EFFECTS OF BUDGETING AND BUDGETARY CONTROL ON FINANCIAL PERFORMANCE OF DEVOLVED GOVERNMENT IN KENYA

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DECLARATION

This research project is my original work and has not been presented in any other university for examination.

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DEDICATION

This research project is dedicated to my husband, Mr. Francis Mulwa and Children, Lee, Lynn and Lynet for their sacrifices and understanding when I was out to write this project.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
CDF	Constituency Development Fund
IFCGK	Integration Framework for County Governments in Kenya
NGO	Nongovernmental Organization
NSE	Nairobi Stock Exchange
OCOB	Office of the Controller of Budgets
PBO	Project Based Organization
PFM	Public Finance Management
SACCO	Savings and Credit Cooperative
SPSS	Statistical Package for Social Sciences Software
TANESCO	Tanzania Electric Supply Company

ABSTRACT

In the business World today, Budgeting has been widely used as a tool for budgetary control by many public entities mainly to achieve their financial performance. Budgetary control systems are applied all over in the whole world by being referred absolutely necessary instrument for planning and performance. The study general objective was to determine the effects between budgeting and budgetary control on financial performance of county governments. The study investigated budgeting and budgetary control, managerial performance and county regulation on financial performance of county government. The researcher used quantitative descriptive research design to determine the relationship between budgeting and budgetary control and financial performance of devolved governments. The target population was 47 county governments in Kenya. The researcher used primary source and secondary source data to collect data. The researcher used statistical package for social sciences software (SPSS) version 21 to analyze the data. The study concluded that County government encounters challenges while implementing their budgets such as non- compliance with budgetary timeliness as per public financial management Act 2012, Budget implementation review is done by the office of controller of budgets every three months to examine budget performance, County government budget at planning level considers stakeholders priorities in the coming year and Budgeting links county government budget programmes and budget activities to set goals and targets. The study recommended that county assembly bills should be passed regularly in a financial year to improve county government's performance. Budget legislation and budget plans should be well executed to avoid financial performance challenges and public service delivery should be improved to increase customer satisfaction. The study recommended a research to be conducted on financial performance of county governments using different variables to cover the 4% variance of the study. The study recommends another research to be conducted on other sectors so as to investigate the relationship between budgeting and budgetary control and financial performance. The study established a strong positive relationship between budgeting and budgetary control and financial performance. The study established a model summary p-value of 0.000 which is less than significant level 0.05, thus indicates that the overall regression model is significant at the confidence level of 95%.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the business World today, Budgeting has been widely used as a tool for budgetary control by many public entities mainly used to achieve their financial performance. Budgetary control systems are applied all over in the whole world and have been considered absolutely necessary tool for financial planning and performance. According to Burger (2012) the annual budgets ensure regular checks over aggregate expenditure and generate full particulars of financial performance statements on resource utilization but not concerned with long term development plans over the medium term activity. Budgeting entails setting of goals, giving an account of actual financial performance and performance evaluation in terms of set financial goals. Venkatasami (2015) stated that budgetary control helps to achieve effective co-ordination of activities of the varied government ministries and departments by setting financial goals as a way of attaining predetermined financial performance.

The allocation of resource theory was developed by Peteraf and Barney (2003) and is concerned with the discovery of how government distributes economic resources through budgeting process. It's on the basis of the allocation of resource theory that, governments are able to allocate the financial resources at their disposal using the budgetary control system in its effort to attain financial goals. Therefore under this theory, corporate allocate funds to their budgets and projects guided by competition a certain project has in comparison with other government's project demand and the availability of funds. Expenditure theory suggests that, descriptive theory is based on close observations or participations in public entities budget operations in order to achieve financial objective (Rubin, 1990). Rubin described sequences of events on budgets and inferred causes of variations as well as uniformities across budgeting process. Rubin further stated that normative theory, gives solutions mainly on financial values rather than observations of events on budgets.

Devolved governments in Kenya refer to environmental units envisioned by constitution of Kenya as the units of county government. In Kenya there are forty seven (47) county governments. County governments' receives powers to administer devolved function from constitution of Kenya. All county governments in Kenya employ budgeting and budgetary control systems as a management tool to ensure effective control and accounting of public finances in a bid to enhance financial performance in the sector.

According to public finance management (PFM) Act 2012, it's the constitutional duty of the county treasuries to prepare county fiscal strategy paper and tender to the county executive commission for approval and later forward the approved fiscal policy paper before 28th February of each year to the county assemblies. The county treasuries include in their county fiscal policy paper, the fiscal prospects for the coming financial year in regard to county governments' budgets which in turn helps the county government to achieve financial objective. All county governments emphasize budgeting and budgetary control process to achieve their financial plans.

