

**BUDGET IMPLEMENTATION AND FINANCIAL PERFORMANCE OF  
THE COUNTY GOVERNMENT OF ELGEYO MARAKWET, KENYA**

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## **DECLARATION**

I, the undersigned, declare that this research project is my original work and has not been presented for a degree or other award in any other university.

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## **DEDICATION**

I dedicate to my wife, Emily, and my three children: Cynthia, Fabian, and Claire.

## **ACKNOWLEDGEMENT**

Academic research is a grueling undertaking. It demands both financial resources, and a lot of time, but beyond that it demands invaluable guidance and psychological support. I want to express gratitude to my supervisor, Mr. Joseph Theuri, who has stood with me through the difficult times and guided me when I seemed lost and unable to move an inch with the project. Your tireless efforts to assist me conceptualize this work and put words to paper are more than appreciated. Your professional assistance has made all the difference. I also want to thank my immediate family for the psychological support. My work colleagues have also been extremely supportive, always patient with me when I have to take a few hours off to rush to school. Your belief in the value of my efforts is the gift I never asked for. Thank you.

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## **ABBREVIATIONS AND ACRONYMS**

**CRA** :Commission on Revenue Allocation

**EMC** :Elgeyo Marakwet County

**GOK** :Government of Kenya

**IFMIS** :Integrated Financial Management System

**OCOB** :Office of the Controller of Budget

**PFM** :Public Finance and Management

**MCA** :Members of County Assembly

**SPSS** :Statistical Programme for Social Sciences

## OPERATIONAL DEFINITION OF TERMS

<b>Auditing Processes</b>	This is a process of systematically and independently examining books of accounts and related financial documents to determine whether they present a true, fair, and objective assessment of the financial position of an organizational entity, whether in the public or private sector.
<b>Budgets</b>	A quantitative financial plan of action that is prepared by an individual or organizational entity in advance of the period it is covering. It is an expenditure plan based on expected sources of income for the period.
<b>Budget Impementation</b>	This is the execution phase of budgeting and entails allocation and utilization of financial resources to planned expenditure activities.
<b>Budget Planning</b>	This is the process by which county Governments evaluate their revenue (from National Government, Local revenue and support from donors) and expenses (both development and recurrent expenditure) and project their monetary incomes and expenses in the next financial year.
<b>Budgetary Staff Capacity</b>	This is the human capacity and skills required to prepare the county Government Budget. The knowledge potential of available staff on budget preparation and monitoring of budget implementation.
<b>Financial Resource Availability</b>	County Governments sources of funds include: County local collections in form of taxes and charges, Equitable share between national and county governments, Conditional grants which are additional funds from national government on equitable share of revenue, loans from external sources and private lenders, donor funding which is aid from international

donors.

### **Financial Performance**

This is the degree of a firm's overall health over a specified duration. In the case of county government, the allocation from the national government, the efficiency in collection of local revenue and the expenditure allocation of expenditure into development and recurrent expenditure

## ABSTRACT

Resources are scarce. Public and private entities must ensure that available resources are allocated efficiently and utilized for the intended purposes in order to achieve strategic objectives. In Kenya, the principles of public finance are enshrined both in the constitutions and various legislations, the most important of which is the Public Finance Management Act. While both National and County governments are expected under law and by the citizenry to pursue optimal financial performance, reports on budget implementation show mixed results. The Auditor-General Report on Elgeyo Marakwet has consistently indicated suboptimal budget absorption rate and poor financial performance, which raises questions about the effectiveness of budget implementation in the County government. This study investigated the effect of budget implementation on financial performance of Elgeyo Marakwet County. The specific objectives were: to establish the relationship between budget planning, budgetary staff capacity, financial resource availability and audit processes on the financial performance of Elgeyo Marakwet County Governments in Kenya. This study was grounded on three theories: the theory of public finance, the budget theory, and the decentralization theory. A descriptive research design was used to guide the investigation of the stated objectives. The target population for this study were the accounting officers at Elgeyo Marakwet County. A census sample of the 79 accounting officers was used in the study. Primary data was collected using standardized and validated questionnaires, administered through a drop and pick method. SPSS version 23 was used to analyze the data. Descriptive statistical techniques were used to compute the percentages, means and standard deviations. The inferential measures; Pearson Correlation and Linear regression, were used to determine the relationship between the independent variables (budget planning, budgetary staff capacity, financial resource availability, and audit processes) on the dependent variable (financial performance) of Elgeyo Marakwet County. The descriptive statistics indicate very high level of agreement with statements concerning budget planning, budgetary staff capacity, financial resource availability, audit processes and financial performance at the County. Correlation and regression analysis showed that while some processes had a positive effect on performance. The regression statistics indicate that there is a positive and statistically significant influence of budget planning, financial resource availability, budgetary staff capacity, and audit processes on financial performance. The study recommends continuous strengthening of budget planning processes, greater investment in the human resource capacity, efficient allocation of financial resources to the budgeting process, and strengthening of existing audit controls and oversight systems in order to achieve higher levels of transparency, accountability, efficiency, and financial performance.

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

Globally, countries adopt various forms of decentralization to improve the efficiency of public service delivery and achieve optimal financial performance in the public sector. Decentralization gives decentralized governments or government agencies greater discretion in response to the needs of local constituents (Muriu, 2012). Conceptually, devolution is a form of decentralization, and is concerned with the rescaling of responsibilities and powers from the national centralized government to regional governments. While the actual political structures of devolved units differ, the premise of decentralization is a radical transfer of power, responsibilities and resources in order to improve public service delivery (Wagana, Iravo, Nzulwa, & Kihoro, 2016).

There are three main forms of decentralization: financial, political, and administrative decentralization. In the context of this study, the primary focus is on financial decentralization. According to Wagana, Iravo, Nzulwa, and Kihoro (2016) financial decentralization occurs when subnational governments have the power to raise revenues and make expenditures to provide certain services. Of all the forms of decentralization, fiscal decentralization is what is directly linked to budgetary practices since it necessitates the transfer of financial resources for the performance of responsibilities at the local level (Wagana, Iravo, Nzulwa, & Kihoro, 2016).

In Kenya, the political governance structure is composed of two tiers, as stipulated in the 2010 Constitution of Kenya. There is a national government, and 47 county governments. County governments are responsible for devolved functions that were previously under the domain of the national centralized government. These functions are spelled out in the Fourth Schedule of the Constitution of Kenya (Wambua, 2014).

Financial performance in devolved governments can only be achieved when there are prudent financial management systems in place (Dooren, Bouckaert, & Halligan, 2015). According to Muriu (2012) the performance of county government can be determined by looking at how they perform in relation to their financial responsibilities on one hand, and public service responsibilities on the other. This can be done by measuring the allocative efficiency,

accountability mechanisms, corruption, and equitable service delivery. Another way of establishing performance is through budget analysis (Ndunda, Ngahu, & Wanyoike, 2015).

Budgeting refers to the evaluation of revenue and expenditures, and establishing of legislative and regulatory guidelines to govern revenue and expenditure decisions. A budget quantitatively expresses expenditure plans, taking into account the expected revenue. Budgets are typically time limited and only serve a specific period of time, which can be as short as a day or a week or as long as a year or more. Government budgets are annual in nature. Decentralized budgeting is a tool for improved representation and participation of the poor in governance decision making, poverty reduction, service delivery to local populations (Scott & Enu-Kwesi, 2018). County governments should develop guidelines and templates to guide the formulation of budgets, in addition to instituting systems for preparing, executing, and reporting budget. Additionally, counties should develop human resource and service delivery capacity, while strengthening public participation in budget planning (World Bank, 2012).

### **1.1.1. Budget Implementation**

A budget is a critical tool in financial planning, control, and management. It links expenditure activities to organizational objectives and expected outcomes. Budget implementation maximizes the impact of public expenditure on economic growth and development, as it ensures that resource allocation is directly linked to national priorities (Shand, 2010).

Effective budget implementation is dependent on various factors which include: availability and adequacy of financial resources, human resource competencies, and public participatory processes. Availability and adequacy of resources is linked to national resource allocation and country revenue collection. In Kenya, Sections 35 and 125 of Public Finance Management (PFM) Act 2012 have provisions to guide every budgeting process that both the county and national government should follow. Despite this, budget implementation has been marred with challenges since the promulgation of the 2010 Constitution and the institution of devolved governments (Mungai & Nasieku, 2015).

The Commission on Revenue Allocation (CRA) has the primary responsibility of establishing the formula of equitable sharing of national revenue between national government and county government. Vertical sharing is sharing between national and county governments, while

horizontal sharing is sharing between the 47 counties. The Commission on Revenue Allocation (CRA) has a formula for calculating quarterly disbursements to County governments. However, there has been repeated delays in Treasury releases as a result of lack of financial resources. This has negatively affected the ability of counties to execute their projects, tender development projects, pay contractors, and even pay public wage bills (Ndunda, Ngahu, & Wanyoike, 2015). Further, a county can only achieve sound fiscal management if it has a robust county revenue collection system, as this is what gives devolved governance units the capability to finance budget deficits from domestic revenues (Brookson, 2000).

