived unsatisfactory performance when compared with the expectations of the budget provisions. In spite of these attempts to reform budgetary process in Kenya, it remains unsatisfactory instrument of achieving public policy objectives. This is because budgets are not clearly linked to the planning process and approved policies. The mismatch between expenditures and revenues are unending which leads to mini-budgets, reallocations of budget lines and supplementary budgetary estimates (Wanyoike, 2015). This was the motivation to conduct a research to assess the effect of budgeting process on financial Performance of county governments in Kenya.

The four independent variables are budgetary planning, budgetary implementation, budgetary monitoring/evaluation and IFMIS adoption to measure budgetary process of Murang’a County government. Therefore, a question arises with respect to the identification of whether the Murang’a County government follow sound budgetary process and if there is any impact on the financial performance of the organization, and whether the firm is able to reduce costs and improve on quality of its services based on its budgetary allocations. Silveira et al. (2012) contends that budgeting managers coordinate their efforts so that objectives of the organization harmonize with the objectives of its parts. Processing control ensures that objectives as laid down in the budgets are achieved.

Budgetary process and financial performance is the system of controlling costs through budgets. It involves comparison of actual performance with the budgeted actual performance with the budgeted with the view of ascertaining whether what was planned agrees with actual performance if deviations occur reasons for the difference are ascertained and recommendation of remedial action to match actual performance with plans is done, (Kirira, 2013).To achieve effectiveness in budget preparation the management team of the firm
should ensure the budgets for the allocated projects are implemented within the stipulated
time and costs to enhance efficiency (Kimani 2014). The basic objectives of budgetary
process and financial performance are planning, coordination and control. It’s difficult to
discuss one without mentioning the other (Arora, 1995). A budget provides a detailed plan of
action for an organization over a specified period of time by implementing proper budgetary
control.

Some counties in Kenya have not been able to formulate credible budgets that are crucial for
resources allocation. Gacheru (2012) in her study of the effects of the budgeting process on
budget variance in NGOs in Kenya found out that budget preparation, budgetary control and
budget implementation significantly influence budget variance. The counties with poor
budget making processes may miss out on funds allocation, since managing such funds may
be impossible. Some counties made budgets that included incredible allocations such as
luxury cars, holiday pay, and construction of villas for the governors. This brought about
questions on priorities in relation to financial management focus on devolved functions.
Further, the World Bank (2014) reports that high levels of corruption amongst other mishaps
that have resulted in the degradation of the financial performance of the County government
and giving a clear indication of the weaknesses in the budgetary process controls.

1.1.4 Murang’a County Government.

Based on the delineation of administrative districts created under the Provinces and District
Act of 1992, Murang’a County is one of the 47 County governments established under the
new constitution of Kenya (2010). The county government mandate is in line with the
provisions of the Public Finance Act (2012). The budget ought to be prepared with intentions
of achieving the County Vision and Mission as properly articulated by the County Integrated Development Plan (CIDP) and the Annual Development Plans of 2013/14 and 2014/15.

However, Murang’a county has persistently being faced with a big challenge due to alleged, uncontrolled debt and deficit financing, high recurrent expenditures, poor local revenue growth, misappropriation of resources, imprudent management of fiscal risks and uncalled for political interference on the budgetary process and financial performance. In the 2014/2015 report for Murang’a County, the auditor general gave the executive an adverse opinion noting the financial statements did not represent fairly the position as at June 30, 2016. According to the audit report, Murang’a County received Sh5.3 billion from the National Treasury but there was an unexplained difference of Sh155 million in expenditure.

1.2 Statement of the Problem

The budget is increasingly recognized as the key tool for economic management. It is nevertheless also recognized that a country can have a sound budget and financial system and still fail to achieve its intended targets. This suggests that the rules by which the budget is formulated and implemented are important and that they influence financial outcomes, (Sabahi, 2013). Several studies have been undertaken linking the budgeting factors and performance in organizations. Epstein and McFarlan (2011) carried out a study in Denmark on measuring efficiency and effectiveness of a government offices performance, it was found that budgetary process and financial performance was one of the important tools in achieving efficiency of institutions.

Sabahi (2013) explains that the Kenyan Budget Controller on 13th August 2013 had given county governments two weeks to revise their budgets after a report from the Commission on
Revenue Allocation (CRA) revealed that 25 of Kenya's 47 counties faced significant budget deficits. According to the reports of the Controller of budgets and Auditor General FY2013/2014 and FY2014/2015, the Murang’a County government has been experiencing huge unexplained budget deficits’ posing a risk to the financial performance of the County. However, whether corrective measures in budget process efficiency have been effected remain an enigma. The report further noted that annual amount of funds not utilized by Kenyan Government Counties returned to treasury has been a cause of concern to all stakeholders in the public management field.

Empirical studies (Epstein and McFarlan 2011; Tracy, 2013; Sabahi 2013) have mostly concentrated on budgetary process and how it affects organizational performance in both the public and private sector. Other Related studies that have been conducted in Kenya (Mwaura 2010; Gacheru 2012; Serem 2013; Kiriria 2013; Nyageng’o, 2014) with regard to County government budget clearly indicate that budget process and financial performance is an understudied area. Owing to this limited focus by the above researchers, this study thus wished to add knowledge on the influence of the budgetary process on financial performance of the nascent County Governments while focusing on Murang’a County Government.

1.3 Objective of the Study

1.3.1 General objective

The main objective of the study was to investigate the effect of the budgetary process on financial performance of Murang’a County Government, Kenya
1.3.2 Specific objectives

i. To determine the effect of budgetary planning on financial performance of Murang’a County Government.

ii. To determine the effect of budgetary implementation on financial performance of Murang’a County Government.

iii. To determine the effect of budgetary monitoring and evaluation on financial performance of Murang’a County Government.

1.4 Research Questions

i. What is the effect of budgetary planning on financial performance of Murang’a County Government?

ii. What is the effect of budgetary implementation on financial performance of Murang’a County Government?

iii. What is the effect of budgetary monitoring and evaluation on financial performance of Murang’a County Government?

1.5 Significance of the Study

This study aimed to contribute to the corporate finance literature, by looking at both the budgetary and financial performance choices. However, an attempt to make a valuable contribution by innovating on the rich existing literature was in three major ways. First, in order to provide a more comprehensive view on the subject, both theoretical and empirical approaches were undertaken. Particularly, the second chapter devoted to a review of existing theoretical and empirical literature on the budgetary decision controversy, with emphasis on current thinking.
The study findings would be significant to the County Governments in relation to public finance management, efficiency and effectiveness of service delivery and social economic growth. The national government would find the study crucial in policy evaluation on county governance, and the performance of the nascent county institutions. Other public and private institutions would find the study valuable in respect to financial management and performance. Academic work is by concentrating on emerging, as opposed to developed, markets. The study would be of value to academicians to understand factors that determine budgeting development. The theoretical explanations on the determinants of budgetary development would be intuitively appealing to the researcher. Baseline data gathered from the result of this study would serve as guide to other researchers in their quest for additional knowledge.

1.6 Scope of the Study

The research was undertaken at Murang’a County Government. The staff of the county composed the study population. The study was confined to the three independent variables of budgetary planning, implementation, monitoring and evaluation. The relationship between the dependent variable (financial performance of the county government) was measured against the three independent variables. The study covered the two financial periods 2013/2014 and 2014/2015.

1.8 Organization of the Study

There are five chapters of this project study apart from the preliminary papers, chapter one is devoted to the introduction which has subtitles like background of the study, statement of the research problem, objectives of the study, research questions, significance of the study and scope of study. Chapter two is devoted to literature review of related literature, empirical
review, and research gap and ends up with Conceptual framework. The review focuses on what scholars and researchers support on the budgetary process in public institutions and their financial performance. Chapter three is devoted to research methodology, which has subtitles like research design, target population, sample size and sampling technique. It will also have data collection procedure, instrument validity, reliability and pilot study, data analysis and presentation and ends up with ethical consideration.

Chapter four presents the analysis of the study findings according to the data collected from the field. It provides general information on the relationship between budgetary process and financial performance of Muranga County Government. It begins with instrument response rate, and respondents’ profile, and descriptive statistics based on the research questions of the study. Chapter five discusses the summary of the key findings along the study objectives and draws conclusion and recommendations for policy. Contribution to knowledge is further entailed, as well as the limitations to the study and suggestions for further research.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the concept of budgetary development and financial performance. It captures critical review of the past theories of other researchers on the area of budgetary development and financial performance. From the literature review; the researcher was able to develop a conceptual framework where the relationship between the independent variables and dependent variable was established.

2.2 Theoretical Review

The study is based on four theories that support budgetary control of public institutions and financial performance, which are the theory of budgeting, innovation diffusion theory, public choice and public budget efficiency theory, and the institutional theory as discussed below:

2.2.1 The Theory of Budgeting.

The theory of budgeting is the academic study of political and social motivations behind government and civil society budgeting. Budget theory was a central topic during the Progressive Era and was much discussed in municipal bureaus and other academic and quasi-academic facilities of that time such as the nascent Brookings Institution. Bartle and Patricia (2008) posit that classic theorists in Public Budgeting include Henry Adams, William F. Willoughby, V. O. Key, Jr., and, more recently, Aaron Wildavsky. Notable recent theorists include Baumgartner and Jones--Frank R. Baumgartner and Bryan D. Jones, Richard Fenno, Allen Schick, Dennis Ippolito, Naomi Caiden, Irene Rubin, James D. Savage, Thomas Greitens and Gary Wamsley. Hirst (1987) explains that an effective budgetary control solves an organization’s need to plan and consider how to confront future potential risks and
opportunities by establishing an efficient system of control, a detector of variances between organizational objectives and performance (Shields and Young, 1993). Budgets are considered to be the core element of an efficient control process and consequently vital part to the umbrella concept of an effective budgetary control. Budgets project future financial performance which enables evaluating the financial viability of a chosen strategy. In most organizations this process is formalized by preparing annual budgets and monitoring performance against budgets. Budgets are therefore merely a collection of plans and forecasts (Silva and Jayamaha, 2012).

Budgets reflect the financial implication of business plans, identifying the amount, quantity and timing of resource needed (Shields and Young, 1993). The implementation of budgetary procedures. The establishment of short to medium-term objectives serves the purpose of providing estimates of future sales revenues and expenses, to provide short and long-term objectives for a coordinated management policy. Benchmarks for management and task controls are provided by comparing actual results with budgeted plans and to take corrective actions if necessary (Sharma, 2012). Budgets can further influence the behaviour and decisions of employees by translating business objectives, and providing a benchmark against which to assess performance. Hancock (2009) even considered such operational planning as the backbone of management.

The theory of budgeting guides in the budgeting planning function in this study since during budget preparation procedures, consideration of alternative courses of action becomes an integral part and leads to increased rationality. A budget allows a goal, a standard of performance to be established with subsequent comparison of actual results with the created standard. It requires those involved to be forward looking rather than looking back (Scott,
Budgets have therefore been identified as playing a number of roles which include making goals explicit, coding learning, facilitating control, and contracting with external parties (Selznick, 2008). Fisher exemplified this by “linking compensation to performance measures against the budget”, thereby making goals explicit, communicating goals and thereby coding learning and clarifying performance measures for individual employees of an organization (Goldstein, 2005).