1.1.1 Budgeting and Budgetary Control

Budgetary control refers to how well finance officers utilize budgets to check and manage costs and revenues of an organization in a given financial period. According to Davidson (2009) budgetary control entails preparing of budgets, recording of actual performance, ascertaining of variance, evaluation of financial performance and taking suitable corrective action so that budgeted financial performance may be achieved.

The extent to which budgetary control influence the financial performance of organizations is determined by the way in which budgets are used by such organizations (Drunk, 2011). If budgets are primarily used as a planning tool, then budget planning makes controls easier hence resulting to improved performance. In contrast, if budgets are mainly used as a control mechanism, then it is improbable that budget planning will result to financial performance. Organizations various departments work together through the coordination of various executives and subordinates which leads to achievement of budgetary targets (Waren, 2011). It is therefore important to note that budgetary control process entails budget preparation, budget authorization, budget implementation and budget evaluation and performance. Budgetary control hence plays a major role in a corporate financial planning.

1.1.2 Financial Performance

Financial performance refers to the extent to which financial goals are accomplished. It is the process of ascertaining the actual operations outcome as compared to set financial goals of a corporate expressed in monetary terms. Moore and Petrin (2017) stated that financial performance also refers to the standard measurement of how a particular issue is handled or doing something successfully using knowledge, treated different from just possessing it. Financial performance is used to assess institutions' general financial strength for a certain period of time and also it's as well used to benchmark institutions in the same sector (Bourke, 2015). High financial performance reflects corporate effectiveness and efficiency necessitated by proper utilization of corporate resources which in turn enhances country's economy.

Financial Performance measurement is a fundamental part of whatever change process is adopted by an organization. It gives information in response to the effectiveness of the financial plans and their execution (Holland and Ritvo, 2008).According to Warren (2011) firms past financial performance reporting is one of the important roles of performance measurement system. Traditionally the financial measures such as, growth in sales, profit, return on investments and cash flow have been used as the financial performance measurement. However, there is increasing concern among finance officers to over-rely on financial measures in performance.

1.1.3 Relationship between Budgeting and Budgetary Control and Financial Performance

Budgetary control is a management tool used by public institutions to effectively manage public finances in order to efficiently meet their financial performance goals. Siegel and Allison (2011) stated that available literature on budgetary control suggests that budgets form an important basis for financial control and performance. Budgetary control in government entities entails financial planning, controlling, financial evaluation and performance of budgets in order to efficiently achieve the public finance management goal, on proper resource allocation as per proposed budgets (Jones et al., 2009). The rationale behind budgetary control is to present firm's estimations of revenue and expenditure through constructing a model to show its financial plans, indicating how certain strategies and events have been carried out, which in turn facilitates measurements of actual financial operation against the forecast.

1.1.4 Devolved Governments

Devolved governments refer to the county governments in Kenya with their headquarters located in their major towns. There are 47 county governments whose magnitude and borders are determined by the 47 lawfully recognized districts of Kenya which existed up to 1992. Each county in Kenya has national administration represented by county commissioners following the integration of counties to the new national administration and re-organization of Kenya's national administration. Counties administrative divisions include: - constituencies, sub counties and wards. According to 2009 census Nairobi County had the highest population of 3,138,369 people while Lamu County had the lowest population of 101,539 people.

Every government should have an interactive social economic environment (Benito and Bastida, 2009). In Kenya, county governments have ensured well integrated economies by enhancing mobility and productivity of factors of productions, well managed and conserved water, natural resources and well-coordinated health sector. Education serves as a way of achieving literacy regardless of age (Oluoch, 2016). All counties have been entrusted with the responsibility of establishing early childhood education programmes to enhance learning standards in the counties. County governments' executive functions enhance economic growth and promote social welfare amongst the county citizens. The Kenya comprehensive devolved government organization structure provides that, county governments should have a systematic institutional relationship with national government in regard to executive, accountability, work and policy guidance.

County governments devolved functions include agriculture, health, transport, cultural activities, trade development and regulations, control of pollution, early childhood education and tertiary colleges, civic works, managing of drugs, animal control and welfare and conducting the involvement of society. County governments finance their recurrent operations and development plans through funding by national government and revenue raised from local their resources (PFM, 2012).