Effective budget implementation is also dependent on the presence of effective procedures and guidelines governing resource allocation and operational execution (Gathithi, 2010), as well as a sound and transparent revenue management model and strong audit and oversight system (Kipsang, 2015). Other challenges facing budget implementation include; lengthy procurement modalities, limited County Assembly capacity to carry out effective oversight, limited staff capacity, and poor budget classification system (Ndunda, Ngahu, & Wanyoike, 2015).

### **1.1.2. Financial Performance of County Governments**

The Auditor General reviewed the Financial Statements for the fiscal year 2016 of Elgeyo Marakwet County and reported poor financial reporting which made it impossible to provide an informed audit opinion. The Auditor general noted the differences between financial statements and IFMIS records which showed a variance of Kshs 2,840,937,685. These variances are indicative of poor financial management systems at Elgeyo Marakwet. (KENAO, 2016)

**Table 1.1: Auditor-General Report on County Executive for year ended 30<sup>th</sup> June 2016**

<b>Description</b>	<b>Financial Statements (Kshs)</b>	<b>IFMIS (Kshs)</b>	<b>Variance</b>
Receipts	3,531,625,693	-	-3,531,625,693
Payments	2,999,530,907	2,973,644,227	-25,886,680
Cash & Bank	842,371,675	356,279,201	-486,092,474
Receivables	2,218,940	87,994,317	85,775,377
Payables	22,886,072	6,821,653,227	6,798,767,155
<b>Total</b>	<b>7,398,633,287</b>	<b>10,239,570,972</b>	<b>2,840,937,685</b>

(KENAO, 2016)

Also during the year under review the county executive had a total budget of Kshs 3,850,303,971 comprising of Kshs 1,433,235,430 for development and Kshs 2,417,068,541 for recurrent expenditure. The total budget reflected overall under absorption of Kshs 850,773,064 or 22% as summarized below:

**Table 1.2: Auditor-General Report on County Executive for year ended 30<sup>th</sup> June 2016**

<b>ITEM</b>	<b>Approved Budget Allocation 2015/16</b>	<b>Actual Expenditure 2015/16</b>	<b>Under Absorption</b>	<b>Under Absorption in %</b>
Development	1,433,235,430	680,175,978	738,707,420	53
Recurrent	2,417,068,541	2,319,354,929	97,713,612	4
<b>Total</b>	<b>3,850,303,971</b>	<b>2,999,530,907</b>	<b>850,773,064</b>	<b>22</b>

(KENAO, 2016b)

The under absorption of the approved budget is an indication of activities and projects in the annual work plan not implemented by the county executive. There is need for the management to re-look at its budgetary mechanism with a view to focusing on priority areas. Further the budget performance shows that the county executive spent Kshs 680,175,978 on development expenditure which is 17% of the total budget contrary to the provisions of the Public Finance Management Act 2012 (section 107(2)) which require that county governments should allocate a minimum of 30% of the county budget to development.

Reports on revenue allocation show that the county received Ksh 121.92M as the total conditional allocations, raised Ksh 17.2M from local revenue sources and had a cash balance of Ksh 735.74M from FY 2016/1. The available funds amounted to Ksh 874.81 M. The total revenue collected in the first quarter of FY 2017/18 amounted to Ksh 17.2M representing a decrease of 31% compared to Ksh 24.91M generated in a similar period of FY 2016/17 and represented 10.7% of the annual local revenue targets. Report by the Controller of Budget for Q1 FY 2017/2018 pointed out the lack of a budget calendar and poor planning and coordination as having an adverse effect on financial management at the counties. Bungoma and Elgeyo Marakwet counties failed to budget for Sh775.4 million and Sh658.1 million respectively, which represents the amount of money they failed to spend in the previous financial year. This is against Public Finance Management Act. These reports show the persistence of budget implementation challenges in the counties.

### **1.1.3. Budget Implementation and Financial Performance**

Yang (2010) investigated how budgeting affects financial performance of Small and Medium-sized Enterprises (SMEs). The focus was on SMEs in China. A review of the budgeting process of these SMEs showed more formal budgeting planning exerted a positive effect on the growth of sales and overall financial performance (Yang, 2010).

Alau, Salam and Abdikadir (2009) investigated the effect of budgeting process on performance, in Kwara state in Nigeria. The results revealed a positive and significant effect of budget process on budget performance (Alau, 2009). Unegbu and Kida (2011) looked into the relationship between the audit and oversight function and financial management in the Nigerian public sector. The findings indicate that lack of an effective audit and oversight function is associated with financial mismanagement and non-compliance with legislative and regulatory provisions. On the other hand, an effective audit and oversight function has a positive effect on financial management and profitability of public sector agencies (Unegbu & Kida, 2011).

### **1.1.4. County Government of Elgeyo Marakwet**

Elgeyo Marakwet County is a county in the former Rift Valley Province. It is one of the 47 Counties that were created by the 2010 Constitution to replace the Provinces and Districts administrative structure, and to actualize the country's dream for a devolved system of

government. The county borders four counties Uasin Gishu, Baringo, West Pokot, and Trans Nzoia to the West, East, North and Northeast respectively. The county has a population of 401,989.

Administratively, the county is run by the Executive and County Assembly. The County Executive comprises of the Governor, Deputy Governor, and the county executives. The County Assembly composed of representatives from the 20 elective wards. The Executives responsible for budget implementation while the County Assembly plays supervisory and oversight roles.

## **1.2.Statement of the Problem**

The 2017 Auditor-General Report on Elgeyo Marakwet showed that the expenditures constituted 85% of the approved total budget, and the absorption rate for recurrent and development expenditures stood at 97% and 63% respectively. Further, analysis of Elgeyo Marakwet's financial statements also showed unexplained variances in receipts and payments of over Kshs 3.5 billion. The suboptimal absorption rate in general, the low absorption of development expenditures, and the variances in financial reporting raises questions on financial management at the county.

Despite the Auditor General's reports on poor financial performance, little attention has been directed to the budgeting process (Auditor General, 2018). In the same vein, the presence of the New Public Management framework guiding budgetary reforms has not solved the problems of delays in disbursement, poor prioritization, misappropriation of resources, corruption, inadequate human resource capacity, and operational inefficiencies. Researchers have noted that some of the factors associated with poor budget implementation include lack of adequate funds, inefficient procedures for budget preparation, weakness in institutional structures, and poor prioritization of funds allocation (Gathithi, 2010), internal audit functions and county fiscal responsibility (Mungai & Nasieku, 2015), poor revenue collection, accumulation of pending bills, and high and growing wage bills (IBP, 2017).

County governments continue to face challenges in measuring their performance in terms of accountability, transparency, public participation, and service delivery (TI, 2017). However, Transparency International also found out that the most common challenge affecting service delivery in counties is limited financial resources, poor structures and systems, delayed funds

disbursement, political interference and over expectation from citizens as a result of poor awareness of the functions of the county governments (TI, 2017).

Assessment of all counties from the year 2013 to 2016 showed that twenty one counties reported declining revenues. However, neither the Auditor General's report nor the National Treasury offer comprehensive explanations beyond the general explanations of weak revenue growth such as poor forecasting and lack of annual monitoring (IBP, 2017). As a result, more studies are needed to investigate the underlying factors affecting financial performance in county governments.

### **1.3.Objectives of the Study**

The main objective of the study was to establish the effect of Budget Implementation on the financial performance of the county government of Elgeyo Marakwet.

#### **1.3.1. Specific Objectives**

- i. To determine the effect of budget planning on financial performance of county government of Elgeyo Marakwet.
- ii. To determine the effect of budgetary staff capacity on the financial performance of county government of Elgeyo Marakwet.
- iii. To determine the effect of financial resource availability on the financial performance of county government of Elgeyo Marakwet.
- iv. To establish the effect of the auditing processes on the financial performance of county government of Elgeyo Marakwet.

#### **1.4.Research Questions**

- i. How does budget planning affect the financial performance of county government of Elgeyo Marakwet?
- ii. How does budgetary staff capacity affect the financial performance of county government of Elgeyo Marakwet?

- iii. How does financial resources availability affect the financial performance of county government of Elgeyo Marakwet?
- iv. How does auditing processes affect the financial performance of county government of Elgeyo Marakwet?

### **1.5. Significance of the Study**

The Constitution of Kenya that brought into fore the devolved system of government was promulgated in 2010. It is only with the elections of 2013 that county governments came into being. Therefore, county governments are still young and not much research has been done on their budgeting processes of how it affects performance. Findings on the budget implementation parameters that influence financial performance in counties can be used by Elgeyo County government to improve its budget implementation process.

The Public Finance Management Act envisioned a legislative and regulatory framework that was to encourage efficient financial management in both national and county governments. So far, the assessments of the institution and execution of financial management processes show that the national and county governments are yet to achieve optimal levels of performance. Findings can be used to improve the legal framework to enhance the efficiency of financial management at the County level.

This study provided current and relevant evidence that can bridge the information gap. The findings provides relevant background and reference materials for those with research interests in public finance, particularly financial management in the devolved governance units in Kenya.

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

The research targeted Elgeyo Marakwet County and address budget implementation effects on financial performance of the County. The target study consisted of all the accounting officers at the County. The scope was limited to the four budget implementation processes: budget planning, budgetary staff capacity, financial resource availability, and audit processes. The research study covered the period 2014 to 2018 after the promulgation of the new 2010 Constitution.