2.2.2 Innovation Diffusion Theory (IDT).

The IDT is an established theory that provides the foundation for technology innovation diffusion research. It represents innovation adoption that aids in evaluating technology (Rogers, 1995). The four main elements of the diffusion theory that have been identified by Rogers (1995) are innovation, communication channels, time and the social system. Rogers posits that innovation must be perceived by the user as new and it is influenced by the following five factors: Complexity, Compatibility, Trial-ability, Observability and Relative Advantage. These factors affect the adoption of innovation of a system and will be studied on the IFMIS. However, certain of the factors have been expanded further with the introduction of perceived ease of information management systems usage as noted by Vogel and Cheung (2013), which will also be explored in the study.

On the other hand, diffusion is the process by which an innovation is communicated through certain channels over time among the members of a social system (Rogers, 2003). Ismail (2006) defines diffusion as the process by which a technology spreads across a population of organizations. The concept of diffusion of innovations usually refers to the spread of ideas from one society to another or from a focus or institution within a society to other parts of that society.
Rogers (1995) observed that every innovation involves time in three aspects: the innovation decision process (process of forming an attitude towards an innovation), innovativeness of an individual (innovators, early adopters, early majority, late majority and laggards) and the rate of adoption (the speed at which members of a system adopt an innovation). IFMIS is a system that takes time to implement, hence, the paper confirms the three aspects of the time as noted by Rogers (1995), as it relates to the system. The IDT is a social system that involves a set of interrelated units that are jointly working together to solve a problem with an aim of accomplishing a common goal, (O’Connor, 2007). The organizations can be perceived to involve a lot of units, but all of them are working together in the solution of problems to reach the common goal.

The theory also involves communication, which Rogers (1995) asserts that it plays different roles as a process at the various stages in the innovation decision process. This study explored the various decision channels, the change agents, the training of skills and the communication structures that have been used in the implementation and adoption of IFMIS in the budgetary process and its influence on the finance function for county governments in Kenya.

2.2.3 Cognitive Evaluation Theory.

This theory suggests that when looking at task, we evaluate it in terms of how well it meets over needs to feel competent and in control. If we think we will be able to complete the task, we will be intrinsically motivated to complete the task requiring no further external motivation, where a person has a stronger internal locus of control they will feel they are in control of how they behave where they have a stronger external locus of control they will believe the environment or others have a greater influence over what they do. Events deemed internally controlling events are experienced as pressure toward specific outcomes and
undermine intrinsic motivation. Internally motivating events make incompetence salient and also undermine intrinsic motivation (Deci & Ryan, 1985).

Budgets create a sense of responsibility over the manager in charge of a department or section. The feeling of being in control of the outcome of the results of a department due to accomplishment of budget targets can be a source of motivation and thus improvement of performance. People may see external rewards as achieving some degree of control over them or may see the reward as informational such as where they reinforce feelings of competence and self-determination. When people see the reward as mostly for control they will be motivated by gaining the reward but not by enhancing the requested behavior, (Salancik, 1975).

This theory suggests that there are actually two motivation systems, intrinsic and extrinsic that corresponds to two kinds of motivators, intrinsic motivator includes achievements responsibility and come from the actual performance and the task or job. Hattie and Timperley (2007) indicate that extrinsic motivators include pay, promotion, feedback, working conditions. These motivators are things that come from a person’s environment and are controlled by others. Intrinsically motivated individuals’ perform for their own achievement and satisfaction. If they are doing some job because of the pay or the working conditions or some other extrinsic reason they begin to lose motivation, (Fehr & Falk, 2002).

Budget achievement is thus a powerful intrinsic motivator as it creates a sense of personal achievements and responsibility meeting a budget target leads to personal satisfaction and will thus be a boost to managerial performance. Inadvertently, this leads to financial performance, and as such, the theory gets credence in constructs for monitoring and evaluation factors in this study.
2.2.4 Institutional Theory

Institutional theory dates back thousands of years ago as Economist and Social theorist Max Weber focused on the ways bureaucracy and institutions were coming to dominate our society with his notion of the iron cage that rampant institutionalization created. However, the integrated perspective came from the work of Scott (1995), where he stated that “the institution provides stability and meaning to a firm’s social behavior.” New institutionalism as an explicit school of thought finds its origins in a paper published by two political scientists (March and Olsen, 1984). Government is in the business of forming its environments, not adapting to it. Public administration is driven by societal visions and political projects. Therefore organizations that handle public affairs should be ‘conceptualized as institutions rather than as instruments’, (Brunsson and Olsen, 1997).

Institutional theory focuses on the deeper and more resilient determinants of economic actors’ behavior. It considers the processes by which structures, including schemes; rules, norms and routines, become established as authoritative guidelines for social behavior and extend to explain economic interaction between several economic analyses. Different components of institutional theory explain how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. In budgeting it provides a symbolic value of accounting, resource negotiating and bargaining, concealing and mobilizing power, environmental change, organizational change (Covaleski et al, 2003).

Institutional Theory has been applied in many disciplines including budgeting process. However, criticism has been raised against Institutional theory on several grounds. Scott (1995) argues that one of the most important problems associated with Institutional Theory is the difficulty inherent in measuring institutions, for example, It is known that they exist, but
how do they vary? Secondly, Bogt, 2008 faults Institutional Theory for treating institutions as though they were more static rather than dynamic. In this regard, the theory is unable to sufficiently recognize the differences within the institutional environment, as well as the relative power of different institutional actors, and the conflicts that can result from relations of power (Collier, 2001). Thirdly, the institutional theorists are challenged that they are utilizing the theory more on the explaining why organizations attend to their environment pressures with their meanings rather than their productivity.

Despite all such criticisms, Institutional Theory has been deployed in the budgeting process discipline to explain public sector budgeting process reforms (Frumkin & Galaskiewicz, 2004). The influence of institutional pressures on the budgeting process information use survival depends to manage the efficiency and the demands of technical work activity, or on the ceremonial conformity with the institutional environment (Collier, 2001). Institutional Theory was adopted by this study to guide the budgeting evaluation variable by identification of other factors influencing the use of budgeting process information in the budget decision-making process for efficiency and financial legitimacy. In this current study, some of the concerns raised about Institutional Theory were addressed by recognizing the existence of political and administrative actors and those expected to have different roles, and power in the decision-making process of LGAs under their institutional framework.

2.3. Empirical Studies

Budgets are an integral part of most organizations and serve a variety of management functions (Sponem & Lambert, 2016). According to Samuelsson et al. (2016), budgeting is a key policy instrument for public management and management of the firm; it is a familiar activity to many as it is practiced in our private lives as well as in businesses, government and
voluntary groups. The use of budgets in government circle long preceded its application in enterprises or the business sector. A primary impediment in state budgeting transformation efforts is the inability to document, optimize, and ultimately automate the entire budgeting process. Another challenge is demonstrating a reasonable connection between actions and outcomes.

Effective end-to-end government budget process design takes into account not only the funding levels required to provide for key social programs, but the changes necessary under a variety of different revenue production scenarios. Bourmistrov and Kaarbøe (2013) found that unbundling the budget functions (planning, forecasting, control, and evaluation) allowed leaders to use new forecasting processes to establish stretch goals and improve strategic decision-making.

Studies on budgetary process and its influence on organizational, financial and budget performance have been undertaken. Kiriria (2013) observed that The Public Finance Management Act, 2012 sets out the rules of how the national and county governments can raise and spend money. The Public Finance Management Act, 2012 section 125 provides the procedure to be followed in the budget making process at the County level. He argues that as there must be an effective PFM system at the county level to ensure successful management of the public sector and the economy. According to research by World Bank (2012) recommends that guidelines and templates need to be developed to guide the formulation of county budgets. More so the World Bank advocate for a country-wide chart of accounts for preparing, executing and reporting the budget. In addition to this, the counties would be expected to develop adequate PFM, Human resource and service delivery capacity.
Studies show that capacity to implement the budgetary process can greatly enhance financial management and performance in organizations. Njeru and Thuo (2013) study on budgetary process in SMEs in hospitality industry in Nairobi Central Business District found out that skills and power of managers had positive and significantly related to budgeting. The results suggest that a positive development on skills and power of managers improves budgeting process in SME’S in the hospitality industry in Nairobi CBD.

The Institute of Economic Affairs budget analysis report 2017 indicates that county budgets targets were not achieved. Against a performance benchmark of at least 80%, absorption of development budget for the period 2013/14 to 2015/16 has consistently been below 66%. As a result of this, the IEA note the importance of government enforcing austerity measures so as to focus spending to priority areas. The Fiscal Strategy Paper 2014, Murang’a County Government importantly articulates that there was lack of integration in the implementation of most programmes and projects in the county. Currently most sector programmes are planned and implemented independently leading to uncoordinated project implementation and wastage of scarce resource. The report further noted the late disbursement of funds by the National Treasury making funds absorption targets levels not to be realized. Under- funding of some of the development projects/programmes leading to non-completion within the planned time frames.

2.3.1 Budgetary Planning and Financial Performance

Omolo (2010) pronounce planning as part of the Budgeting system involves a long range planning, strategic planning and short term planning further emphasizes that short term budgeting must accept the environment of today, and the physical human and financial resources at present available to the organization. Amans, Mazars-Chapelon, and Villesèque-
Dubus (2015) studied two non-profit performing arts organizations (theaters) to understand how the usage of budgets, such as for planning, control, monitoring, and evaluation, varies within different complex organizations. The study underscored the inherent use of budgets for planning.

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Barasa and Eising (2012) on their studies opinionated that community participation is an important aspect of the vision 2030, because, the critical cornerstones of the social and economic pillars are devolution. It is anticipated that policy-making, public resource management and revenue sharing and as especially as devolved funds become key drivers of development communities will need to be actively engaged so that there is better targeting of resources. In addition to this, Omolo (2010) postulates that there is also a need for a dependant and enhanced consultation and information sharing process in the budgeting, implementation and monitoring and evaluation aspects in development projects. All
individuals responsible for achieving results should be consulted in the formulation of budgets. No system of budgetary control can succeed without the mutual understanding of superiors and subordinates. The organisation should communicate the outcome of budget decisions to all the relevant staff. 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.

The previous studies reviewed above, therefore lead to the conclusion that there is an increasing perception that budgets are useful in today highly challenging business 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 in Murang’a county government is still not clear and information available is useful to provide insight into whether budgets are still appropriate planning and control tools.

2.3.2 Budgetary Implementation and Financial Performance
To keep budget execution under control, a comprehensive and timely system for monitoring budget transactions is required, (Mkasiwa, 2011). Comprehensive budget monitoring generally requires an overhaul of the reporting and accounting systems. A comprehensive midyear review of the implementation of the budget is needed to ensure that programs are implemented effectively and to identify any policy problems. This review of budget execution should cover financial, physical, and other performance indicators. Cost increases
caused by inflation, unexpected difficulties, insufficient initial study of projects, and budget overruns must be identified so that appropriate countermeasures can be prepared.