1.2 Research Problem

Planning systems have been in existence in Kenya since independence but very little attention has been given to budgetary controls as a tool for achieving financial performance (Kamau et al., 2017). Many scholars and citizens have been amazed by the continued failure of local government budgeting. Many studies have concluded that local government ineffective in its budgeting systems has led to their failures in attaining financial goals in an environment where every government entity has been using budgeting as a tool to assist in planning and controlling all costs associated with social amenities (Sani et al., 2016).

Generally budgetary control is used as a financial performance measure in government institutions but particularly it's not the only determinant of performance as other factors also account to the overall achievement of its goals (Adongo and Jagongo, 2013). With the support and acceptance of top management team, budgetary control systems always derive the purpose of financial performance though if lower level personnel sense that the top management doesn't fully embrace budgetary controls, their own attitude reveal similar lack of interest (Perrin et al., 2012). Perrin further stated that budgeting is a complicated process in which, if the key management team does not commit itself into it then it's likely that the other personnel will not adopt the budgeting system.

The reviewed literature reveals that government entities in Kenya have not made attempts to improve financial performance through strict implementation of budgetary control systems. Njau (2013) observed that projects delay due to budgeting process and procurement procedures in public universities. Research seeking to address unclear finance policies and procedures, budget deficits and delay in projects payment in public sector has not been carried under budgetary control and thus the researcher has been prompted to investigate the impact of poor application of budgetary control on financial performance of devolved governments. Preparation of a budget is just one aspect of budgeting and implementation of the budget is equally as important as preparation (Olaye and Oladipupo, 2014). The issue is does county government implement the budgetary control system to their expectation? Do they work within the dictates of their budgets in the day-to-day operation? The question as to whether county government budgeting system is a formality or a reality has brought concern of many researchers and scholars. Therefore, this study attempts to determine how budgetary control system effectiveness leads to performance of county governments in Kenya.

1.3 Research Objectives

To establish the relationship between budgeting and budgetary control and financial performance of county governments.

1.4 Value of the Study

The research, effects of budgeting and budgetary control on financial performance of devolved government will help the practitioners of finance in that, the finance managers will put more efforts on effective implementation of budgetary control systems to achieve high financial performance that will enhance proper utilization of resources.

The research will be of great importance to future researchers/ academicians since it will act as a source of information on budgetary control systems and financial performance in government institution. It will also enrich literature review for future researchers who will undertake the research in the same field. This will drive future researchers to develop much interest to explore other budgetary control areas not covered in this study.

The research findings provide valuable information on budgeting as a tool used by public sector in controlling and managing their finances. Since many public entities use budgetary control system as a formality, this study was to enlighten them to know the importance of using the budget as costs control mechanism which in turn leads to revenue and projects growth. Therefore county governments would be able to address any issues which might arise in future.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers theoretical framework, determinants of financial performance, empirical studies, conceptual framework and the summary of Literature review.

2.2 Theoretical Framework

Theoretical framework involves the review of theories underlying the study topic. Theories covered in this study include:- Allocation of resource theory, expenditure theory, economic theory and progressive theory of expenditure.

2.2.1 Allocation of Resource Theory

Allocation of resource theory was developed by Peteraf and Barney (2003). It is concerned with the discovery of how nations, corporate, entrepreneurs or individuals distribute financial resources through budgeting process to attain financial goals. For corporate economic resource to attain sustained competitive advantage, it should have the following qualities: - priceless, rare, imperfectly imitable and non-substitutable. This calls for use of budgetary control systems to allocate those scarce economic resources in government institutions (Anantadjaya, 2008).

The economic concept of resource allocation is an important area of study in an organization using the invisible hand theory. Under invisible hand theory, the allocation of resources is done through competition, supply and demand by individuals and corporate (Peteraf, 2003). Corporates distribute financial resources through budgeting in their attempts to meet predetermined financial targets. Therefore, the allocation of resource theory, help organizations in allocating financial resources at their disposal through budgetary control system.

2.2.2 Expenditure Theory

Expenditure theory was developed by Rubin (1990). This theory is of two kinds: - the normative theory and the descriptive theory. Budgeting needs a normative theory in deciding its critical policy on financial expenditure. Normative theory also explains why some corporate expenditure are given priority while others are not considered in their budgeting process, which in turn helps these corporates to perform well financially (Posner and Blondal, 2012). Normative theory of budgeting accomplishment and acceptance means end of conflict over the government's role in society. Budgeting has become predominant process of government decision making.

Descriptive theory is based on keen observations or participations in public sector financial activities on budgets in order to achieve financial objective. This theory emphasizes importance of corporates having relevant facts to explain individual budget expenditure variation and which in turn assist in knowing why expenditures change as opposed to set financial targets (Ulrich, 2008). Organization use normative theory to choose activities or projects to be undertaken depending on the desirability of the project as expressed on the budget which in turn helps corporate to attain set financial targets.