### **1.7.Limitations of the Study**

The limitations while undertaking the study included resistance by the County Government staff on completing the questionnaires. The researcher produced the letter of introduction from the university and research authorization from NACOSTI and assured them that the study was purely for academic purposes. Further, the researcher complied with the guidelines for ethical research which demanded privacy and confidentiality, anonymity of respondents, informed consent, and freedom from any kind of harm.

The risk of bias when answering the questions in the questionnaire was one of the limitations. Owing to the fact that all the officers were employed by the County government and were responsible for the effective execution of the budget implementation process, there was a high likelihood of response bias. To reduce the risk of bias, the researcher standardized the questionnaire through validity and reliability testing to ensure that the questions were clear and unambiguous and that each item in the questionnaire originated from the construct being measured.

### **1.8.Organization of the Study**

The research project is structured into five main chapters. The Introduction chapter the background of the study, a statement of the problem which clarifies the gaps in research this study hopes to bridge; the research objectives and associated research questions, describes the significance of the study; and presents the limitations and scope. The second chapter is the literature review and is concerned with the theoretical and empirical literature on budgeting implementation and financial performance. The section details three theories grounding the research, and critically analyzes existing literature on the phenomenon of interest. The chapter ends with an elucidation of research gap and the conceptual framework. Chapter three, the Methodology, is how the research is going to be executed. The study adopted a descriptive research design, which guides the choice census as the sampling strategy, questionnaire as the data collection tool, and descriptive and inferential statistics as the data analysis strategy. Chapter four presents the research findings and interpretation of results. Chapter five describes the summary of findings, conclusions, and recommendations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Introduction**

This chapter presents a review of literature, which entails systematically identifying relevant documents and analyzing them in relation to the research problem (Mugenda & Mugenda, 2003). The chapter reviews literature pertaining to budget implementation and financial performance. It reviews the theories grounding study, existing empirical study studies, and presents a conceptual framework which shows the relationships between the independent and the dependent variables.

#### **2.2. Theoretical Review**

The study is grounded on three theories: the theory of public finance, the budget theory, and the decentralization theory.

##### **2.2.1. The Theory of Public Finance**

The theory of public finance was developed by Musgrave in 1959, as put forward in the influential text, *The Theory of Public Finance*, which demonstrated that fiscal efficiency and equity were the core principles of public finance, and established the three main branches of the fiscal department as allocating resources, distributing resources, and stabilizing the financial system (Musgrave, 1959). However, it is important to note that this development drew from earlier scholarship in public finance.

Public finance has a long history in economics books, starting with the *Wealth of Nations* by Adam Smith. The book dedicated three chapters dealing with government expenditures, government revenue, and public debts. In the book *Public Finance*, Dalton (1922) noted that public finance is concerned with revenue sources and amounts and expenditure plans in the public sector.

Public finance is concerned with financing issues in the public sector. Public finance theory therefore differs from general financial theory which is concerned with the money markets, corporate finance, banking, or insurance. Public finance is related to the administrative functions of the government and government institutions in the management of state affairs. In essence, the government exercises power on behalf of the citizens which have entrusted it with the performance of certain duties in the society (Ochrana, 2010).

Prest (1960) noted that public finance is concerned with allocation of existing resources, supply of resources, income correction, equity, and administrative efficiency (Prest, 1960). The modern theory of public finance has its origins in the post-World War 2 era, particularly Keynesian economics, which coincided with the expansion of government intervention. Currently, public finance encompasses questions relating to taxation, social welfare policies, provision of public goods, fiscal policies, debt policies and capital accumulation, and inflation (Hollcombe, 2015).

Under conditions of perfect competition, the market fulfils its primary function of the production of goods and services in the cheapest way possible. However, in achieving this primary function, the market tends to monopolize production and exacerbate the polarization of wealth and poverty. As a result, the government intervenes in the market economy by influencing externalities, tackling social inequality and creating the environment for production efficiency. These interventions, which are indicators of the fiscal competency of the state, are achieved through the levying of financial resources in the form of taxation and fees, as well as redistributing financial resources to provide public goods. The basic fiscal functions of a state can be summarized as allocation, (re)distribution and stabilization, in addition to legislation, control, and regulation (Wagner & Harris, 2007).

### **2.2.2. Budget Theory**

This theory was postulated by Bartle and Shields in 2008. The budget theory is concerned with the sociopolitical motivations behind government budgeting. The budget theory draws from a large number of theories, including but not limited to incrementalism, organizational process model, the principal-agent theory, portfolio theory, and punctuated equilibrium among others (Bartle & Shields, 2008).

Budgeting is associated with control, where the budgeting process emphasizes on financial control to secure financial resources; management, where budgeting is concerned with ensuring that the financial resources available are used in a way that they meet organizational goals, and planning, where budgeting is concerned with optimizing available resources to achieve policy goals (Schick, 1966). In the public sector, a budget is a financial planning tool that is used in monitoring, controlling, and guiding the economy towards planned development. As a result, it not only captures the revenues and expenses, but also the expectations and gains in a specified future (Hildreth, 2002). It is a tool of policy that the government uses to realize the wishes of the people.

### **2.2.3. Decentralization Theory**

While the concept of “centralization” arose in 1794 from the post-French Revolution French Directory, decentralization came into use in the 1820s, with the foundational work done by the French Historian Alexis Charles-Henri-Maurice Clérel, Viscount de Tocqueville. The theory focuses on how power is delegated to lower levels (Muriu, 2012). Decentralization creates new centers of power, which can be centers of administrative power or centers of political power. Devolution as a form of decentralization, and explains a scenario where the central government gives up some powers and responsibilities to new units of governance that it does not fully control. It transfers authority, responsibility and accountability from higher levels of governance to lower or local levels of governance. Economic devolution ensures that other stakeholders also get the opportunity to contribute to the policymaking process in a more direct way (Oloo, 2006).

Administrative decentralization transfers authority and responsibility for development planning and financial to devolved units of governance. The objectives of these two dimensions is to strengthen civil service delivery both at the higher and local levels (Muriu, 2012). On the other hand, fiscal decentralization entails transfer of financial resources to devolved units for implementation of delegated or devolved responsibilities (Wambua, 2014).

The decentralization theory in the context of this study explains why county governments achieve excellent performance both fiscal and administrative decentralization should be given to the county governments. This will enable them to pass legislations to enhance revenue collection thus ensure successful budget implementation.

## **2.3. Empirical Review**

Empirical studies will touch on budget implementation practices including budget planning, budgetary staff capacity, financial resource availability and audit processes on county financial performance.

### **2.3.1. Budget Planning and Financial Performance**

Budget planning is considered as one of the milestones on budget implementation thus success in financial performance of county governments. Norton (2006) noted that there is a strong link between budgeting and planning because to plan is to intelligently visualize the future, imagine possible results, and determine the activities and resources needed for the achievement of desired results.

According to Brookson (2000), the budgeting process enables an organizational entity to improve budget planning and budget monitoring (Brookson, 2000). Under the Public Finance Management Act, the importance of budget processes and requisite personnel is strengthened through the establishment of conditional ties. County governments have to achieve certain provisions in the legislation for resources allocated to be disbursed.

In a different study, Ahmad and Ahmad (2014) investigated some of the obstacles in the preparation and implementation of budgets in Jordan. The findings revealed that the main obstacles are the lack of understanding of the importance of budgets. Further, there was a propensity for unrealistic estimations which when adopted created problems with budget implementation.

Pimpong and Laryea (2016) investigated the impact of budgeting on financial performance. The researchers noted that budgeting provides important information that can be used by superiors to

evaluate firm performance. The study was situated in Ghana, and the researchers used quantitative research strategy. The data was collected using questionnaires from non-bank institutions and the step-wise method used in generating models, while regression analysis was used to measure the relationship between budgeting and firm performance. The study revealed that budget planning and budget coordination had a positive and statistically significant effect on performance.

Ngumi and Njogo (2017) investigated the influence of budgeting practices on the financial performance of insurance companies in Kenya. The descriptive research design sampled from the 45 insurance companies, with the sample size established at 50%, notably 23 insurance companies. Using secondary data obtained from the Insurance Regulatory Authority, the study found that the capital expenditure variance had a negative relationship with performance, operating expenditure variance was also negatively related, as well as human resource variance. This showed that variances in the budgeting practices had a negative effect on the performance of the firm.

Abongo (2016) looked at the effect of budgeting on the performance of the top 100 small and medium sized enterprises in Kenya. Using questionnaires to collect data and regressions for data analysis, the findings indicated that budgeting processes (budget planning, budget control, budget coordination, budget communication, and budget evaluation) had a positive effect on financial performance, with the R Square value indicating that budgeting processes were responsible for a 49% change in financial performance among small and medium sized enterprises.

### **2.3.2. Budgetary Staff Capacity and Financial Performance**

Manpower shortage is one of the major challenges in effective project planning and implementation in the county Governments. According to Oladipo (2008), there is a chronic shortage of professional expertise in budget planning and implementation. In most cases, the officers available at the county level, and who have been charged with these responsibilities do not have the requisite training and experience. The net result is that the counties end up producing poor quality proposals (Oladipo, 2008).