Audeh (2014) study aimed to identify obstacles of preparing and implementing the budgets of Greater Irbid Municipality. The study’s results showed that there is a relation between the lack of (perception and awareness of the budget’s importance, scientific and practical qualifications, technical and technological aspects, behavioural aspects, unrealistic estimation of the budget) and the budget’s implementation.

Ohemeng (2011) avers that to facilitate the implementation of budgets, funds should be allocated to spending units as soon as the budget is approved. However, in some countries, the apportionment procedure can take several weeks. In particular, in several francophone countries, funds allocated to remote spending units can be available only during the second quarter of the fiscal year. This practice is generally a major source of inefficiencies that should be addressed. Mkasiwa (2011) adds that upon allocation, key responsibilities are bestowed on the spending units allocating funds among their subordinate units, making commitments, purchasing and procuring goods and services, verifying the goods and services acquired, preparing requests for payment (and making payments if the payment system is not centralized), preparing progress reports, monitoring performance indicators, and keeping accounts and financial records.

Mkasiwa (2011) avers that commitment is then undertaken by the budgeting institution for the procurement of goods and services and debt clearance, in line with the budget items. Commitment control is particularly important because it can prevent blatant cases of misuse of appropriations, overspending, and irregularities. The key objective of commitment control
is to require spending ministries to focus on controlling the initial incurrence of liabilities rather than the subsequent cash payments, (Mkasiwa, 2011). The onus is on the commitment control officer to ensure that commitments entered into are consistent with the quarterly ceiling without incurring any payment arrears. In the budget systems of some counties in Kenya, commitments are, in principle, monitored by spending units, but data on commitments are not systematically available at the ministry of finance level.

Burns and Zhiren (2010) in their study on China’s government performance management established that problems may arise concerning the allocation of responsibilities between the central departments of the line ministries and their subordinate agencies. In some countries, continuous interference by the central departments in the management of projects and programs impedes the effective implementation of these programs. In other countries, powerful agencies implement programs without reporting to their parent ministries. The distribution of responsibilities within line ministries needs to be clarified to ensure that the central departments are fully responsible for coordinating sector policy and that subordinate agencies carry out their activities under the supervision of these departments but without unnecessary interference in day-to-day administration. This ensures effective implementation of the budget.

According to the findings of the ICPAK (2014) survey, Kenya is at the critical stage of implementing the devolved system of governance. There are numerous challenges mostly in terms of inadequacy of financial and human capital to realize the devolution dream with some degree of certainty. It is therefore of critical importance that counties design systems to optimize use of the scarce resources for the ultimate objective of efficient and effective
service delivery to the citizens of all counties. Further, it is important that the County Government budgeting process takes off on a success path, (Kirira, 2011).

Ustawi (2013) also explains in his study, that the COB was steadfast in demanding that the county governments immediately implement lawful internal checks and balances in accordance with the Public Finance Management Act of 2012, over County Funds. Beyond the structural delays and lack of clarity in roles, some county level staff felt that the individuals and structures tasked with different planning and other budgeting roles at the county level lacked the basic capacity to comprehend and undertake these roles.

Information systems have been observed to fast-tract financial management efficiencies in organizations. Although the information system have well documented challenges there are studies on factors affecting their implementation. The implementation of an IFMIS is a complex, risky, resource-intensive process that requires major procedural changes and often involves high-level officials who lack incentives for reform (Hendricks, 2012). It demands a commitment to change: change in technology in processes and procedures; as well as changes in skills, responsibilities and behaviours.

Njonde (2014) study on effect of integrated financial management information system on performance of Nairobi County Government found that IFMIS has been effective in financial reporting, budgeting and internal controls as well as implementation of government projects, although there were challenges faced in internal controls. The study revealed that there was a positive relationship between the effectiveness of IFMIS on public financial management and the independent variables; financial reporting, budgeting, internal controls and projects as was revealed in the regression analysis.
2.3.3 Budgetary Monitoring and Evaluation, and Financial Performance

Budgetary Monitoring and Control is a deterrent process against misappropriation of funds in terms of procedures and rules that establish the boundaries of financial behaviour. Budgetary monitoring and control process is a systematic and continuous one which is characterized by the following stages: The stages mentioned include: Establishing targeted performance or level of activity for each department of the organization by way of setting targets to be achieved enhances the monitoring of the organizations performance. Communicating details of the budgetary policy to all the stakeholders for easy appreciation of the set targets and objectives enhances ownership of the results achieved at end of the day.

Hansen & Kræmmergaard (2013) contend that, accessing the high level of budgeting process and executions a challenging task for local government. Hawkesworth et al.(2011) show that, many local governments have not been examining efficiently the internal audit in budgeting process and execution and this has consequently led to mismanagement; lack of control and less budget execution from their activities or operations. However, there is no evidence of adequate follow up done to verify the accountability reports submitted to Districts by non-budget agencies and to follow up activities reported. Such follow up should have been done on a regular basis by Internal Audit unit (Onumah & Krah, 2012). As a consequence, there is a continued problem of misuse and misappropriation of public funds being perpetuated through non budget agencies.

Theletsane (2014) argues that monitoring actual revenue or cost data is done by way of continuous comparison of actual performance with the budgeted performance and regular reporting of variances to the responsible officers. This helps in asserting the reasons for the differences between actual and budgeted performance and taking the suitable corrective action. Emerging experience from the public sectors in both industrial and developing
countries suggests that the greater the complexity and scale of the ICT platform to support financial systems, the greater the risk of failure or underperformance of that platform and, by extension, the system as a whole. ICT systems that started small and are iteratively expanded are less likely to fail or underperform because the associated risks can be managed better.

In Kenya, the Controller of Budget was established by the Constitution of Kenya under Article 228 to oversee the implementation of budgets of both national and county governments by authorizing withdrawals from public funds. The controller also oversees the implementation of the budgets of national and county governments. Article 228(4) and monitors use of funds in-year and raise concerns on any signs of mismanagement to the Auditor General and both houses of Parliament. The COB also prepares quarterly, annual and special reports on budget implementation. Articles 254(1), (2) and 252(1) (a). Through these reports, the COB ensures continuous monitoring of usage of public funds. The reports are published and publicized for transparency.

Richard (2015) study on determinants of integrated financial management information systems strategy implementation in devolved units in Kenya; a case of Kisii county government reiterated that in Kenya the national treasury introduced the integrated financial management information system as a PFM reform initiative aimed at automating and streamlining Governments financial management processes and procedures. However, the implementation of such a project has proved to be a very demanding undertaking and has not been met with resounding success.
Chebet (2013) studied issues that elevated successful implementation of the re-engineered IFMIS in the departments of Kenya. The research results presented that the involved awareness and appreciative of the ministries and by the users and how IFMIS is applied in those ministries was prejudiced by the element that the users had operated for long within the ministries. As per the findings integrated financial information system can be applied by system applicants to carry out dealings, that the system is working as it should with least difficulties and all the system structures or abilities for IFMIS were brought though there is hesitation as to whether the execution was accomplished within targeted budget and the execution was completed within the projected period.

Evaluation is an important role of budgeting for attaining the expected quality and standards in planning, control, leadership and staffing. It measures the extent to which budgetary goals are achieved and illuminates any anomalies on such achievement. Reports should be made on the status of county finances periodically. According to Serem (2013), reports should be accurate to enable the making of corrective decisions based on the reports. He noted that the principle of exception should be utilized where possible and that budgetary Control is not effective unless there is continuous flow of budget reports. He observes that the reports should be prepared at regular intervals (say monthly) to show comparison of actual performance with that budgeted. Such reports may be presented to heads of budget centres, showing favourable or unfavourable variances from budget figures.

Mpakaniye (2017) study aimed at investigating the effect of internal audit on budget process and execution of local government of Rwanda taking Musanze District as case study. It was found that asset management; management control and staffing management are well used to
enhance good budgeting process and execution in local government. The budget process and execution in local government is based on budget formulation; budget proposal and dialogue, budget monitoring, budget adjusting, budget control and budget reporting. This confirmed that there is significant relationship correlation between internal audit and budget process and execution in Musanze district office.

Kanyinga (2014) contended that similarly, the ability to understand the political bargaining process around the budget and to check whether individual policy makers kept the commitments they entered into during this process is an important condition for holding policy makers personally accountable in elections. Citizens can also participate in public finance management through various forms of social accountability, such as social audits, Public expenditure tracking surveys and citizen report cards among others to monitor the social impact of public spending. It’s only through such active participation that governments will be compelled to put in place systems to monitor budget implementation on a real time basis.

Under the devolved system in Kenya, the Auditor-General should within six months after the end of each financial year, audit and report, in respect of that financial year, on the accounts of the national and county governments and their respective agencies that are funded from the Consolidated Fund, (Richard, 2015). The Office of the Auditor General is also mandated to examine accounts of political parties funded from public funds and the public debt. The National Assembly Budget and Appropriations Committee has been regarded as the most powerful committee in the legislature given it immense role in budget scrutiny and approval. Similarly, at the County level, there is separation of powers between the County executive,
led by the Governor, and the County Assembly. Again, County Assemblies in most parts of the country have flexed their muscles by refusing to approval county budgets due to various reasons.

2.3.4 Financial Performance

Financial performance is a general measure of a firm's overall financial performance over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation, (Padilla, Staplefoote and Morganti, 2012). It is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues, (Mpiira et al, 2013). Haque et al (2011) contends that financial performance for most organizations can be measured by net firm income from operations (NFIFO), rate of return on firm assets (ROA), rate of return on firm equity (ROE) and benefit to the beneficiaries on object of funding. Another way of assessing government financial performance relates to the fiscal health of the county in terms of the risk of bankruptcy, which according to Whitney (2013), is the result of "budgetary mismanagement coupled with rising pension and debt costs".

Ndungu (2013) contends that sections 163,164 and 165 of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the County Treasury shall prepare financial statements of each County Government entity, receiver of revenue and consolidated financial statements for all County Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board. The Auditor-General has the mandate under Article 229 of the Constitution to audit and report on the accounts of the National and County Governments, (ROK, 2013).

While the county government management practices that matter for the quality of financial management in Kenya vary depending on how financial management performance is
measured, it appears that counties with better financial management practices (e.g., stronger internal audits), better planning and budget processes, and better project implementation practices achieve better financial management outcomes. In order for the public sector to efficiently deliver public services and achieve its policy objectives, it is critical that public finances are managed well. While the efficient and effective use of public resources is a universal concern at all levels of government, the appropriate use of decentralized public resources at the local government level is a special point of contention, (Silva & Jayamaha, 2012).

2.4 Summary of the Literature Review and gaps.

Table 2.1 Summary of Literature Review and gaps.