2.2.3 Economic Theory

Economic theory was developed by Lewis (1952) in his efforts to explain how the concept of marginal utility a traditional microeconomic theory could be used to determine the relative financial value of goods to substantiate allocation of resources that in the aggregate would improve financial performance of a corporate. This theory emphasizes on procedures applicable for budgeting while considering all resources as scarce and appropriate for attaining the financial performance.

Due to the scarcity of financial resources in regard to demand, the basic financial test which could be applied is that every expenditure would be worth its return and every financial costs would be equal to all its sacrificed alternatives in order to attain financial targets (Wicker, 2011). Incremental analysis is necessary on every budget for effectiveness achieving specific financial objectives.

2.2.4 Progressive Theory of Public Expenditures

Progressive theory of Public theory was developed by Walker (1951). Walker believed on a theory of expenditure based on cost-effective thoughts as preferable to dependence on theoretical claim to the argument of impartiality that was noneconomic and outside the government. Theory of expenditure allotment based on finances provided records to replace condemnatory influence and thus using marginal utility theory indifference point is discernable in the distribution of government budgets (Hildreth and Zorn, 2005).

Walker asserted that the best approximation of marginal utility for cities is first obtained as general measure or an aggregate that is not distinctive to the locale or region and then an indifference point could be made more certain for that region based on local preferences. Progressive theory of public expenditure is important since Walker's work predates key budget writers, including Herbert Simons 'financial performance measurement research in Chicago (Walker, 2009). Walker suggests the norm for distribution of scarce financial resource and gives an approach for a positive budget process which leads to high corporate financial performance. This theorist further states that, public budgets must traverse the complex nature of executive-legislative relationships in order to achieve the set financial goals.

2.3 Determinants of Financial Performance

Determinants of financial performance include: - Budgeting and budgetary control, Managerial performance, Stakeholders preferences, County assembly and National treasury

2.3.1 Budgeting and Budgetary Control

Budgeting and budgetary control systems are systematic processes used by government institutions to allocate scarce resources to various ministries and departments in order to achieve their financial goals. Under the public finance management act, PFM (2012) the minister of finance is obliged with the duty to present to the parliament a draft estimate of revenues and expenditures for approval before the start of financial year. Budgeting helps government entities in implementing daily operations as well as facilitating plans which in turn leads to performance.

Government budgeting and budgetary control is a unique process whose formulation, implementation, and control involve observation of laws, rules and procedures aimed at achieving the financial performance through delivery of services and goods to the citizens. According to Drunk (2011) the extent to which budgetary control influence the financial performance of organizations is determined by the way in which budgets are used by such entities.

2.3.2 Managerial Performance

County management officers refers to county executive members, chief officers and head of department who undertake vital roles in financial performance of the devolved government by ensuring strict adherence to financial procedures, policies and guidelines. Siemiatycki (2016) stated that, having an effective and performing management helps an organization to increase productivity through identifying high performers and motivating them to work harder. Performing management also ensures all corporate activities and projects are well coordinated towards achieving the set objectives and goals. County top officers ensure county performance by making citizens satisfied with the overall services provided by them through monitoring, quality service and timeliness service delivery.

A proper budgeting &budgetary control system allows institutions to improve their managerial attitudes and performances within the organization and provide the organization with useful information to tackle the challenges faced (Ikavalko et al, 2010).Personnel skills change over time and thus government entities need to hire the right management personnel who possess the required expertise as well as who exhibit competence in planning and directing activities to meet corporate targets(Cox, 2017). In relation to county governments getting the right people into the top jobs is key to county performance in terms of both recurrent operations and development projects. County governments have realized the importance of having the right management team which in turn helps in achieving their plans.

2.3.3 Involvement of Stakeholders

Community members dominate the public participation in the county government budgeting process by identifying the top priority projects and flagship projects, documenting them in a blank flip charts, outlining major challenges faced and proposed solutions at the sub ward, ward and sub county levels. According to Whittington (2012) during public participation, community members identify the projects they would like to be installed, repaired or rehabilitated in their environments. By so doing, they actively participate in decision making on issues affecting the locality, give priority of projects to be undertaken and provide information on challenges they face.

County governments are nowadays recognizing the rights of stakeholders established by law hence they have been encouraging public to participate in giving priorities to community projects at village clusters, villages and sub location levels without county projects, projects identified by more than one cluster and high impact projects with potential to benefit the whole sub ward. Citizens provide workforce support to community projects as well as any other expertise to accomplish those projects within set timelines (Lu, 2011).