Odipo (2005) reported that Members of County Assemblies (MCAs) do not have the ability to develop budgeting strategies or provide effective budget oversight to the County Executive. While most MCAs lack the professional expertise and capacity to perform these responsibilities, they also lack incentives, interest, or motivation to do so. The nature of lobbying for MCAs to pass the budget also means that such processes can be overtaken by politicization (Odipo, 2005).

In Mwikali and Lucy (2016) focused on the factors influencing the employee performance at the Mombasa County. The researcher employed descriptive survey research design and collected data through filled questionnaires with inferential and descriptive data analysis through SPSS, it found out that employee training had a significant effect on the performance of county governments while the employee motivation and resource or funds availability showed limited influence on the same.

### **2.3.3. Financial Resource Availability and Financial Performance**

Studies carried out following the implementation of devolved governments show that county governments are resource starved. They do not have access to adequate financial resources needed for project execution. The county local revenue refers to all the revenues collected from revenue sources under the jurisdiction of the county. Central government revenue, refers to the shareable revenue and conditional grants counties receive from the national government (Alam et al., 2011).

Noor, Alam, Nastiti and Nur (2012) investigated the link between regional autonomy of devolved units and local resource mobilization in Eastern Indonesia, taking into consideration the country's decentralization policy. The results revealed that fiscal decentralization positively influences the ability of local governments to raise revenue. Increased resource mobilization reduces overdependence on national governments. Therefore, revenue mobilization at the lower levels of governance is a significant indicator of financial performance.

In a Fjeldstad and Hggstad (2012) study about mobilization of revenue at the local government level in Anglophone Africa, conducted covering the Uganda Local authorities, it used secondary data obtained from the revenue agencies collected in various Uganda district local authorities for analysis and outcome observations. The study found out that there is need for progressive

training of tax collectors and measures employed for accountability are imminently in need of employment by relevant Governments.

Simiyu (2010) in a study examining the challenges influencing collection of taxes in Nairobi City County, using both secondary and primary data collected through filling the questionnaires, it found out with tax collectors opted for bribes for tax liability reduction thus contributing to high levels of low tax collections or losses. The researcher had employed descriptive research design to analyze the questions and collected data using questionnaire surveys.

Ndunda, Ngahu and Wanyoike (2015) investigated the factors that influence the ability of counties to achieve optimal revenue collection. The study was focused on Nakuru County. A descriptive design was chosen to guide the investigation of research questions and the sample included accounting and finance officers, revenue clerks and administrative personnel. The study findings show that tax compliance has a significant effect on revenue collection, which subsequently influenced overall budget execution.

The Constitution of Kenya (2010) stipulates that counties get a large proportion of their budget funding from the Central Government. These funds are sometimes delayed or disbursed in tranches which may create a challenge in the budget implementation process (Gachithi, 2010).

#### **2.3.4. Auditing processes and Financial Performance**

Internal audits present an independent assessment and objective analysis of an entity's management and financial performance (Kinyua, 2003). A study by Deloitte and Touche (2004) established that the internal auditing processes in county governments are very restrictive and have a narrow scope, which makes them inefficient in strengthening transparency and accountability standards.

All expenditures incurred as set out in the budget have to be accounted for. Relevant Institutional bodies in Government are mandated to check the expenses incurred by the national and county Governments. The Office of the Auditor General has the primary responsibility of auditing of all the accounts in the public sector, both in the national and county government. Increased Audit queries with ineligibility inclusion does signify poor financial performance attributed with mismanagement of finance in the counties as opposite is true (KENAO, 2016).

Alzeban (2014) looked at how effective the internal audit function was in Saudi Arabia government. The study reported that the determinants of perceived effectiveness were: human resource competence, independence of decentralized units, appropriate size of the function, the link between internal and external audit, as well as senior management support for internal audit processes. In the context of Malaysia, Hammad et al (2012) the lack of qualified, skilled and experienced internal auditors greatly reduce the level of effectiveness of internal audit processes in public sector service delivery.

In Africa the effectiveness of the internal audit is also facing challenges. In Ghana, Affum (2011) noted that the internal audit function is faced with challenges such as poor image, communication challenges, incompetent staff and lack of independence from the management staff. Internal audit image suffers low assessment levels. For instance, the internal auditors are often perceived as the enemies of the management as opposed to seeing the contribution of internal audit to the overall performance of the organization.

In Sudan, El-Nafabi (2009) investigated the role played by audit control systems in safeguarding public funds. The established that internal audit and financial audit in most public sector agencies in the country were either weak or ineffective. The findings also revealed a shortage of qualified and trained accountants, with accounting and financial responsibilities in an entire organizational entity being performed by one or two employees. Further, half of all the employees had no formal training in financial management. The dominance of manual accounting systems at both the local and national levels was a major weakness and negatively affected the financial performance of national as well as the decentralized units.

Ongeri et al (2015) investigated the performance of the internal audit and control, with special focus on the Kisii Local Government. The study showed that the local government did not have an internal audit office, but rather fully depended on the Office of the Auditor General to provide independent and objective assessment of the local government's accounting and financial outcomes.

## **2.4. Summary of Literature and Research Gaps**

### **Table 2.1: Summary of Literature Review and Gaps**

<b>Author</b>	<b>Title</b>	<b>Findings</b>	<b>Research gap</b>
Ahmad et al (2014)	Obstacles of Preparing and implementing budgets in Jordan	Lack of understanding about the necessity of budgets & unrealistic estimation	Study did not address the aspect of budget planning and didn't focus on county governments.
Brookson (2000)	Managing Budgets	Emphasized the need to use a budget model while preparing budget.	Study did not emphasize on budget planning in relation to financial performance.
Oladipo (2008)	Fiscal Planning and Local Government Administration in Nigeria	Found out that professional & trained planners were non-existent.	Study fell short on examining the manpower training on budget preparation & implementation.
Mwikali & Lucy (2016)	Factors Influencing Employee Performance of County Governments in Kenya	Found out that employee training had a significant influence on performance	The study did not specify the training needs for the employees.
Noor, Alam, Nastiti & Nur (2012)	Relationship between Regional Autonomy and Local Resource Mobilization in Indonesia	Study showed that the dependency of local authorities on central government is still excessive.	Study did not clearly address budgetary resource availability given that budget deficit is only a part of budget process.
Ndunda et al (2015)	Factors Influencing Optimal Revenue collection by Nakuru County.	Established that tax compliance only marginally affected optimal revenue collection	Study did not address why tax compliance does not affect optimal revenue collection.
El-Nafabi (2009)	Role of Public sector Audit & Financial Control systems in safeguarding Public	Study found financial control systems and internal checks are weak occasioned by shortage of	Study did not focus on the establishment of Audit Committees who would ensure policies & procedures

<b>Author</b>	<b>Title</b>	<b>Findings</b>	<b>Research gap</b>
	funds in Sudan.	qualified staff & absence of Internal Audit.	are followed.
Alzeban (2014)	Effectiveness of Internal Audit function within Saudi Arabia Government.	Study noted that there were factors that contributed to the effectiveness of internal audit which included competence, independence, size of the function, management support.	Study did not explore the role of county assembly oversight function whose committee scrutinize bills and ensure public funds are appropriated in a transparent and effective manner