<table>
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<tr>
<th>Author</th>
<th>Title</th>
<th>Purpose</th>
<th>Findings</th>
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<td>The effect of internal audit on budget process and execution of local government of Rwanda</td>
<td>Assessment of budget process</td>
<td>Local governments have not been examining efficiently the internal audit in budgeting process</td>
<td>Failure to relate on financial performance</td>
<td>To establish the effect of the budgetary process on the financial performance of Murang’a County government</td>
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<td>Richard (2015)</td>
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<tr>
<td>The Institute of Economic Affairs budget analysis report 2017</td>
<td>County budgets Analysis</td>
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<td>Kimani, R. N. (2014)</td>
<td>The effect of budgetary control on Non-Governmental</td>
<td>Budgetary control in Non-Governmental</td>
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<td>To establish the effect of the budgetary process on the</td>
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<td>Source: Author, (2017)</td>
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### 2.5 Conceptual Framework

Conceptual framework explores the relationships between independent variables and dependent variables. An independent variable is the presumed cause of changes in the dependent variable (Kothari, 2004). The dependent variable in this study is financial performance while the independent variables will be: budgetary planning, implementation,
monitoring and evaluation. The conceptual framework in Figure 2.1 is based on the objectives of the study and the empirical literature review of the independent and dependent variables.

**Independent Variable**  
**BUDGETARY PROCESS**

- BUDGETARY PLANNING
  - Regulatory framework
  - Public participation
  - Revenue collection base
  - Human resource capacity

- BUDGETARY IMPLEMENTATION
  - Human Resource Capacity Development
  - IFMIS Adoption
  - Community Engagement

- BUDGETARY MONITORING & EVALUATION
  - Internal audit reports
  - Accuracy of County financial Reports
  - Controller of Budgets report
  - Auditor General Report

**Dependent Variable**  
**Financial Performance**

- Spending as per the appropriations.
- Development ratio
- Working capital ratio.

Fig 2.1: Conceptual Framework

*Source: Researcher (2017).*
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents the procedures that will be used to conduct the study, focusing on research design, target population, sample size and sampling procedures, research instruments, validity and reliability of research instrument, data collection, data analysis and ethical consideration.

3.2 Research Design
This study employed a descriptive survey research design. Descriptive survey research designs are used in preliminary and exploratory studies to allow researchers to gather information, summarize, present and interpret for the purpose of clarification. Kothari (2005) noted that descriptive survey research is intended to produce statistical information about aspects of devolution that interest policy makers and the government. The study fitted within the provisions of descriptive survey research design because the researcher aimed at collecting data and report the way things were without manipulating any variables.

3.3 Target Population
Target population is defined as all the members of a real or hypothetical set of people, events or objects to which a researcher wishes to generalize the results of the research study (Orodho & Kombo, 2005). The target population consisted of 2,074 staff 13 main County departments involved in the budgeting process in Murang’a County. The respondents included the
Table 3:1 Target Population Framework

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Department Category</th>
<th>Staff Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Office of the Governor</td>
<td>20</td>
</tr>
<tr>
<td>2.</td>
<td>County Assembly</td>
<td>203</td>
</tr>
<tr>
<td>3.</td>
<td>Finance, IT and Planning</td>
<td>310</td>
</tr>
<tr>
<td>4.</td>
<td>Agriculture, Livestock and Fisheries</td>
<td>205</td>
</tr>
<tr>
<td>5.</td>
<td>Energy, Transport and Infrastructure</td>
<td>10</td>
</tr>
<tr>
<td>6.</td>
<td>Commerce, Trade, Industry and Tourism</td>
<td>30</td>
</tr>
<tr>
<td>7.</td>
<td>Health and Sanitation</td>
<td>863</td>
</tr>
<tr>
<td>8.</td>
<td>Lands, Housing and Physical Planning</td>
<td>20</td>
</tr>
<tr>
<td>9.</td>
<td>Public Service and Administration</td>
<td>42</td>
</tr>
<tr>
<td>10.</td>
<td>Education and Technical Training</td>
<td>311</td>
</tr>
<tr>
<td>11.</td>
<td>Youth, Culture, Gender, Social Services and Special Programs</td>
<td>30</td>
</tr>
<tr>
<td>12.</td>
<td>Environment and Natural Resources</td>
<td>8</td>
</tr>
<tr>
<td>13.</td>
<td>County Public Service Board</td>
<td>20</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td><strong>2,074</strong></td>
</tr>
</tbody>
</table>


3.4 Sample Size and Sampling Technique.

This section presents the method used in determining the study sample size from which data will be collected. It also describes the sampling techniques which will be used in selecting elements to be included as the subjects of the study sample. A sample size is a part of the target population that has been procedurally selected to represent it (Oso & Onen, 2009). The sample is a representation of the population on which the researcher would wish to generalize the research findings. Systematic sampling method was applied for sampling the participants.
of the public fora. In this study, the staff data base provided the universe upon which the systemic method was applied. The interval, called the sampling interval, was calculated by dividing the population size by the desired sample size. Individuals were selected at regular intervals from a list of the whole population in each department. The intervals were chosen to ensure an adequate sample size and thus, every 25\textsuperscript{th} member (employee) of the population was included. The sample size for the study thus composed 83 respondents.

Table 3:2 Sample Size Framework.

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Department Category</th>
<th>Staff Population</th>
<th>Staff Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Office of the Governor</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>County Assembly</td>
<td>203</td>
<td>8</td>
</tr>
<tr>
<td>3.</td>
<td>Finance, IT and Planning</td>
<td>310</td>
<td>12</td>
</tr>
<tr>
<td>4.</td>
<td>Agriculture, Livestock and Fisheries</td>
<td>205</td>
<td>8</td>
</tr>
<tr>
<td>5.</td>
<td>Energy, Transport and Infrastructure</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>6.</td>
<td>Commerce, Trade, Industry and Tourism</td>
<td>30</td>
<td>1</td>
</tr>
<tr>
<td>7.</td>
<td>Health and Sanitation</td>
<td>863</td>
<td>35</td>
</tr>
<tr>
<td>8.</td>
<td>Lands, Housing and Physical Planning</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>9.</td>
<td>Public Service and Administration</td>
<td>42</td>
<td>1</td>
</tr>
<tr>
<td>10.</td>
<td>Education and Technical Training</td>
<td>311</td>
<td>12</td>
</tr>
<tr>
<td>11.</td>
<td>Youth, Culture, Gender, Social Services and Special Programs</td>
<td>30</td>
<td>1</td>
</tr>
<tr>
<td>12.</td>
<td>Environment and Natural Resources</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>13.</td>
<td>County Public Service Board</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>2074</strong></td>
<td><strong>83</strong></td>
</tr>
</tbody>
</table>

*Source: Researcher, (2017)*
3.5 Data Collection Procedure

The study used primary data collected through the use of a questionnaire. The questionnaire was used for data collection because it offered considerable advantages in administration. It also presented an even stimulus potentially to large numbers of people simultaneously and provided the investigation with an easy accumulation of data. The questionnaire was used to collect data from county departmental staff. The questionnaire comprised of six sections, first section enumerated the respondents’ personal data while each of the other five sections collected data based on the study objectives. The study used a structured questionnaire for purposes of collecting data. The questionnaire consisted of closed and open ended questions. A five point Likert scales ranging from strongly agree to strongly disagree was used in measuring the extent of the responses provided.

3.5.1 Validity

The validity of the instrument was determined by the researcher through seeking opinions of the experts in the field of study especially the researcher’s supervisor and industry expert working in County Governments in Kenya. Validity entails the appropriateness, meaningfulness and usefulness of inferences a researcher makes based on the data collected (Saunders, Lewis & Thornhill, 2009). To establish validity, the research instrument was given to five experts to evaluate the relevance of each item in the instrument in relation to the objectives. The same were rated on the scale of 1 (very relevant) to 4 (not very relevant). CVI was obtained by adding up the items rated 3 and 4 by the experts and dividing this sum by the total number of items in the questionnaire. A CVI of 0.801 was obtained. (Mugenda, 2005), state that a validity coefficient of at least 0.70 is acceptable as a valid research hence the adoption of the research instrument as valid for this study.
3.5.2 Reliability

Reliability of the research instrument was enhanced through a pilot study. Reliability is a measure of the degree to which a research instrument yields consistent results (Mugenda and Mugenda 2003). This study employed Cronbach alpha coefficient to test the reliability of the instruments. For reliability analysis Cronbach’s alpha was calculated by application of SPSS. The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous (that is, questions with two possible answers) and/or multi-point formatted questionnaires or scales (that is, rating scale: 1 = poor, 5 = excellent). It is reliable if the Cronbach’s alpha value is >0.5 and unreliable if it is <0.5 (Saunnder, 2009). A higher value shows a more reliable generated scale. Since, the alpha coefficients were all greater than 0.7, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study. Also test re test method was used to compute correlation coefficient.

Table 3.3: Reliability Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Planning</td>
<td>0.812</td>
<td>4</td>
</tr>
<tr>
<td>Budget Implementations</td>
<td>0.765</td>
<td>3</td>
</tr>
<tr>
<td>Budget Monitoring</td>
<td>0.770</td>
<td>3</td>
</tr>
<tr>
<td>Budget Evaluation</td>
<td>0.800</td>
<td>4</td>
</tr>
</tbody>
</table>

(Source: Researcher, (2017))
3.5.3 Pilot Study

Before the actual data was collected, the researcher conducted a pilot study in the 5 departments at Murang’a County Governments. The purpose of the pilot study was to enable the researcher ascertain the reliability and validity of the instruments, and to familiarize herself with the administration of the questionnaires therefore improving the instrument and data collection procedures.

3.6 Data analysis and presentation

The data collected was checked for completeness and data entry done into the SPSS statistics data editor, to enhance viewing and manipulation, and consequently, the software was used to analyse the data. The results were presented using tables, pie and bar charts for ease of understanding. Data was established as the measure of central tendency that included mean, mode and median to highlight the key findings. Inferential statistic was used to establish the relationship between variables of the study and qualitative by content analysis. Analysis variance (ANOVA) was used to determine the relationship of the variables. Regression analysis was used to come up with the model expressing the hypothesized relationship between the independent variables (budgetary planning, budgetary implementation, budgetary monitoring and evaluation) and the dependent variable (financial performance of Murang’a County Government in Kenya).

3.6.1 Model Specification

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 \]

Where, \( \beta_0, \beta_1, \beta_2, \) and \( \beta_3 \) are the regression coefficients.


\( X_1 \) - Budgetary planning

\( X_2 \) - Budgetary implementation,
X3. Budgetary monitoring and Evaluation

Regression analysis was carried out to find out the significant effect of independent variables for budget process factors (X1, X2, and X3) on dependent variable Y, (financial performance of Murang’a County Government in Kenya).

3.7 Ethical Consideration

Ethical issues arise from the kind of problems that social scientists investigate and the methods used to obtain valid and reliable data (Nachmias and Nachmias, 1996). Ethical considerations were pertinent to this study because of the nature of the problem, the methods of data collection and the kind of persons serving as research participants. While carrying out this study, participants were informed of the nature of the study and allowed to choose whether to participate or not. There is wide consensus among social scientists that research involving human participants should be performed with the informed consent of the participants (Nachmias and Nachmias, 1996). The researcher therefore ensured that participants knew that their involvement was voluntary at all times. To safeguard the privacy of the participants, respondents were kept in a private environment away from passers-by or intruders. Asking participants not to write their names on the questionnaires during the research also helped ensure anonymity.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION

4.1 Introduction
This chapter presents the analysis of the study findings according to the data collected from the field. It provides general information on the relationship between budgetary process and the financial performance of Muranga County Government. It begins with instrument return rate, demographic data of the respondents, while the other sections are based on the study variables including budget planning, implementation, monitoring and evaluation. Data is both qualitative and quantitative and analysis based on both descriptive and inferential analysis. The data was analyzed using the statistical package for social sciences (SPSS) Computer programme version 20. The results are presented using frequency distribution tables, pie charts and percentages.