2.3.4 County Assembly Legislation

The Kenya constitution confers legislative authority of county governments to the county assembly as well as approving plans and policies. Han (2016) stated that county governments should adhere to laws made by county assemblies while executing their functions to ensure their citizens attain the intended benefit. County assembly members pass appropriation bills authorizing county executive to withdrawal funds from county revenue funds and approving county budget expenditures.

Public financial management Act (2012) requires county assembly members to approve fiscal strategy papers detailing estimates for revenue and expenditures for the coming financial year. County assembly members also exercise oversight job on the county executive committee and other county executive organs entrusted with management of the public funds to ensure financial plans are achieved.

2.3.5 National Treasury

The constitution of Kenya confers responsibility to the national treasury to support fiscal and monetary dealings involving the national and county governments. According to Matkin (2010) national government release funds, circulars and guidelines to county governments to assist them accomplish their functions within the set timelines. To meet the intended financial goal, disbursement of funds to county governments by national treasury is done in accordance with the intergovernmental budgets and economics council's advice and through Senate authorization. National treasury aims at ensuring that proper accounting of public finance is observed by county governments as control measure in achieving set financial objectives.

An E-Government (2016) Integration Framework for County Governments in Kenya (IFCGK) indicates that national treasury supports the county governments in attaining their financial plans by preparing of their county's allocation of revenue bill. It's the responsibility of national treasury to ensure control systems are in place for efficient monitoring and reporting of county government's transactions. National treasury disbursement of monies at the beginning of the every quarter to county governments without undue delay helps them to undertake their recurrent operations and development projects within set timeline which in turn translates to county performance as per set financial goals.

2.4 Empirical Studies

A research to ascertain how budgetary control and corporate financial performance in government entities in regard to parastatals related was carried in Europe for a period of tens (10) years by Marcarmick and Hardcastle (2013). The researcher used a sample of 40 government parastatals. In carrying out the study, secondary data was used as the researcher's data collection method for the entire research period for review. To analyze the data, the researcher used a regression model which helped him to analyze both independent variable and depended variable. The study found out that budgetary control and performance of parastatals related positively.

A research on budgetary control and financial performance of government ministries in Boston Massachusetts was carried by Nickson and Mears (2012) for period of ten (10) years. The researcher took a sample five (5) ministries for research. The researcher used secondary data for review of ten years. To analyze data regression model was used. The study found out a positive relationship existed.

A research on application of budgets as a management tool for effective performance in University of Calabar, Nigeria was done by Ekpenyong (2014). The target population was the university staff. The researcher used survey inferential design study to collect data for the study and a sample of 250 members of senior staff was drawn from the population, comprising of 120 academic staff and 130 non- academic staff. The data was analyzed statistically using mean and independent t-test statistics as data analysis methods. It was concluded that application of budgets in the University of Calabar as a management performance tool was effective.

An investigation to ascertain the relationship between budgeting and performance in remittance companies in Mogadishu, Somalia was carried by Abdirisaq and Ali (2013). The target population was seven (7) remittance companies in Somalia. The researcher used judgmental sampling technique of non-probability sampling select a sample of 103. The researcher used descriptive research design to collect data for the study. The researcher used descriptive statistics, standard deviation and correlation analysis methods. The study concluded that moderate relationship between budgeting and remittance companies' performance existed.

A study to determine how budgets and budgetary control enhances financial performance of an electric supply company limited, (TANESCO), in Tanzania for the period 2006 -2012 was done by Marygoreth (2014). A case study research design was used. Target population was employees of TANESCO. Further the researcher administered questionnaires interchangeably with interview and group discussion. The study concluded that budget and budgetary control contributes much to the effectiveness and performance of the company.

A research to investigate factors affecting participatory budget setting and budget commitment and financial performance of the Nairobi stock exchange (NSE) for listed companies was carried by Mwaura (2010). The researcher used a target population of 55 listed companies for the study. Descriptive research design was used and the study included both quantitative and qualitative data. The study found out that, return on capital and assets are significantly influenced by budgetary control in Nairobi stock Exchange. Both return on capital and return on assets are measures of financial performance in companies and thus it was further found that budgets setting and budget commitment and financial performance in Nairobi stock exchange related positively.

A research to determine effects of budgetary control systems in Savings and Credit Cooperative (SACCO) in Nyeri County was carried by Karanja (2011). The researcher used descriptive research design. The target population of this study was 120 finance officer of Sacco's in Nyeri. A sample of 23 stratums was used. The researcher used questionnaires to collect firsthand information. The study concluded that finance officer mainly participated in budgetary control processes which assisted the Sacco's to attain set financial goals.