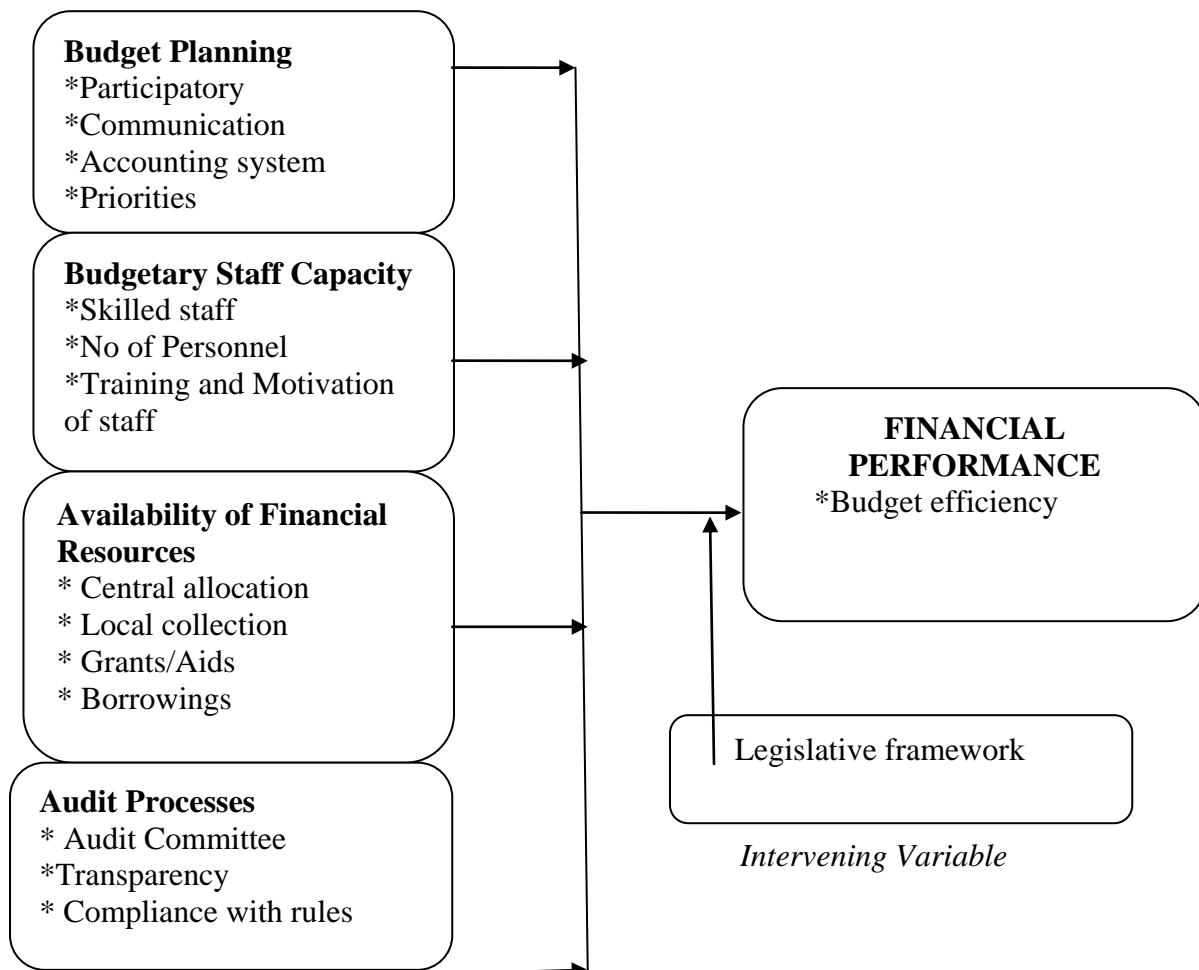
**Source: (Researcher, 2019)**

## 2.5. Conceptual Framework

The conceptual framework is presented in figure 2.1.

*Independent variables*

*Dependent Variable*



**Figure 2.1. Conceptual Framework**

**Source: (Researcher, 2019)**

The conceptual framework represents the relationship between budget implementation dimensions and financial performance at the County government. The independent variables are budget planning, budgetary staff capacity, availability of financial resources, and audit processes. The dependent variable is financial performance.

### **2.5.1. Budget Planning**

Budget planning deals with whether the public and employees participate in the planning process, there is effective communication, the IFMIS accounting system is utilized, development priorities are set, and adequate identification of revenues and expenditures. These dimensions of the variable are captured in the framework as: public participation, efficiency of communication and accounting system, and setting up of priorities.

### **2.5.2. Budgetary Staff Capacity**

Budgetary staff capacity focuses on the personnel. It was measured by testing whether the county government had adequate accounting personnel, the presence of training and development programs, and the capacity of personnel in terms of skills and capabilities. Thus, the dimensions are captured in the conceptual framework as staff skills, capacity in terms of number of personnel, and training and motivation.

### **2.5.3. Financial Resources Availability**

Availability of financial resources is central to the implementation process. The dimensions captured under the variable were central government allocation, local revenue collection, grants and aid, and loans. These dimensions test the level of dependence on national government allocation, local revenue collection at the county level, as well as other sources of finances that can allow the county to fund its budget implementation process.

#### **2.5.4. Audit and Oversight Processes**

Audit and oversight processes provide control over both revenue collection and expenditures at the country level. The study was interested in determining the nature of the Internal Audit Committee, its functions and responsibilities, its composition and level of staffing, and the efficiency with which it carries out its responsibilities.

#### **2.5.5. Financial Performance**

Financial performance was determined through budget efficiency. The dimensions of budget efficiency entail determining the extent to which the county government was in compliance with the legal statutes, the trends in expenditures and revenues, budget absorption and effectiveness of the accounting system deployed at the county level.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

The chapter described the research methodology adopted for the study; this includes the research design, target population, sampling techniques and sample size, methods for collecting data, procedures for collecting data, and techniques for analyzing data, as well as relevant research ethics.

#### **3.2. Research Design**

A research design refers to a blue print that a researcher adopts to guide the investigation of the research objectives. This study adopted the descriptive survey design. Descriptive surveys involve collecting information from a sample of participants using interviews and questionnaires (Orodho, 2013) in a real-world context so as to determine to determine the nature of the phenomenon (Sincich Benson, 2008). The descriptive survey guided the investigation of the effect of budget implementation on the financial performance of County Government of Elgeyo Marakwet.

#### **3.3. Target Population**

In general, a population refers to the complete group of entities, people, or items that share some common characteristics (Kothari, 2004). The group in question can be elements, events, households, or individual persons (Newman, 2003). In the present research, the target population consisted of accounting officers in the devolved county government structure of Elgeyo Marakwet. The total number of accounting officers from the Governor's office, County Legislature and County Oversight was 79 Officers (EMC, 2019).

### **3.4. Sampling Design**

Sampling refers to the selection of individuals for the study in such a way that the sample represents the characteristics of the population (Gay, 1992). This study used census sampling. Definitively, census sampling refers to the selection of every unit in the population. In a census, the researcher adopts the complete enumeration of the population as the sample. In this case, all the 79 accounting officers participated in the study (Mugenda & Mugenda, 2003).

### **3.5. Data Collection Instruments**

The researcher collected data using questionnaires. The researcher designed a structured questionnaire to collect information on budget implementation and financial performance. The questions were closed-ended and responses were ranked based on a 5-point Likert scale. The questionnaire was a six-part instrument. The first section collected general information about the respondents. The second, third, fourth, and fifth parts collected information on the independent variables: budget planning, budgetary staff capacity, financial resource availability, and auditing processes. The sixth part collected information on the financial performance of Elgeyo Marakwet.

#### **3.5.1. Validity**

Validity tests are used to determine whether the instrument for collecting data is credible and has the ability to collect the information necessary for answering the research questions (Mugenda and Mugenda, 2003). To determine if the questions are collecting the correct information, the researcher sought expert opinions from the supervisor, lecturers and academic colleagues. Responses from expert advice and peer review were used to improve the data collection tool.

#### **3.5.2. Reliability**

Reliability tests assess the degree to which the survey instruments yield consistent and repeatable results. Using responses from pre-test measurements that was carried out with a sample of 10 accounting officers drawn from the neighboring Uasin Gishu County, the researcher carried out reliability tests and used the findings to further refine the questionnaire. Reliability tests adopted the Cronbach's alpha test. Cronbach's alpha reliability coefficient values range from 0 to 1.

Higher values, or other those closer to 1 indicate high levels of reliability while those closer to zero indicate poor reliability. A threshold coefficient of 0.7 is deemed satisfactory.

The findings for the reliability statistics reported coefficient values of 0.748 for budgetary planning, 0.709 for budgetary staff planning, 0.675 for financial resource availability, 0.835 for audit process, and 0.700 for financial performance items in the questionnaire. Overall, the Cronbach's alpha coefficient for the questionnaire was 0.733, which is satisfactory and the validated questionnaire was used to collect data.

**Table 3.1: Reliability Statistics**

<b>Variables</b>	<b>Number of items</b>	<b>Cronbach's Alpha</b>
Budgetary planning	6	0.748
Budgetary staff capacity	3	0.709
Financial resource availability	6	0.675
Audit process	5	0.835
Financial performance	6	0.700
Overall	26	0.733

**Source: (Researcher, 2019)**

### **3.6. Data Collection Procedure**

The data collection instruments were subjected to content validity. The instruments population constituted all accounting and finance staff of Elgeyo Marakwet County. The instruments were given to two experts in Finance at the Kenyatta University for validation.

The researcher carried out pretesting of the questionnaire before final administration. Pretesting helped in eliminating ambiguity and vagueness in the questions and also eliminating errors (Burns and Bush, 2002). Ten senior accounting officers in the county under study from different departments participate in the pretest data collection exercise.

### **3.7. Data Analysis and Presentation**

All the completed questionnaires proceeded to data analysis. The responses were entered into an Excel sheet, where they were cleaned and coded in preparation for data analysis. This was a crucial step in dealing with missing responses, incomplete responses, or incorrectly marked

responses. The cleaned spreadsheet containing the data was imported into SPSS for data analysis.

The data was analyzed for descriptive statistics. This primarily entailed summarizing the data to present trends and distribution of responses in the sample. For each question, the researcher computed the frequency and percentages, and means and standard deviations. These results were presented using tables, charts and graphs accompanied by a description explaining the results.

After descriptive analysis, computation proceeded to inferential statistics, where the researcher used Pearson Correlation and Linear regressions to establish the relationship between budget implementation and financial performance. The linear regression adopted a multiple regression equation. All the findings were reported in tables accompanied by narrative descriptions explaining the results.

### **3.7.1. Regression Model**

The study adopted the multiple regression model for the measurement of the variables of the study. The model was essential in providing the relationships (magnitude and path) of the variables through relevant coefficients. The following regression model was adopted:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = is the Financial performance of county government

$\beta_0$  = is a constant or autonomous county government performance

X1 = Budget planning

X2 = Budgetary staff capacity

X3 = Financial resource availability

X4 = Auditing processes

$\varepsilon$  = Error term of estimation

$\beta_1, \beta_2, \beta_3, \beta_4$  = Regression Coefficients for Independent Variables

The outcome was illustrated in frequency means, charts, graphs and other statistical means of presentation.