4.2 Response Rate
The study was undertaken at Murang’a County Government and whereby eighty-three questionnaires were given of which eighty were returned as shown in Figure 4.1. This represents a response rate of 95%, which was commendable for the study as emphasized by Mugenda and Mugenda (2003) that a response rate above the 70% threshold was sufficient for reliable data in social studies.

![Response Rate Chart](image)

Figure 4.1 Response Rate
Source: Researcher, (2017)
4.3 Demographic Data

4.3.1 Gender Distribution

The study sought to find out the gender distribution of the respondents.

Table 4.1 Gender Distribution

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>43</td>
<td>53.75</td>
<td>53.75</td>
</tr>
<tr>
<td>Female</td>
<td>37</td>
<td>46.25</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Researcher, (2017)*

The results in table 4.1 above show that the male were majority (53.75%), though there was fair distribution of the human resource with female representation being (46.25%). Thus, Muranga County government had effectively implemented gender parity principles that ensure equal representation and equality in opportunities for employment. To the study, the distribution was beneficial as it reduced skewed/biased responses due to gender disparity.

4.3.2 Age Distribution

The study sought to find out the age distribution of the respondents. The results in figure 4.1 show that majority of the respondents were aged between 30-49 years, with 35% aged 30-39 years and 33.75% aged 40-49 years. Thus, the county government had a mature workforce in their productive ages who could undertake the county functions to achieve set goals and targets.
4.3.3 Academic Qualifications

The study sought to find out the academic qualifications of the respondents.

Table 4.2 Academic Qualifications

<table>
<thead>
<tr>
<th>Academic Qualification</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>4</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Diploma</td>
<td>46</td>
<td>57.50</td>
<td>62.50</td>
</tr>
<tr>
<td>Degree</td>
<td>24</td>
<td>30.00</td>
<td>92.50</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>6</td>
<td>7.50</td>
<td>100</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Researcher, (2017)

The results in figure 4.2 show that majority of the respondents were diploma holders (57.5%) while 30% held bachelor degrees, 7.5% post graduate and 5% certificates. This showed commendable academic qualifications of the staff that ensure sufficient capacity for
undertaking tasks in different functions of the county government. To this study, the academic standings were crucial in objectivity of responses given based on knowledge capacities and literacy levels.

### 4.3.4 Experience of the Respondents

The study sought to find out the level of experience of the respondents by number of years worked at Muranga County Government (pre and post devolution).

**Table 4.3 Number of Years Worked**

<table>
<thead>
<tr>
<th>Years Worked</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3</td>
<td>16</td>
<td>20.00</td>
<td>20.00</td>
</tr>
<tr>
<td>4-6</td>
<td>19</td>
<td>23.75</td>
<td>43.75</td>
</tr>
<tr>
<td>7-9</td>
<td>21</td>
<td>26.25</td>
<td>70.00</td>
</tr>
<tr>
<td>above 9</td>
<td>24</td>
<td>30.00</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Results in table 4.3 above show that majority of the respondents had worked for over 6 years (a total 56.35%), while 23.75% had worked for 4-6 years and 20% below 4 years. Thus, most of them had good experience in county government operations in the four years of operation and could objectively contribute as well as provide credible and reliable data for the study.

### 4.4 Budgetary process and financial performance of Murang’a County Government, Kenya

The study sought to establish the influence of the budgetary process on financial performance of Murang’a County government. The budgetary process aspects considered included budgetary planning, implementation, monitoring and evaluation. Parameters for each aspect were measured and related to financial performance.
4.4.1 Budgetary Planning and Financial Performance

The study sought to establish the influence of budget planning aspects on financial performance of Murangá County Government: Likert Scale: 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree

Table 4.4 County Government Budgetary planning aspects influence on financial performance.

<table>
<thead>
<tr>
<th>Budgetary Planning Factors</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The regulatory framework has been effectively adopted in the budgeting planning i.e. PFM Act.</td>
<td>25%</td>
<td>50%</td>
<td>0%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>The public has been effectively involved in the budget planning i.e. before the budget estimate and after the budget estimates.</td>
<td>0%</td>
<td>56.25%</td>
<td>0%</td>
<td>43.75%</td>
<td>0%</td>
</tr>
<tr>
<td>Effective strategies have been formulated to enhance local revenue collection that is budgeted for.</td>
<td>0%</td>
<td>50%</td>
<td>0%</td>
<td>40%</td>
<td>10%</td>
</tr>
<tr>
<td>The county has an effective human resource/ staffing structure to undertake the budgeting planning.</td>
<td>10%</td>
<td>37.5%</td>
<td>0%</td>
<td>52.5%</td>
<td>0%</td>
</tr>
<tr>
<td>Key planning policy documents are prepared and approved as per the budget cycle, i.e. annual development plan,</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>The county appropriation Act expenditure schedules match the approved disbursement schedule by the senate.</td>
<td>0%</td>
<td>60%</td>
<td>0%</td>
<td>40%</td>
<td>0%</td>
</tr>
<tr>
<td>County budget and economic forum (CBEF) is well constituted and effectively consulted on budget and economic matters</td>
<td>15%</td>
<td>43.75%</td>
<td>0%</td>
<td>30%</td>
<td>11.25%</td>
</tr>
<tr>
<td>Established county public funds are effectively regulated before any</td>
<td>0%</td>
<td>68.75%</td>
<td>0%</td>
<td>31.25%</td>
<td>0%</td>
</tr>
</tbody>
</table>
County revenue targets set are realistic. Budget Planning influenced county financial performance

<table>
<thead>
<tr>
<th></th>
<th>10%</th>
<th>50%</th>
<th>0%</th>
<th>40%</th>
<th>0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>County revenue targets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Planning</td>
<td>0%</td>
<td>12.5%</td>
<td>0%</td>
<td>87.5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Researcher, (2017)

Table 4.5 above provides results on the extent to which the County Government Budgeting planning influences the financial performance. In regards to whether the regulatory framework has been effectively adopted by the county government in the budgeting planning, majority (75%) disagreed. This showed poor compliance to the regulations set for budget planning, a factor that hampers effective implementation, monitoring and evaluation of the budget process. The public has been effectively involved in the budget planning according to over half of the respondents and this could affect project prioritization, implementation as well as monitoring and evaluation by the public and in the end the performance of the county government.

Effective strategies have not been formulated to enhance local revenue collection that is budgeted for, according to half of the respondents. This has culminated to budget deficits and underfunding of projects and borrowing from local commercial banks as a measure of emergency. Overall it affects the financial operations, management and performance at the county. All the respondents agreed that key planning policy documents were prepared and approved as per the budget cycle. This showed that policy frameworks and regulations were complied with as per the PFM and County Governments Act 2012. However, the county appropriation Act expenditure schedules was not found to match the approved disbursement schedule by the senate according to majority of the respondents.
In regard to whether County Budget and Economic Forum (CBEF) was well constituted and effectively consulted on budget and economic matters, over 55% disagreed. This showed low stakeholder engagement by the county government in budget planning. Barasa and Eising: (2012) argued that community participation was an important aspect of the vision 2030, because, the critical cornerstones of the social and economic pillars are devolution. Further, Omolo (2010) opined that there is need for a dependant and enhanced consultation and information sharing process in the budgeting, and all individuals responsible for achieving results should be consulted in the formulation of budgets.

The established county public funds were not effectively regulated before any operations according to majority of the respondents. This case elicits chances for funds misallocation and unauthorized transfers that affect the financial performance of the county government. County revenue targets set were not realistic according to sixty percent of the respondents. This showed that budget estimates were either too high and the implementation of budgeted activities was affected, leading to low financial performance in the county government. In general, budget planning was a challenge at the county government and it affected the financial performance. Majority of the respondents (87.5%) agreed that the budget planning process influenced financial performance of the county government.

4.4.1.1 Strategies for enhancing effective budgetary planning of Murang'a County government

The strategies suggested for enhancing budget planning were cited as sufficient capacity building of County Government officials in budgeting (65%). The officers were significantly involved in the budget process and their effectiveness was crucial in target achievement. As noted by the Institute of Working Future (2011), staff should also be engaged through training and allocation of duties and responsibilities along the budget process. Importantly,
budgets should produce figures that represent expected performance under current operational conditions.

The other significant recommendation was enhancement of public participation during budget formulation process (35%). In concurrence, Barasa and Eising (2012) opinionated that community participation is an important and communities will need to be actively engaged so that there is better targeting of resources. Engagement of the community ensures priority/needs based allocations in budget, monitoring and evaluation effectiveness. Inclusion of community also enhances ownership of projects and motivation to pay taxes.

Figure 4.3 Strategies for enhancing budgetary planning

Source: Researcher, (2017)
4.4.2 Budgetary Implementation and Financial Performance.

The study sought to establish the influence of budgetary implementation aspects on financial performance of Murangá County Government: Likert Scale: 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree

Table 4.5 Budgetary implementation influence on financial performance.

<table>
<thead>
<tr>
<th>Budgetary implementation</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>The county has an effective human resource/staffing structure to undertake the budgeting implementation.</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Human capacity is improved through continuous training and additional staff.</td>
<td>0%</td>
<td>40%</td>
<td>0%</td>
<td>60%</td>
<td>0%</td>
</tr>
<tr>
<td>The county has effectively adopted IFMIS for processing its financial transactions.</td>
<td>40%</td>
<td>31.25%</td>
<td>0%</td>
<td>28.75%</td>
<td>0%</td>
</tr>
<tr>
<td>The county spends funds on votes approved by controller of budget only.</td>
<td>0%</td>
<td>50%</td>
<td>0%</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>The county government has effectively decentralised financial management to the departments.</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>The County executive ensures the CBEF is actively involved in the budget implementation.</td>
<td>12.5%</td>
<td>25%</td>
<td>0%</td>
<td>62.5%</td>
<td>0%</td>
</tr>
<tr>
<td>The County executive has effective strategies that enhance development funds absorption.</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>The county liaises with the national treasury for timely release of the County equitable share of revenue.</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Supplementary budgets are approved in good time to allow sufficient time for implementation of activities.</td>
<td>12.5%</td>
<td>60%</td>
<td>0%</td>
<td>27.5%</td>
<td>0%</td>
</tr>
<tr>
<td>Revenue collection has been automated and all funds deposited in the county revenue fund.</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Timely Financial reports submitted have enhanced timely budget execution.</td>
<td>0%</td>
<td>56.25%</td>
<td>0%</td>
<td>43.75%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Table 4.6 above presents results on the effect of budgetary implementation aspects on the financial performance of the Murang’a County Government. All the respondents concurred that there was an effective human resource/staffing structure to undertake the budgeting implementation process. However, sixty percent of the respondents disagreed that human capacity was improved through continuous training and additional staff. This showed that capacity-building programmes for the staff were low and this could affect budget implementation process and financial performance of the county government. The county has not effectively adopted IFMIS for processing its financial transactions according to over seventy percent of the respondents. In concurrence with this finding, Richard (2015) study established that the implementation of IFMIS has proved to be a very demanding undertaking and has not had resounding success. This showed challenges in technology diffusion at almost all the 47 county governments in Kenya. As such, the technology did not provide its embedded benefits of financial transactions controls that reduce chances for revenue leakages and fraud in safeguarding public resources and increasing county revenue.