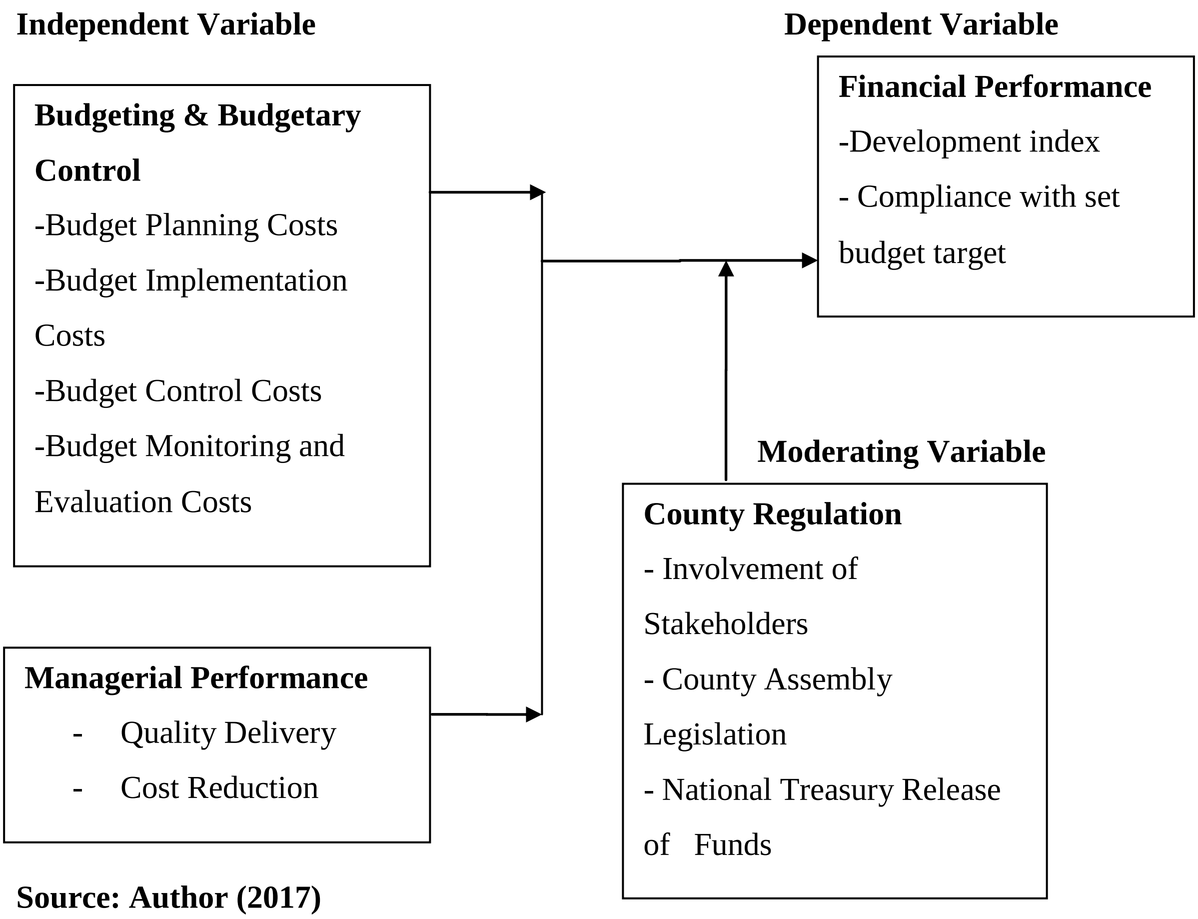
A research to determine the effects of budgetary control system on budget variances in project–based organizations (PBO) in Kenya was carried by Gacheru (2012).The researcher based this study on target population of 6,075. The researcher used a sample of 21. To analyze the data, the researcher used descriptive research design method which explains the question who, why, when, where of a situation or a phenomena in a study. The study concluded that preparation of budgets as well as budget control mechanism significantly influences budget variance of such organizations.

A research to examine effects of budgetary control on performance of non-governmental organizations (NGO) in Kenya was carried by Kimani (2014). A target population of 7,127 was used for the study. A sample of thirty (30) non-governmental organizations was obtained. The researcher used judgmental sampling technique and descriptive statistics methods. The study concluded that, there existed a slight positive relationship between budgetary controls and financial performance of non-governmental organizations.