### 3.7.2. Operationalization and Measurement of Variables

**Table 3.2: Operationalization and Measurement of Variables**

<b>Variable</b>	<b>Type of Variable</b>	<b>Indicator</b>	<b>Scale of Measurement</b>
Budget Planning	Independent	*Participatory *Communication *Accounting System *Priorities	*Ordinal *Ordinal *Ordinal *Ordinal
Budgetary Staff Capacity	Independent	*Skilled staff *No of personnel *Training & Motivation	*Ordinal *Ordinal *Ordinal
Financial Resource Availability	Independent	*Central Allocation *Local Collections *Grants/Aids *Borrowings *Timely	*Ordinal *Ordinal *Ordinal *Ordinal
Audit Processes	Independent	*Audit committee *Transparency *Compliance with rules	*Ordinal *Ordinal *Ordinal
Financial Performance	Dependent	*Budget efficiency	*Ordinal

**Source: (Researcher, 2019)**

### **3.8. Ethical Considerations**

The researcher complied by the ethical considerations governing scientific research. First, the researcher obtained informed consent from all participants. The researcher gave a comprehensive briefing to all participants on the objectives of the study, the academic purposes of the study, and what is expected of them as participants. The research did not expose participants to any form of psychological or physical harm. No participant was coerced to participate in the study. Participation is voluntary and participants can withdraw from the study at any time (Creswell, 2009).

Secondly, the researcher complied with the principle of privacy and confidentiality. No personal information of all participants was collected. Participants were not be required to identify themselves or share any personal or private information for the purposes of this study. Once the data is collected, the researcher stored all completed questionnaires in a locked safe. Data that has been entered in spreadsheets or any other Word Processing or statistical software was stored in computer hard disks that could only be accessed by the researcher. The hard disks were password-protected (Creswell, 2009).

Lastly, the researcher obtained authorization to collect data for the study from Kenyatta University Ethical Committee. Additional authorization was obtained from the National Commission for Science, Technology and Innovation. The authorizations were presented to the participants at the time of requesting consent to participate in the study.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION

#### 4.1. Introduction

This chapter presents the analysis and interpretation of the results. The results cover the response rate and the descriptive statistics of demographic characteristics. The chapter also presents the descriptive statistics of the independent variables in the study and the inferential statistics capturing the relationship between budget implementation and financial performance at Elgeyo Marakwet County.

#### 4.2. Response Rate

**Table 4.1: Response Rate**

<b>Items</b>	<b>Response</b>
Questionnaires administered	79
Questionnaires completed	70
<b>Response rate</b>	<b>88.6%</b>

**Source: (Researcher, 2019)**

The study sampled 79 officers from the Governor's office, County Legislature and County Oversight. Out of these 70 participated in the study. This represents a response rate of 88.6%. According to Babbie (2007), 50% is an adequate response rate for analysis and reporting; 60% is a good response rate and 70% and above represent very good response rate. This study had a response rate of 88.6%. The response rate was judged satisfactory for the study.

### 4.3. Descriptive Statistical Analysis

#### 4.3.1. Budget Planning and Finance Performance of County Government of Elgeyo Marakwet

**Table 4.2: Budget planning**

	SA	A	N	D	SD	Mean	Std. Deviation
The public and employees are involved in budget planning process in the county of EMC.	44.3%	38.6%	14.3%	1.4%	1.4%	4.23	0.85
There is proper communication during the process of budget planning	41.4%	47.1%	5.7%	4.3%	1.4%	3.96	1.16
IFMIS use enhances helps county governments transparency and accountability and acts as a deterrent to corruption and fraud.	42.9%	27.1%	17.1%	8.6%	4.3%	4.17	1.02
Budget planning involves setting of development priorities for Elgeyo Marakwet County	44.3%	41.4%	5.7%	4.3%	4.3%	3.86	1.23
Accounting system used in the county government of Elgeyo Marakwet is Cash basis accounting system	35.7%	37.1%	14.3%	2.9%	10.0%	4.17	0.88
County Accounting system adequately identifies the receipts and expenditure.	42.9%	37.1%	14.3%	5.7%	0%	4.23	0.85

**Source: (Researcher, 2019)**

The Likert type responses were ranked in terms of: 5= Strongly Agree (SA), 4=Agree (A), 3=Neutral (N), 2=Disagree (D), and 1=Strongly Disagree (SD). The findings noted that, in general, the level of agreement with statements relating to planning were high. According to

Norton (2006) budget planning is the foundation of the budget implementation process. As a result, there is a strong association between budget planning and the ability of the budgeting entity to intelligently visualize the future, imagine the results, and prioritize the allocation of resources. This study shows that the County government has incorporated the requirements of the Public Finance Management Act into its budget planning process.

#### 4.3.2. Budgetary Staff Capacity and Financial Performance of County Government of Elgeyo Marakwet

**Table 4.3: Budgetary staff capacity**

Statement	SA	A	N	D	SD	Mean	Std. Deviation
The county has knowledgeable staff who are accountable and responsible for budget implementation	47.1%	42.9%	10%	0%	0%	4.37	0.66
The county government offers training and development programs to the budget committee members	40.0%	47.1%	10.0%	2.9%	0%	4.24	0.75
Hiring of skilled and effective staff that is well versed on the budget implementation functions	61.4%	22.9%	4.3%	8.6%	2.9%	4.31	1.08

**Source: (Researcher, 2019)**

The Public Finance Management Act requires that the county should procure requisite personnel to drive the implementation process. Oladipo (2008) reported that manpower shortage is one of the main challenges facing budget planning and implementation. Mwikali and Lucy (2016) reiterated that counties with adequate staff, proactive training and professional development programs, and adequate financial resources have a higher likelihood of achieving better financial performance.

#### 4.3.3. Financial Resource Availability and Financial Performance of County Government of Elgeyo Marakwet

**Table 4.4: Financial resource availability**

	SA	A	N	D	SD	Mean	Std. Deviation
The county government heavily depends on the	42.9%	42.9%	10.0%	0%	4.3%	4.20	0.94

national government funding for its operations							
Revenue collected within the county by the county government is used to supplement the budget.	48.6%	44.3%	0%	5.7%	1.4%	4.33	0.86
The County Government of EMC receive Grants/aids to supplement its budget	34.3%	48.6%	11.4%	2.9%	2.9%	4.09	0.91
The county government limits its borrowing capacity to avoid sinking into debt.	42.9%	31.4%	10.0%	7.1%	8.6%	3.93	1.27
Investors have played a key role in supplementing the county budget allocation	28.6%	30.0%	20.0%	18.6%	2.9%	3.63	1.17
Funds are disbursed on timely basis from Treasury	42.9%	38.6%	11.4%	7.1%	0%	4.17	0.90

**Source: (Researcher, 2019)**

The findings show that there is requisite allocation of resources for budgeting. However, the results also show that the County governments are highly dependent on the national government, and that county revenue allocation remains weak, to the extent that without national government funding counties will not be able to perform normal operations. This agreed with results published by Alam et al., (2011) which demonstrated that counties depend on shareable revenue and conditional grants and do not have adequate local revenue sources to fund its operations.

#### **4.3.4. Audit Process and Financial Performance of County Government of Elgeyo**

##### **Marakwet**

**Table 4.5: Audit Process**

<b>Statement</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>	<b>Mean</b>	<b>Std. Deviation</b>
Internal Audit Committee ensures policies and procedures are followed.	50.0%	44.3%	1.4%	4.3%	0%	4.40	0.73
County Assembly provides oversight and ensures transparency and accountability	37.1%	55.7%	2.9%	0%	4.3%	4.21	0.87
Existence of County budget committee is essential	48.6%	31.4%	10.0%	1.4%	8.6%	4.10	1.19
Our Internal Audit is sufficiently staffed.	24.3%	45.7%	8.6%	14.3%	7.1%	3.66	1.20
Internal Audit reports are	25.7%	35.7%	21.4%	10.0%	7.1%	3.63	1.18

produced regularly.							
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**Source: (Researcher, 2019)**

Internal audits allow the county government to carry out an independent and objective assessment of financial performance. However, studies have showed that internal auditing processes in government agencies can be restrictive and narrow in scope, hence making them inefficient in strengthening transparency and accountability. This study shows that the accounting officers were satisfied with the level of internal audit processes at the County, despite Auditor General’s reports which have consistently raised queries on County government accounts.