The aspect that the county spends funds on votes approved by controller of budget only got mixed reactions. Half of the respondents agreed with half being of the contrary opinion. This showed that either the respondents were not privy to COB votes, or the officers in charge disregarded the guidelines, a factor contravening the PFM Act. This would mean that expenditure for budget implementation did not collate with the COB estimates culminating to overspending or misallocation. As such, expenditure might not be accurate and audit of such becomes challenging with vast audit queries, loss of funds, underfunding of priority budget items and this impacts on the financial performance of the county government. All the
respondents concurred that the county government has effectively decentralised financial management to the departments. This eased disbursement of funds for implementation of budgeted programmes and management of funds at departmental level. This would ease control and audit of the various funded activities. Where controls are at the departmental level, the staffs tend to be more accountable and responsible and this enhances the financial performance of the county government.

The engagement by the County executive of the CBEF in the budget implementation was lowly rated by over half of the respondents and just as in the case of budget planning, the forum was disregarded. Thus, they hardly contributed to budget implementation process at the county government, and the executive took the onus of implementation almost entirely on its own. Budget implementation under the PFM requires stakeholder engagement in enhancing performance. The county liaises with the national treasury for timely release of the County equitable share of revenue according to all the respondents. The funds were important in pro-poor programmes facilitation at the county government. Thus, the county government takes efforts in funds mobilization for projects, a factor enhancing financial performance. Supplementary budgets are not approved in good time to allow sufficient time for implementation of activities according to over seventy percent of the respondents. Thus facilitation of budget items were therefore delayed and this affected programmes and projects effectiveness and financial performance of the county government.

Revenue collection has been automated and all funds deposited in the county revenue fund. This fact was agreed upon by all the respondents, meaning that the county government had invested in technology in enhancing financial management by enhancing controls and sealing loopholes for funds loss at collection points. This therefore ensured pooling of resources to
fund county budgetary items and hence enhance the financial performance of the county government. Timely Financial reports submitted have not enhanced timely budget execution according to over half of the respondents. The controller of budget as well as the commission for revenue allocation to calculate the national government transfer funds for each county requires financial reports. Where these reports are delayed, the national treasury delays in release of funds requisite for financial operations, and as such, this affects funding of programmes and projects and overall financial performance of the county government. Majority (75%) of the respondents agreed that budget planning influenced the financial performance of the county government.

4.4.2.1 Strategies for enhancing effective budgetary implementation of Murang’a County Government

The strategies cited for the improvement of budgetary implementation included: disbursement of funds in time by the national government (60%). It was noted by several scholars that timely disbursement of funds challenged budget operations by the county government. Suggested also was improvement of IFMIS programme (20%). IFMIS challenges were significantly identified in literature and the suggestions affirm respondents’ cognition. Monitoring of funds use in projects was also significantly acclaimed (10%). Monitoring requires proper structures and policies for controls, audits, and a strong regulatory framework.

Accountability of all officers involved (10%) was suggested to improve budget implementation success. A major challenge along budget process is corruption and embezzlement. This was recognized by the respondents as an impediment to budget
implementation, and a possible factor contributing to poor financial performance of the County Government. Silveira et al. (2012) contended that processing control ensures that objectives as laid down in the budgets are achieved.

![Strategies for Enhancing Budgetary implementation](image)

**Figure 4.4 Strategies for enhancing effective budgetary implementation**

*Source: Researcher, (2017)*

### 4.4.3 Budgetary Monitoring and Evaluation and Financial Performance.

The study sought to establish the influence of budgetary monitoring and evaluation aspects on the financial performance of Murang’a County Government: Likert Scale: 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree
Table 4.6 Budgetary monitoring and evaluation influences financial performance.

<table>
<thead>
<tr>
<th>Budgetary Monitoring and Evaluation</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>The County monitoring and evaluation unit is operational in budget monitoring.</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>The internal audit committee strengthens budget controls in revenue leakages.</td>
<td>0%</td>
<td>40%</td>
<td>0%</td>
<td>60%</td>
<td>0%</td>
</tr>
<tr>
<td>Adoption of IFMIS has enhanced audit trails for budget process monitoring and evaluation</td>
<td>0%</td>
<td>43.75%</td>
<td>0%</td>
<td>45%</td>
<td>11.25%</td>
</tr>
<tr>
<td>Timely and accurate financial reports are submitted to the controller of budgets on quarterly basis.</td>
<td>25%</td>
<td>45%</td>
<td>0%</td>
<td>30%</td>
<td>0%</td>
</tr>
<tr>
<td>The controller of budgets reports on any Budgetary deficits and ensures their root causes are established.</td>
<td>0%</td>
<td>35.25%</td>
<td>0%</td>
<td>45%</td>
<td>19.75%</td>
</tr>
<tr>
<td>The Auditor general submits quarterly and end of year financial reports that effectively evaluate the budget process.</td>
<td>0%</td>
<td>21.25%</td>
<td>0%</td>
<td>68.75%</td>
<td>10%</td>
</tr>
<tr>
<td>Budget plans are aligned to cash flow projection that has ensured minimal pending bills to the business community.</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>The county budget and economic forum (CBEF) actively monitors the budget process</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>County government has acted upon submitted financial report errors and frauds</td>
<td>25%</td>
<td>50%</td>
<td>0%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Budget monitoring and evaluation influenced financial performance of the county government</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source: Researcher, (2017)*

The findings in table 4.7 above show that Firstly, all the respondents agreed that the County monitoring and evaluation unit was operational in budget monitoring. However, the internal audit committee were not found to strengthen the internal audit functions by sixty percent of the respondents. This showed that either the composition was not adequate of the qualifications of the members was insufficient in enhancing the audit function. In regard to
whether adoption of IFMIS has enhanced audit trails for budget process monitoring and evaluation, 56.25% were of the affirmative while 43.75% disagreed, showing that the integration of IFMIS in the budget implementation process had some challenges.

According to 70% of the respondents, timely and accurate financial reports were not submitted to the controller of budgets on quarterly basis. Thus, scrutiny of financial records was constrained contributing to late disbursement of national transfer funds, delay funding of projects and programmes, emergency borrowing from commercial banks and low financial performance of the county government. This also affected the analysis and feedback process that allows for timely interventions. Serem (2013) argued that the reports should be prepared at regular intervals (say monthly) to show comparison of actual performance with that budgeted. Such reports may be presented to heads of budget centres, showing favourable or unfavourable variances from budget figures.

All the respondents concurred that the controller of budgets reports on any budgetary deficits and ensures their root causes are established. Seventy percent of the respondents disagreed that the county budget and economic forum (CBEF) actively monitors the budget process. Though recognized as key players in county budgeting process, they are hardly engaged at Murang’a County government. In line with the findings, Kanyinga (2014) contended that the ability to understand the political bargaining process around the budget and to check whether individual policy makers kept the commitments they entered into during this process was an important condition for holding policy makers personally accountable in elections. The Auditor general submitted quarterly financial reports and end of year report that effectively evaluates the budget process and also effectively evaluates the release of funds by the
national treasury to the County as per the approved disbursement schedule approved by senate. Thus budget evaluation by the external auditor was efficiently undertaken.

All the respondents disagreed that the county budget and economic forum actively monitored the budget process thus showing low engagement of stakeholder community in enhancing financial management checks and balances oversight. Further, 70% of the respondents disapproved that the County government had acted upon submitted financial report errors and frauds. This was another constraint to mitigation of budget implementation constraints and poor financial performance. In concurrence, Theletsane (2014) noted that monitoring actual revenue or cost data helps in asserting the reasons for the differences between actual and budgeted performance and taking the suitable corrective action, a factor that had not been happening at the county according to the study outcomes. All the respondents concurred that budget monitoring and evaluation influenced financial performance of the County government.

4.4.3.1 Strategies to ensure that there is increased budgetary monitoring of Murang’a County Government

Public participation was as a significant means of increasing budget monitoring at the county government (60%). The county budget and economic forum engagement should be increased (25%) to provide checks and balances on the implementation of budgeted projects and programmes. In concurrence to the suggestions, Michels (2012) posited that transparency of the budgeting process is another important element of political accountability. Focusing budgets and budget negotiations on numerical targets for the main budgetary parameters creates natural yardsticks by which voters can assess the actual performance of a government.
Article 201 (d) of the Constitution requires public money to be used in a prudent and responsible way while Section 107 of the PFM Act, 2012 sets out the fiscal responsibility principles to be enforced by the County Treasuries. Recognition of 15% was given to the fact that all line ministries as well as the Assembly should provide monthly reports in order to avail timely financial information for scrutiny, feedback, and interventions.

Figure 4.5 Strategies to ensure that there is increased budgetary monitoring
Source: Researcher, (2017)

4.4.3.2 Strategies to ensure increased budgetary evaluation of Murang’a County Government

Strategies for enhancing budgetary evaluation at the county government were cited as: social audits (44%); Enhanced County information dissemination framework (19%); Transparency and accountability of officers (37%). Serem, (2013) added that it is lauded to install international standards, instil discipline, improve efficiency, and strengthen control by
connecting all the financial subsystems; monitoring of funds use in projects; and accountability of all officers involved.

**Figure 4.6 Strategies to ensure increased budgetary evaluation**

*Source: Researcher, (2017)*

### 4.4.4 Financial Performance

The study sought to evaluate the aspects influencing financial performance of Murang’a County Government.

Likert Scale: 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree

**Table 4.7 Aspects influencing financial performance of Murang’a County Government**

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>County expenditure is effectively utilized as per the budget appropriations</td>
<td>10%</td>
<td>33.75%</td>
<td>0%</td>
<td>56.25%</td>
<td>0%</td>
</tr>
<tr>
<td>The County has enhanced development absorption rate in its expenditure.</td>
<td>0%</td>
<td>43.75%</td>
<td>0%</td>
<td>45%</td>
<td>11.25%</td>
</tr>
<tr>
<td>The County is financially solvent</td>
<td>0%</td>
<td>45%</td>
<td>0%</td>
<td>55%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source: Researcher, (2017)*

64
The County Government of Murang’a did not effectively utilize capital expenditure as per budget appropriations according to over half of the respondents. Further, expenditure absorption rate has not been enhanced while majority of the respondents did not find the county financially solvent. The County Government Act, 2012, stipulates that county government shall plan for the county and no public funds shall be appropriated outside a planning framework developed by the County Executive Committee and approved by the County Assembly.

Results above stipulate a disregard PFM regulations and this could lead to resource misallocation. Further, the low absorption rate especially on development has made projects to stall or take longer than projected, leading to financial losses to the county government. As regards solvency, budget deficit has persisted for the past fiscal years, with the auditor general queries of unplanned borrowing by the county government, possibly due to liquidity challenges.