An investigation to establish how budgetary control and performance of constituency development funds, (CDF) in Machakos County related was done by Mburu (2015). The target population was 24 management personnel of 8 constituencies at Machakos County for the period 2011 -2014. Descriptive statistics was used to summarize the data. The researcher concluded that participative budgeting with proper planning of budgets, proper monitoring and control of budgets and budget variance evaluation all have a positive impact on performance of CDF projects.

2.5 Conceptual Framework

Figure 2.1: Conceptual framework



Source: Author (2017)

The dependent variable (financial performance) on the conceptual framework is represented by development index and compliance with set budget target as a resultant of proper budget planning, implementation, control, and monitoring and evaluation costs. Development index refers to the ratio of development expenditure to recurrent expenditure of the county government. Compliance with set budget target is the extent to which county expend funds availed by national government in accordance with the county government approved budget estimates.

Budgeting Planning costs is the key element to budgeting and budgetary control (independent costs) which determine the magnitude of other budgeting costs related to budget implementation costs, budget control costs, budget monitoring &variance costs. If budget planning is carried out well, its costs and those of other budgeting elements will be minimal, thus county government financial performance is depicted through developments in terms of projects.

The moderating (control) variables refer to those elements which determine the financial performance of county governments either directly or indirectly. Budgeting and budgetary control systems are the commonly used process by government to help realize their performance. County governments also consider managerial expertise in implementation of activities and development plans in order to achieve the set financial goals. Involvement of stakeholders determines priorities of activities and projects to be carried out by the county government as stated by citizens during public participation. County assembly legislations determine whether some activities and projects planned in the budget will be carried out, held on or cancelled. The national treasury release of money without delay enables county governments to achieve their financial goals.

2.6 Summary of Literature Review

Various theoretical frameworks have attempted to explain the concept of effects of budgetary control on financial performance. The researcher has discussed four theories under theoretical framework namely:- Allocation of resource theory, expenditure theory, economic theory and progressive theory of public expenditure. The researcher has also discussed other four determinants of financial performance other than budgetary control. Empirical studies carried in both global and local contexts have been covered and their findings discussed under this chapter.

The underlying literature on both international and local studies on budgetary control and financial performance has identified mismanagement of public funds on budgeting system of county governments in Kenya as one of the gaps yet to be researched on. The researcher therefore focused on this area of study where no theoretical suggestions and empirical studies had ever been stated hence becoming a challenge to county governments to achieve set financial goals.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers research design, population, data collection and data analysis.

3.2 Research Design

The researcher used quantitative descriptive research design to establish the relationship between budgeting and budgetary control and financial performance of devolved governments. According to Labaree (2009) quantitative research emphasizes on statistical and numerical analysis of collected data. It focuses on collecting data to explain a particular phenomenon.

Descriptive research study measures objects in a study only once and is used to establish association between study variables. Alsheikhet al. (2011) stated that descriptive design describes the research questions who, what, when, where, why, and how with respect to variables in a population.

3.3 Population

The target population was 47 county governments in Kenya. Ackermann et al. (2012) described population as consisting of individuals, objects or variables that researchers base their studies on.

3.4 Data Collection

This area covers sources of data used by the researcher while carrying out the study. The researcher used both primary source and secondary source of data.

3.4.1 Primary Source Data

Primary source data provided firsthand information. The researcher sent questionnaires to all county governments in Kenya to collect data.

3.4.2 Secondary Source Data

Secondary data on financial performance was drawn from annual county governments budget implementation review reports prepared by the office of the controller of budgets (OCOB)for the last four county governments financial years that is 2013/2014, 2014/2015, 2015/2016 and 2016/2017.

3.5 Data Analysis

This area covered diagnostic test, conceptual model and analytical model. Tables and charts were used to present data. SPSS version 21 to analyze the data.

The researcher used the following diagnostic test as a statistical measure to test data accuracy.

3.5.1 Linearity Test

Linearity test is used to predict the linear relationship of data by plotting independent variable (y) against the dependent variable (x) on a graph. Where, if the graph moves upward that is left to right it indicates positive relationship. Downward movement of graph indicates negative relationship meaning there is no relationship between the variable.

3.5.2 Normality Test

Statistical t-test was used to test normal distribution data and hypothesis of dataat 95% significance test. Statistical t-test assisted the researcher in ascertaining normal distribution of data. The researcher also used statistical mean in analyzing the data.

3.5.3 Auto Correlation Test

Auto Correlation test was used to test the variance between variables for a specified time period. Statistical ANOVA was used in testing the variance of population mean in establishing the significance of the study. The researcher also used F- Statistics in testing significance of data.