#### **4.3.5. Financial Performance of Elgeyo Marakwet County**

**Table 4.6: Financial Performance at Elgeyo Marakwet County**

<b>Statement</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>	<b>Mean</b>	<b>Std. Deviation</b>
County operating on a budgetary deficit.	0%	17.1%	21.4%	27.1%	34.3%	3.78	1.10
Actual expenditure increased over the past 4 years.	4.3%	1.4%	8.6%	50.0%	41.35.7%	4.11	0.94
Revenue collection increased over the past 4 years	1.4%	7.1%	14.3%	41.3%	35.7%	4.03	0.96
County able to appropriately utilize allocated funds	0%	2.9%	8.6%	60.0%	28.6%	4.14	0.69
Expenditure is utilized as per the budget appropriations	0%	7.1%	20.0%	40.0%	32.9%	3.99	0.91
Accounting system adequately identifies the receipts and expenditure.	1.4%	2.9%	5.7%	42.9%	47.1%	4.31	0.83

**Source: (Researcher, 2019) Inferential Statistical Analysis**

#### 4.3.6. Correlation Analysis

**Table 4.7: Correlation Analysis**

		Budget planning	Budgetary staff capacity	Financial resource availability	Audit processes	Financial performance
Budget planning	Pearson Correlation	1	.091	.079	.064	.236*
	Sig. (2-tailed)		.452	.513	.597	.050
	N	70	70	70	70	70
Budgetary staff capacity	Pearson Correlation	.091	1	.604**	.289*	.282*
	Sig. (2-tailed)	.452		.000	.015	.018
	N	70	70	70	70	70
Financial resource availability	Pearson Correlation	.079	.604**	1	.215	.210
	Sig. (2-tailed)	.513	.000		.074	.080
	N	70	70	70	70	70
Audit processes	Pearson Correlation	.064	.289*	.215	1	.869**
	Sig. (2-tailed)	.597	.015	.074		.000
	N	70	70	70	70	70
Financial performance	Pearson Correlation	.236*	.282*	.210	.869**	1
	Sig. (2-tailed)	.050	.018	.080	.000	
	N	70	70	70	70	70

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

**Source: (Researcher, 2019)**

Pearson correlations were performed to establish the nature of association between the variables in the study. Budget planning had a positive correlation with budgetary staff capacity ( $r=0.091$ ,  $p=0.452$ ), financial resource availability ( $r=0.079$ ,  $p=0.513$ ), and audit processes ( $r=0.064$ ,

p=0.597). The association between budget planning and financial performance was statistically significant (r=0.236, p=0.050).

The results show that budgetary staff capacity has a positive association with budget planning (r=0.091, p=0.452). The association between budgetary staff capacity and financial resource availability (r=0.604, p=0.000), audit processes (r=0.289, p=0.015) and financial performance (r=0.282, p=0.018) were statistically significant.

Financial resource availability has a positive and statistically significant correlation with budgetary staff capacity (r=0.604, p=0.000). The relationship with budget planning (r=0.079, p=0.513), audit processes (r=0.215, p=0.074), and financial performance (r=0.210, p=0.080) was not statistically significant.

Audit processes had a statistically significant association with budget staff capacity (r=0.289, p=0.015) and financial performance (r=0.869, p=0.000). On the contrary, the association with budget planning (r=0.064, p=0.597) and financial resource availability (r=0.215, p=0.074) was not significant.

Finally, the association between financial performance and budget planning (r=0.256, p=0.050), financial resource availability (r=0.282, p=0.018), and audit processes (r=0.869, p=0.000) was not statistically significant, while the relationship between financial performance and budgetary staff capacity (r=0.210, p=0.080) was positive but not statistically significant.

#### 4.3.7. Regression Analysis

**Table 4.8: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.887 <sup>a</sup>	.787	.774	.244

a. Predictors: (Constant), Audit processes, Budget planning, Financial resource availability, Budgetary staff capacity

**Source: (Researcher, 2019)**

The model summary reports an adjusted R Square value of 0.774. This means that 77.4% of changes in financial performance in the county can be attributed to the predictors: budget

planning, financial resource availability, audit processes, and budgetary staff capacity. These findings show that the independent variables have a strong influence on the dependent variable.

**Table 4.9: ANOVA Statistics**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.361	4	3.590	60.141	.000 <sup>b</sup>
	Residual	3.880	65	.060		
	Total	18.242	69			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Audit processes, Budget planning, Financial resource availability, Budgetary staff capacity

**Source: (Researcher, 2019)**

Before running the regression, the model was tested for validity. The findings reported in Table 4.7 indicate that the model is statistically significant,  $F(2,65)=60.141$ ,  $p=0.000$  at 0.05 confidence level. This implies that the model can be used to establish the extent to which the independent variables predict the dependent variables.

**Table 4.10: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.114	.309		.369	.714
Budget planning	.106	.034	.179	3.112	.003
Budgetary staff capacity	.015	.063	.018	.246	.006
Financial resource availability	.002	.062	.002	.032	.014
Audit processes	1.014	.071	.851	14.217	.000

a. Dependent Variable: Financial performance

**Source: (Researcher, 2019)**

The results indicate a positive and significant relationship between budget planning and financial performance at the county, the relationship was statistically significant,  $\beta= 0.106$ ,  $p=0.003$ . This implied that the trend in budget planning at the county level was responsible for improvements in financial performance. As such, efficient budget planning is associated with an increase in financial performance by a factor of 0.106.

The regression statistics indicate that there is a positive and statistically significant relationship between budgetary staff capacity and financial performance,  $\beta=0.015$ ,  $p=0.006$ , at 95% confidence level. This shows that one unit improvement in budgetary staff capacity can increase financial performance by a factor of 0.015.

There was also a positive and significant relationship between financial resource availability and financial performance in the county,  $\beta=0.002$ ,  $p=0.014$ , at 95% confidence level. The positive relationship indicates that the level of financial resources at the county is associated with the

level of financial performance in the county, with adequate resources leading to a growth in financial performance by a factor of 0.002.

There was also a positive and statistically significant relationship between audit processes and financial performance,  $\beta=1.104$ ,  $p=0.000$ , at 95% confidence level. This implies that one unit an improvement in the audit process has the potential of increasing financial in the county by a factor of 1.104.

The equation presented in Chapter 3 as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y represented the financial performance of county government,  $\beta_0$  represented a constant or autonomous county government performance, X1 represented budget planning, X2 represented budgetary staff capacity, X3 represented financial resource availability, X4 represented auditing processes,  $\varepsilon$  represented the error term of estimation, and the  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$  were regression coefficients for the independent variables, can be rewritten as:

$$\text{Financial performance} = 1.846 + 0.003 (\text{Budget planning}) + 0.015 (\text{Budgetary staff capacity}) + 0.002 (\text{financial resource availability}) + 1.104 (\text{audit processes}) + 0.605.$$

Budget planning lies at the foundation of budget implementation. Scott (2018) found out that the budgeting process involves establishing specific targets upon which the measurement of performance is based. For the process to be effective, it must be realistic and practical. In this study, budget planning is suboptimal and does not exert positive effects on performance.

Researchers such as Mwikali and Lucy (2015) who based their study on the Mombasa County government demonstrated that employee training, employee motivation, and availability of financial resources was linked to better performance of county governments. On the contrary, counties remain dependent on the national government for the shareable revenue and conditional grants and are yet to grow local revenue sources to fund their operations. Noor et al (2012) observed that such dependency of devolved units on national government and the lack of local

resource mobilization has a negative effect on regional autonomy and financial performance. Ndunda et al (2015) found out that tax compliance was one of the factors associated with suboptimal revenue collection and poor budget execution.

Odipo (2005) noted that budgeting actors such as MCAs do not have the ability to develop budget strategies or provide effective oversight to the County Executive. The researcher noted that most MCAs lack the professional expertise and capacity to perform these responsibilities, they also lack incentives, interest, or motivation to do so. Auditor General Reports also continue to raise queries. However, increased audit queries with ineligibility inclusion does signify poor financial performance attributed with mismanagement of finance in the counties (KENAO, 2016). In this study, the accounting officers reiterated that the County had a strong auditing control and oversight process which has positively influenced financial performance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1. Introduction**

The chapter provides a summary of research findings, conclusions drawn from the research objectives, and their respective recommendations. Recommendations for further study tackle the limitations of this study and what other researchers can do to bridge emerging research gaps.

#### **5.2. Summary**

##### **5.2.1. Budget Planning and Finance Performance**

Findings show that there was satisfactory public and employee involvement in the planning process. There was also a high level of communication during the budget planning process. The government utilized IFMIS to ensure effective financial management. Evidence also demonstrated high regard for the prioritization of development priorities in the budget and the employment of an efficient accounting system for cash management. The results further indicate that budget planning had a positive and significant effect on financial performance at Elgeyo County.

##### **5.2.2. Budgetary Staff Capacity and Financial Performance**

Respondents noted that the government has invested in quality staff recruited so as to build capacity of skilled, and knowledgeable personnel. The County government also offered an appreciable level of training and professional development programs relating to the improvement

of the budgeting process. Overall, staff capacity at the county had a positive and statistically significant effect on financial performance.

### **5.2.3. Financial Resource Availability and Financial Performance**

Findings indicate that the County government remained overly dependent on national government allocations. Even though disbursements were sometimes made on a timely basis, the County still used all the revenue it collected for meeting its immediate expenditure needs. In addition, the County received grants and aid, and there was an expectation that some projects can be funded through PPPs with investors in the private sector, since the County had limited borrowing capacity. Nonetheless, the results indicated that financial resource availability at the County had a positive and significant influence on financial performance.

### **5.2.4. Audit Process and Financial Performance**

The study had established Internal Audit Committees, and that the County Assemblies were effectively performing their oversight functions. Further, the County had a functional County Budget Committee, an Internal Audit Committee that was adequately staffed, and that the County produced internal audits regularly as required. The regression findings reported a positive and statistically significant relationship between audit processes and financial performance.

## **5.3. Conclusion**

The objective of this study was concerned with establishing whether the budgetary implementation processes of budget planning, budgetary staff capacity, financial resource availability and audit processes on financial performance at Elgeyo Marakwet County. The study reported a positive and significant association between budget planning processes and financial performance, meaning that effective budget planning processes positively affected performance. The study concludes that there is a positive and statistically significant relationship between budgetary staff capacity and financial performance. Financial resource availability was also positively and significantly associated with financial performance, implying that optimal resource allocation to the budgeting process at the County government of Elgeyo Marakwet has a

positive effect on achievement of financial performance objectives. Finally, there was a positive and statistically significant relationship between audit processes and financial performance.