4.4.4.1 Strategies to ensure increased financial performance of Murang’a County Government

To enhance financial performance of Murang’a county government, respondents provided divergent strategies. Key among them was the enhancement of financial controls over implementation activities with strict adherence with budget allocations. This strategy was acclaimed by 55% of the respondents. In concurrence, the County Government Act, 2012, stipulates that county government shall plan for the county and no public funds shall be appropriated outside a planning framework developed by the County Executive Committee and approved by the County Assembly.
Further, 25% cited timely reporting to the controller of budget in order to expedite funds disbursement by the national treasury. The county should enhance its revenue generation sources and increase controls during collection as acclaimed by 18.75% of the respondents. To ensure development the county government should evaluate the cause of low absorption of development funds that were later returned to the national treasury unutilized. This was accorded a 1.25%.

**Figure 4.7 Strategies to ensure that there is increased financial performance**

*Source: Researcher, (2017)*

**4.5 Inferential Statistics Analysis**

Inferential statistical analysis was conducted to establish the relationship between the variables. Multiple regression method was applied to establish the relationship upon test of normality and fit of model. ANNOVA was also applied to test significance of the relationship between the dependent and independent variables.

**4.5.1 Regression Analysis**

Ordinal regression was carried out to test the relationship on influencing factors to citizen participation in financial management at county government. Ordinal regression was used
because all the variables were categorical variables. The results of the regression analysis are presented in the table 4.13.

Before the main analysis, data was subjected to a thorough screening procedure where key diagnostic tests were also conducted in order to assure that the data sets met the general assumptions for conducting the regression analysis, a key analytical model that the study sought to develop.

**Table 4.8 Test of Normality**

<table>
<thead>
<tr>
<th>Kolmogorov-Smirnov</th>
<th>Shapiro-wilk test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistic</td>
<td>Df</td>
</tr>
<tr>
<td>0.468</td>
<td>69</td>
</tr>
</tbody>
</table>

*Source: Researcher, (2017)*

The results of the normality test indicated that the data was normal since the significance was not greater than 0.05 (.03).

**Table 4.9 Model Fit Results**

<table>
<thead>
<tr>
<th>Model Fitting Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>Intercept Only</td>
</tr>
<tr>
<td>Final</td>
</tr>
</tbody>
</table>

*Source: Researcher, (2017)*

In order to obtain the regression implications of the independent variables, the percentage data was regressed with the following results obtained. The model shows three different results for the R square as is the case on ordinal regression outputs.
In the selection of $R^2$ value the researcher used personal judgment based on the correlation to select $R^2$ value for the model. Due to three independent values being significant, the researcher selected 0.578 as the $R^2$ value for the model (Table 4.12). The model with the largest $R^2$ statistic is “best” according to this measure, (Tjur, 2009). The model shows R square of 0.507 meaning 50.7% of the outcome was predicted by the independent variables. This means that the model cannot explain 49.3% of the remainder. Therefore, guided by Seber& Lee (2012), it was concluded that at least one of the variables under assessment were useful predictors of financial performance.

Table 4.10 Results of the $R^2$

<table>
<thead>
<tr>
<th>Pseudo R-Square</th>
<th>Cox and Snell</th>
<th>Nagelkerke</th>
<th>McFadden</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.507</td>
<td>0.578</td>
<td>0.226</td>
</tr>
</tbody>
</table>

*Source: Researcher, (2017)*

The coefficients analysis gives $\beta_0$ (Beta) at 2.425, $\beta_1$ at 1.996, $\beta_2$ at 2.072 and $\beta_3$ at 2.264 (Table 4.13). Where $\beta_0$ is the constant, $\beta_1$, $\beta_2$ and $\beta_3$ are parameter for estimation of the
independent variables; budget planning, implementation, monitoring and evaluation. From our regression equation; \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \). Where financial performance of the county government \( (Y) \); influencing factors measured include budgetary planning, implementation, monitoring and evaluation, and are denoted by \( X_1, X_2, X_3 \), the regression equation of the model becomes:

\[
Y = 2.425 + 1.996X_1 + 2.072X_2 + 2.264X_3
\]

It is evident from the above regression model that if all factors were to be held constant including budgetary planning, implementation, monitoring and evaluation, then changes in financial performance at county government would be at 2.425 of a unit. It is established from the coefficient of the regression that all the independent variables were significant (with p-values of 0.020, 0.035 and 0.042). Thus, all the three variables of budgetary planning, implementation, monitoring and evaluation influenced the financial performance of Murang’a County Government. This result strengthens the descriptive statistics results and the Anova results (sig. 0.000) as shown in the table below:

### Table 4.12 Anova Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>66.381</td>
<td>11</td>
<td>5.595</td>
<td>7.67</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>244.739</td>
<td>255</td>
<td>.825</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>333.121</td>
<td>57</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


*Source: Researcher, (2017)*
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter discusses the summary of the study along the study objectives. It then draws conclusions based on these findings and discussions are put forth for the recommendations of the study based on both policy and practice. The contribution of the study to knowledge and recommendations for further areas of research are entailed.

5.2 Summary of the Study Findings
The general objective of the study was to investigate the effect of the budgetary process on financial performance of Murang’a County Government. The reviewed literature showed that the effectiveness of the budgetary process plays an important role in enhancing financial management and performance of the County Government. The study sought to answer the questions: whether budgetary planning, implementation, monitoring and evaluation influenced financial performance of Murang’a County Government.

The study sought to establish the effect of budgetary planning on financial performance of the Murang’a County Government. The study found that the budgetary planning process had a significant influence on financial performance of the county government. Budgetary planning aspects analysed showed that the regulatory framework had not been effective in budget planning while there was low stakeholder engagement.

Notably, the County budget and economic forum (CBEF) was not well constituted and engaged in budget planning and county public funds were not effectively regulated before
any operations according to majority of the respondents, with county revenue targets set were not being realistic. This showed flaws in the planning process that affect implementation as well as financial performance of the County Government. Stakeholder engagement was low, while the county public funds were not effectively regulated before any operations according to majority of the respondents. County revenue targets set were not realistic according to sixty percent of the respondents. Majority of the respondents concurred that budget implementation influenced financial performance of the County government.

The effect of budgetary implementation on financial performance of the County Government of Murang’a was also sought in the study. Results were that first, there was a significant relationship between budgetary implementation and financial performance of the county. Budgetary implementation aspects analysed showed that though there was an effective human resource/ staffing structure to undertake the budgetary implementation process, human capacity was inadequate. The county has not effectively adopted IFMIS for processing its financial transactions. The county government had, however, effectively decentralised financial management to the departments.

The engagement by the County executive of the CBEF in the budgetary implementation was low and just as in the case of budgetary planning, the forum was disregarded. It was further established that the county liaised with the national treasury for timely release of the County equitable share of revenue. The supplementary budgets were not approved in good time to allow sufficient time for implementation of activities. Revenue collection had been automated and all funds deposited in the county revenue fund though timely financial reports submission
had not enhanced timely budget execution, influencing low financial performance in regards to workflow, development and service delivery.

The study investigated the influence of budgetary monitoring aspects on financial performance of Murang’a County Government. Results showed that budgetary monitoring had a significant effect on financial performance of the county government. All the respondents agreed that the County monitoring and evaluation unit was operational in budgetary monitoring. However, the internal audit committee were not found to strengthen the internal audit functions by sixty percent of the respondents. Concerning whether adoption of IFMIS has enhanced audit trails for budgetary process monitoring and evaluation, slightly over half of the respondents agreed.

Seventy percent of the respondents indicated that timely and accurate financial reports were not submitted to the controller of budgets on quarterly basis. All the respondents concurred that the controller of budgets reports on any budgetary deficits and ensures their root causes are established. Seventy percent of the respondents disagreed that the county budget and economic forum (CBEF) actively monitors the budget process. The Auditor general submitted quarterly financial reports and end of year report that effectively evaluates the budget process and effectively evaluates the release of funds by the national treasury to the County as per the approved disbursement schedule approved by senate. All the respondents disagreed that the county budget and economic forum actively monitored the budget process while seventy percent of the respondents disapproved that the County government had acted upon submitted financial report errors and frauds. This was another constraint to mitigation of budget implementation constraints and poor financial performance. All the respondents
concurred that budget monitoring and evaluation influenced financial performance of the County government.

The County Government of Murang’a did not effectively utilize capital expenditure as per budget appropriations according to over half of the respondents. Further, expenditure absorption rate has not been enhanced while majority of the respondents did not find the county financially solvent. To enhance the financial performance of county government, respondents suggested the enhancement of financial controls over implementation activities with strict adherence with budget allocations: and enhancement of revenue generation sources as well as increase controls during collection.

5.3 Conclusions of the Study

Budgeting is important for public institutions globally. Especially in Kenya, it is crucial in supporting financial performance of the nascent county governments under the devolved system. Through devolution, it is anticipated that policy-making, public resource management and revenue sharing and especially as devolved funds become key drivers of development, communities will need to be actively engaged so that there is better targeting of resources. The community views the success of the government through these aspects and they are able to determine the performance of a particular political system/government at a given period. In this study, it was measured in terms of spending per the appropriations, development ratio/ programme service ratio and Working capital ratio. To ensure residents are satisfied through resource allocations, the county governments are mandated through various legislatures (The Constitution; County government Act; PFM Act, among others) to
formulate budgets that ensure effective resource mobilization and allocation and ensure controls in usage to enhance financial performance.

The study investigated the influence of budgetary process on financial performance of county government through the case of Murang’a County. The budgetary aspects considered were budgetary planning, implementation, monitoring and evaluation. The study found that the three aspects had a significant influence on financial performance of county government. Key planning policy documents were prepared and approved as per the budget cycle, but compliance to set regulations as well as inclusion of all key stakeholders were not effectively undertaken. The budgetary implementation aspects measured influence on financial management of county funds. The results showed that though financial management had been decentralized to departments; there were inefficiencies in regards to technology adoption, controls, oversight and timely supplementary budgeting.

All the respondents agreed that the County monitoring and evaluation unit was operational in budget monitoring. However, internal audit was weak, with reports not provided on monthly basis to enable evaluation, feedback and timely remedial actions. Thus, challenges are carried over to a whole year period, leading to unchecked resources leakage and influencing financial performance levels of county government. It was also established that the county government of Murang’a did not effectively utilize capital expenditure as per budget appropriations according to over half of the respondents. Further, expenditure absorption rate has not been enhanced while majority of the respondents did not find the county financially solvent.

The study thus concludes that the budgetary process involving planning, implementation, monitoring and evaluation affected the financial performance of the county government. The
regression analysis results further strengthen the findings with all results showing significance at the critical value. Respondents suggested several key strategies for developing the budgeting process in enhancing financial performance. Timely disbursement of funds by the national government was found to be crucial in the financing of projects and programmes. To improve controls, IFMIS programme are to be improved for reducing resource leakages, transparency and accountability of officers implementing budgetary activities as well as monitoring of funds use in projects through stakeholder engagement in all the three stages of budgeting.

5.4 Contribution to Knowledge

The study findings and conclusions present the case of budget process influence on financial performance of Murang’a County Government. The study reiterated the importance of compliance to budgetary regulatory frameworks for the county governments in ensuring that there is efficiency in implementation. The study emphasized on stakeholder engagement in the budget process to ensuring goal achievement and management of resources for public benefit. The study illuminates the challenge of IFMIS adoption in budget process and provides impetus for further research in the technology adoption in county financial management. Importantly, the study stipulates that a disregard of PFM regulations could lead to resource misallocation. As regards solvency, budget deficit has persisted for the past fiscal years in Murangá County, with the auditor general queries of unplanned borrowing by the county government, possibly due to liquidity challenges. Further, the low absorption rate especially on development has made projects to stall or take longer than projected, leading to financial losses to the county government. By evaluating the budget process aspects, the study contributes to the related challenges and constraints and how they affect financial performance on the nascent devolved units.
5.5 Recommendations for Policy

First, Murang’a County Government should review its policy on public participation in the budget process. This is important in conformity to the public participation Act 2016. Also important should be the enhancement of capacity building of the persons engaged in the budget process. The study found that the capacity building programmes were poorly structured and this influenced skills level and effective budgeting. In line with this, it is recommended that those engaged in budget planning should be capacity built in costing so that budget lines are accurate and within the COB ceiling to ease implementation. The county government should evaluate its revenue base so that while budgeting, it can strategically plan on programmes and projects within its capacity. This would reduce instances of budget deficits and project failures. The county should invest in research and design on the application of IFMIS, its challenges, alternative applications and cost-benefit analysis to ensure presumed benefits are tangible and realisable. Internal audit department should be strengthened to ensure that all audit reports are presented monthly to oversight bodies. This will enable timely remedies where necessary and ensure that financial performance is as expected for the period.

Strengthening of the information dissemination network is crucial for the budgeting process. It provides timely information to all stakeholders about budgets and this knowledge is able to present opportunities for oversight through social audits and perusal of budget documents and periodic financial reports. This empowers stakeholders to instil checks and balances that dissuade corruption, mismanagement and non-completion or undertaking of projects and programmes by the county government. The county government should also review the mandate of the county assembly in terms of budget evaluation. The constitution provides that
one of its functions is oversight over the budget process, but in Muranga County, this was not the case.

5.6 Limitations to the Study.

In the field of study, difficulties were inevitable. The study only focused on one County government and as such, the generalization of the findings of the study would be subjected to certain cautions. Several other factors influence the budgetary development of County governments, which the study excluded but concentrate on the major roles. This was due to the focus of the study. There was little documented information on the previous studies done in this area. Most researchers had not developed recent data on this area, thus making it difficult for the researcher to base her study findings using available literature support. However, this was overcome by generating primary data. There was a large amount of data, which could lead to missing important information or overweighing some findings due to focusing on large set of data. To address this shortcoming, significant amount of time and effort was spent on carefully assembling of data. Information unknown to the respondents was not tapped in the survey. Therefore, secondary data was generated to provide adequate back up information. The acquisition of confidential information was a challenge to the researcher. The respondents were assured that the given information was confined to serve the research purpose.

5.7 Suggestions for Further Studies

Further research should be undertaken in the following three areas: factors affecting the adoption of IFMIS for financial management in county governments, influence of citizen participation in budget process on the financial performance of county governments and factors affecting compliance to regulatory frameworks in public finance management of county governments: cognitive capacity of members of county assemblies on budgetary process.
REFERENCES


Bourmistrov, A., & Kaarbøe, K. (2013). *From comfort to stretch zones: A field study of two multinational companies applying “beyond budgeting” ideas*. Management Accounting Research, 24, 196-211


Information on Budgetary Slack”, in: Journal of Accounting Research, Vol. 23(2), pp. 829-842.


Murwaningsari, (2008).*The role of budgeting ethic orientation on managerial performance: an empirical investigation of Thailand's exporters.*


APPENDIX 1

INTRODUCTORY LETTER

ESTHER WANJI KUKIBUNJA

C/O Kenyatta University,

Nairobi.

Kenya.

TO WHOM IT MAY CONCERN

Dear Respondent,

RE: MBA RESEARCH

I am a student pursuing a Masters Degree in Business Administration at Kenyatta University. In partial fulfilment of the requirements to the award of the Masters degree, I am required to carry out a study on “Budgetary Process Influence on Financial Performance of Murang’a County Government, Kenya”

The choice is based on your strategic importance in the achievement of organizational goals hence improved performance of the institution in terms of efficiency and effectiveness. I humbly request your assistance by availing time to respond to the questionnaire.

A copy of the final report will be made available to you at your request. The information given will treated with utmost confidentiality for the purpose of this study only. Your assistance will be highly appreciated.

Thank you in advance.

Esther Wanjiku Kibunja
APPENDIX II

QUESTIONNAIRE FOR THE DEPARTMENT STAFF

Introduction

This research is meant for academic purpose. It will try to find out THE EFFECT OF THE BUDGETARY PROCESS ON FINANCIAL PERFORMANCE OF MURANG’A COUNTY GOVERNMENT, KENYA. Kindly you are requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated as confidential. Please do not write your name or that of your department anywhere on this questionnaire. Please tick [✓] where appropriate or fill in the required information on the spaces provided.

Section A: Personal Data

1. Gender: Male [✓] Female [ ]
2. Age of respondent: 20-29 [✓] 30-39 [✓] 40-49 [ ] 50-59 [ ] Above 60 [ ]
3. Academic qualifications
   Masters degree and above[ ☑ ] Bachelor degree [ ] Diploma[ ] Certificate[ ] Others (Specify)
   …………………………………………………………………………………………………………………...
4. For how long have you worked with the County Government of Muranga?
   Less than 1 year [ ] Between 1-3 years [✓] Between 3-5 years [ ] Above 5 years [ ]


5 Rank the extent to which the county Government Budgeting planning influences financial performance.
Please rank the following statements on Likert Scale ranging from strongly disagrees to strongly agree, where: 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree

**Budgetary Planning**

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
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<tbody>
<tr>
<td>The regulatory framework has been effectively adopted in the budgeting planning i.e. PFM Act.</td>
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<td>The public has been effectively involved in the budget planning i.e. before the budget estimate and after the budget estimates.</td>
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<td>Effective strategies have been formulated to enhance local revenue collection that is budgeted for.</td>
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<tr>
<td>The county has an effective human resource/staffing structure to undertake the budgeting planning.</td>
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<tr>
<td>Key planning policy documents are prepared and approved as per the budget cycle, i.e. annual development plan.</td>
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<td>The county appropriation Act expenditure schedules match the approved disbursement schedule by the senate.</td>
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<td>County budget and economic forum (CBEF) is well constituted and effectively consulted on budget and economic matters</td>
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<td>Established county public funds are effectively regulated before any operations.</td>
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<td>County revenue targets set are realistic.</td>
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<td>Budget planning process influences financial performance of the County Government</td>
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</table>

(b). In your view what should be done to ensure that there is increased effective budgetary implementation of Murang’a County government?
SECTION C: Budgetary Implementation and financial performance of Murang’a County Government, Kenya

6. Rank the extent to which the following aspects in the County government budgeting implementation influence on financial performance. Likert Scale ranging from strongly disagrees to strongly agree, where: 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree

<table>
<thead>
<tr>
<th>Budgetary implementation</th>
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<th>4</th>
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<tr>
<td>The county has an effective human resource/staffing structure to undertake the budgeting implementation.</td>
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<td>Human capacity is improved through continuous training and additional staff.</td>
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<td>The county has effectively adopted IFMIS for processing its financial transactions.</td>
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<td>The county spends funds on votes approved by controller of budget only.</td>
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<td>The county government has effectively decentralised financial management to the departments.</td>
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<td>The County executive ensures the CBEF is actively involved in the budget implementation.</td>
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<td>The County executive has effective strategies that enhance development funds absorption.</td>
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<td>The county liaises with the national treasury for timely release of the County equitable share of revenue.</td>
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<td>Supplementary budgets are approved in good time to allow sufficient time for implementation of activities.</td>
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<td>Revenue collection has been automated and all funds deposited in the county revenue fund.</td>
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<td>Timely Financial reports submitted have enhanced timely budget execution.</td>
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<tr>
<td>Budget implementation influences county financial performance</td>
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</table>
(b). In your view what should be done to ensure that there is increased effective budgetary implementation of Murang’a County government?

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SECTION D: Budgetary Monitoring and Evaluation and Financial Performance of Murang’a County Government, Kenya

8. Rank the extent to which the following aspects in the County Government Budgeting monitoring and evaluation influences financial performance; Likert Scale ranging from strongly disagrees to strongly agree, where: 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree

<table>
<thead>
<tr>
<th>Budgetary monitoring and Evaluation</th>
<th>5</th>
<th>4</th>
<th>3</th>
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<tbody>
<tr>
<td>The County monitoring and evaluation unit is operational in budget monitoring.</td>
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<td>The internal audit committee strengthens budget controls in revenue leakages.</td>
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<td>Adoption of IFMIS has enhanced audit trails for budget process monitoring and evaluation</td>
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<td>Timely and accurate financial reports are submitted to the controller of budgets on quarterly basis.</td>
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<td>The controller of budgets reports on any Budgetary deficits and ensures their root causes are established.</td>
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<td>The Auditor general submits quarterly and end of year financial reports that effectively</td>
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</table>
evaluate the budget process.

Budget plans are aligned to cash flow projection that has ensured minimal pending bills to the business community.

The county budget and economic forum (CBEF) actively monitors the budget process

County government has effectively acted upon submitted financial report errors and frauds

Budget monitoring and evaluation influences financial performance of the county government

(b). In your view what should be done to ensure that there is enhance budgetary monitoring and evaluation at Murang’a County government?

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SECTION E: Financial performance of Murang’a County Government, Kenya

9. Rank the extent to which the following aspects influences financial performance of Murang’a County government: Likert Scale ranging from strongly disagrees to strongly agree, where: 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>5</th>
<th>4</th>
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<tbody>
<tr>
<td>County expenditure is effectively as per the budget appropriations</td>
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<td>The County has enhanced development absorption rate in its expenditure.</td>
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<td>The County is adequately financially solvent</td>
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</table>

97
(b). In your view what should be done to ensure that there is increased financial performance of Murang’a County Government

Thank you for your cooperation.
APPENDIX III: RESEARCH AUTHORIZATION

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Ref: NACOSTI/P/17/24430/17288

Date: 6th June, 2017

Esther Wanjiku Kibunja
Kenyatta University
P.O Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Budgetary process and financial performance of Murang’a County Government, Kenya,” I am pleased to inform you that you have been authorized to undertake research in Murang’a County for the period ending 2nd June, 2018.

You are advised to report to the County Commissioner and the County Director of Education, Murang’a County before embarking on the research project.

On completion of the research, you are expected to submit two hard copies and one soft copy in pdf of the research report/thesis to our office.

GODFREY P. KALERWA MSc, MBA, MKIM FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Murang’a County.

The County Director of Education
Murang’a County.