#### **5.4. Recommendations**

Effective budget planning processes at the County are positively associated with financial performance indicators. As such, the County Budget Committee should continue to strengthen the planning process, as it lies at the core of budget performance, and by extension the overall performance of financial management at the County level.

Adequate staff capacity is central to the performance of virtually every function of the County government. The study reports that, at present, the County has adequate staff that is trained, skilled, experienced, and competent in driving the budget implementation process. Staff recruitment and staff training and development are important aspects of the human resource function. As a result, the County should invest in human resource systems that enable it to attract, hire and retain the most skilled, knowledgeable, and competent employees, while also continually investing in staff training and development.

In terms of financial resource availability, the results show that allocation of resources to the budgeting process had a positive influence on financial performance. The study recommends improved strategic allocation of resources guided by the understanding that a budget is not only a macroeconomic instrument but also an expression of the priorities in government policy.

In terms of audit processes, the study established that Internal Audit Committees had been established, County Assemblies were performing their oversight functions, and that adequate staff had been allocated. Further, audit reports were regularly produced. The study recommends continued strengthening of the audit control and oversight function to improve financial performance.

#### **5.5. Suggestion for Further Research**

The study was limited to studying the influence of budget planning, budgetary staff capacity, financial resource availability and audit processes on financial performance. The study was also limited to Elgeyo Marakwet County. Further research can examine other aspects of budgeting or financial management that affect performance at the County level. In the same vein, other studies can examine the same relationships in other County governments in Kenya.

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## **APPENDICES**

### **Appendix I: LETTER OF INTRODUCTION**

Dear Respondent,

County Government of Elgeyo Marakwet

P.O. BOX 1424

ITEN

RE: REQUEST TO DATA COLLECTION

I am a Master of Business Administration (MBA- Finance Option) student at Kenyatta University conducting a research entitled “Budget Implementation and Financial Performance of County Government of Elgeyo Marakwet, Kenya.” This research forms part of the requirements for my MBA qualification. I would appreciate if you would kindly take a little of your time to complete a questionnaire that I will provide. Any information provided from you is purely for academic purposes and all responses will be treated with utmost confidentiality. Your cooperation is most valued and appreciated.

I take this opportunity to thank you in advance for your quick return of your completed questionnaire.

Edwin Kiplagat Cheboi

Student-Kenyatta University

## **Appendix II: QUESTIONNAIRE**

Kindly answer the following questions by ticking the appropriate box: []

### **PART A: GENERAL INFORMATION**

1. What is your gender?

Male []

Female []

2. What is your current position in the county government of Elgeyo Marakwet?

Accountant []

Auditor []

Revenue Officer []

Sub-county Administrator []

Other specify []

3. Level of Education?

Secondary school []

Diploma []

Degree []

Masters

Doctorate

4. For how long have you worked with the county government of Elgeyo Marakwet?

Less than 1 year

Between 1-2 years

Between 2-3 years

Above 3 years

5. Are aware that the County Government has a budget?

Yes

No

6. Are staffs given opportunity during preparation of budgets?

Yes

No

7. How long does the County take to prepare its budget?

3 months

6 months

1 year

More than 1 year

8. Do you think the budget process at the county of EMC take appropriate time duration to preparations?

Yes

No

9. Who makes the final decision on budget proposals?

Top Management

Budget Committee

Finance Officer

Other specify [ ]

## PART B: SPECIFIC QUESTION TO RESEARCH

### I. BUDGET PLANNING

Budgets have a number of purposes; indicate how important you think that each of the following is relevant for the County Government of Elgeyo Marakwet in budget planning. Using a rating scale of 1 to 5 please indicate the importance of the statement on the budget planning:

**Strongly agree    Agree    Neutral    Disagree    strongly disagree**

**5                      4                      3                      2                      1**

Statement	5	4	3	2	1
The public and employees are involved in budget planning process in the county of EMC.					
There is proper communication during the process of budget planning					
The use of IFMIS helps county governments gain effective control over their finances enhances transparency and accountability and act as a deterrent to corruption and fraud.					
Budget planning involves setting of development priorities for Elgeyo					

Marakwet County					
The type of accounting system used in the county government of Elgeyo Marakwet is Cash basis accounting system					
Our County Accounting system adequately identifies the receipts and expenditure.					

## II. BUDGETARY STAFF CAPACITY

Using a rating scale of 1 to 5 please indicate the importance of the statement on budget implementation:

**Strongly agree    Agree    Neutral    Disagree    strongly disagree**

**5                      4                      3                      2                      1**

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
The county government has adopted an accounting standard with knowledgeable staff who are accountable and responsible for its implementation					
The county government offers training and development programs to the budget committee members through seminars/workshops to improve their competency					
Hiring of skilled and effective staff that is well versed on the functions they are supposed to be performing will lead to successful budget implementation.					

## III. FINANCIAL RESOURCE AVAILABILITY

Using a rating scale of 1 to 5 please indicate the importance of the statement on the challenges of budget implementation:

**Strongly agree    Agree    Neutral    Disagree    strongly disagree**

**5                      4                      3                      2                      1**

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
The county government heavily depends on the national government funding for its operations					
Revenue collected within the county by the county government is used to supplement the budget.					
The County Government of EMC receive Grants/aids to supplement its budget					
The county government limits its borrowing capacity to avoid sinking into debt.					
Investors have played a key role in supplementing the county budget allocation					
Funds are disbursed on timely basis from Treasury					

#### **IV. AUDIT PROCESSES**

Using a rating scale of 1 to 5 please indicate the importance of the statement on the role of county Audit processes on its financial performance:

**Strongly agree    Agree    Neutral    Disagree    strongly disagree**

**5                      4                      3                      2                      1**

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
An Internal Audit Committee is very much of essence in the county government since it ensures policies and procedures are followed.					
The county assembly oversight function entails establishing committee of its members to scrutinize bills and ensure public funds are appropriated in a transparent and effective manner to safeguard public funds.					

Existence of County budget committee is essential					
Our Internal Audit is sufficiently staffed.					
Internal Audit reports are produced regularly.					

**II. FINANCIAL PERFORMANCE**

Using a rating scale of 1 to 5 please indicate the importance of the statement on budget implementation:

**Strongly agree    Agree    Neutral    Disagree    strongly disagree**

**5                      4                      3                      2                      1**

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
The county government is presently operating on a budgetary deficit.					
The actual expenditure of the county government has been increasing for the past 4 years.					
The county government revenue collection has been increasing for the past 4 years					
The county government has been able to utilize allocated funds for effective implementation of budget					
The county expenditure is effectively utilized as per the budget appropriations					
Our county accounting system adequately identifies the receipts and expenditure.					

## Appendix III: UNIVERSITY RESEARCH AUTHORIZATION



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 8710901 Ext. 57530

Our Ref: **D53/CTY/PT/23975/2013**

DATE: 25<sup>th</sup> April, 2019

Director General,  
National Commission for Science, Technology  
and Innovation  
P.O. Box 30623-00100  
NAIROBI

Dear Sir/Madam,


**RE: RESEARCH AUTHORIZATION FOR EDWIN KIPLAGAT CHEBOI – REG. NO.  
D53/CTY/PT/23975/2013.**

I write to introduce **Edwin Kiplagat Cheboi** who is a Postgraduate Student of this University. The student is registered for M.B.A degree programme in the Department of Accounting and Finance.

**Edwin** intends to conduct research for a M.B.A Project Proposal entitled, “**Budget Implementation and Financial Performance of the County Government of Elgeyo Marakwet Kenya**”.

Any assistance given will be highly appreciated.

Yours faithfully,

  
PROJIL ELISWIBA KIMANI  
AG. DEAN, GRADUATE SCHOOL

HW/nn

## Appendix IV: NACOSTI RESEARCH AUTHORIZATION



### NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2233471,  
2241349, 2310571, 2219420  
Fax: +254-20-318245, 318248  
Email: [dg@nacosti.go.ke](mailto:dg@nacosti.go.ke)  
Website: [www.nacosti.go.ke](http://www.nacosti.go.ke)  
When replying please quote

NACOSTI, Upper Kabete  
Off Wangari Way  
P.O. Box 30223-00100  
NAIROBI-KENYA

Ref No: **NACOSTI/P/19/47190/30738**

Date: **30<sup>th</sup> August, 2019.**

Edwin Kiplagat Cheboi  
Kenyatta University  
P.O. Box 43844-00100  
**NAIROBI.**

#### **RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on "*Budget implementation and financial performance of the County Government of Elgeyo Marakwet, Kenya.*" I am pleased to inform you that you have been authorized to undertake research in **Elgeyo Marakwet County** for the period ending **24<sup>th</sup> June, 2020.**

You are advised to report to **the County Commissioner, and the County Director of Education, Elgeyo Marakwet County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

**DR/ STEPHEN K. KIBIRU, Ph.D.**  
**FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The County Commissioner  
Elgeyo Marakwet County.

The County Director of Education  
Elgeyo Marakwet County.

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION (NACOSTI) 2019