3.6 Analytical Model

Analytical model refers to a quantitative statistical analysis used to measure cause and effect on variables. It was used to test simple hypothesis of association and causality of variables. The researcher also used statistical regression in analyzing data.

Regression model was used in the form:-

$Y = \alpha + B_1X_1 + B_2X_2 + B_3X_3 + \varepsilon$

Where:-

Y –Financial performance measured by development index and compliance with set budget estimates.

$\text{Development Index} = \frac{\text{Development Expenditure}}{\text{Recurrent Expenditure}}$

$\text{Compliance with set budget target} = \frac{\text{Actual expenditure}}{\text{Total approved budget estimates}} \text{x } 100$

α =y intercept of the regression equation, a dependent variable which is a constant in the event where all other variables considered as independent equal to zero.

$\mathbf{X_1}$–Budgeting and budgetary control measured by the number of respondents who agreed or disagreed that their county governments carries out budgeting as a budgetary control tool on a 5 point Likert type scale where **(**Strongly disagree [1] Disagree [2] Not sure [3] Agree [4] Strongly Agree [5]**).**

X_2- Managerial Performance measured by the number of respondents who agreed or disagreed that their county government carries out managerial performance on a 5 point Likert type scale where **(**Strongly disagree [1] Disagree [2] Not sure [3] Agree [4] Strongly Agree [5]**).**

X_3–County Regulation

County regulation measured by number of respondents who agreed or disagreed that their county governments carries out regulation on a 5 point Likert type scale where **(**Strongly disagree [1] Disagree [2] Not sure [3] Agree [4] Strongly Agree [5]**).**

ε –error term

Bi is regression co-efficient brought about by X_1, X_2,X_3,and also defines the contribution of each independent to Y.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the research findings with the discussion from the data results of response rate, descriptive findings and inferential statistics.

4.2 Response Rate

This section represents the response rate of the respondents. The number of questionnaires that were administered were 47, where properly filled and returned questionnaires from the respondents were 29 which made a 62% response rate. A response rate of 50% or more is adequate. Rear and Parker (2011) indicated that higher response rates assured more accurate survey results.

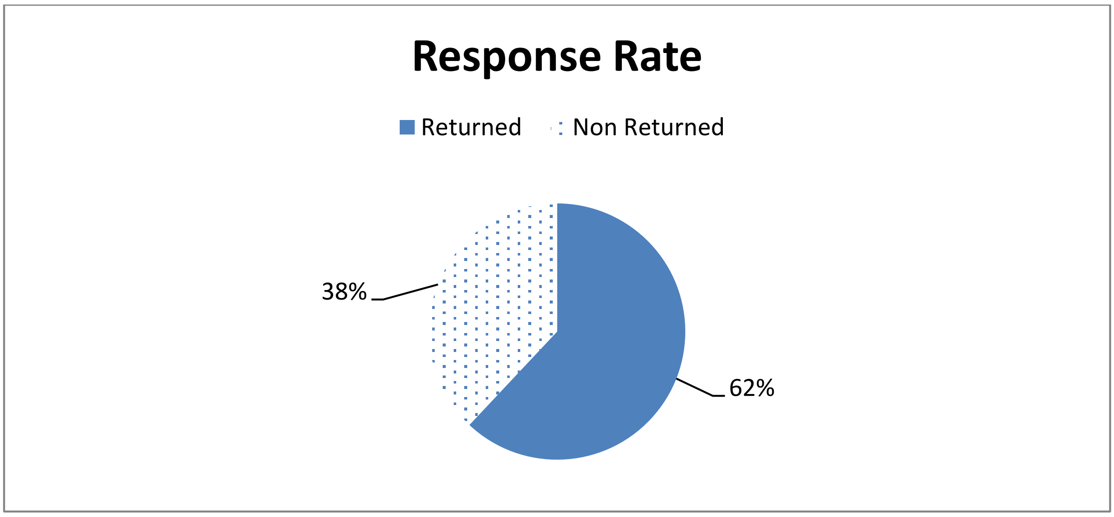


Figure 4.1: Response Rate

4.3 Descriptive Statistics

4.3.1 Budgeting and Budgetary Control

The research sought to ascertain the rank at which the respondents agreed or disagreed on relationship between budgeting and budgetary control and financial performance of county governments.

Table 4.1: Budgeting and Budgetary Control

		N	Mean	Std. Deviation
1.	Budgeting and budgetary control integrates budgeting planning and implementations with control and monitoring	29	4.0345	.56586
2.	Budgeting and budgetary control helps county government to estimate its revenue and expenditure in the coming financial year	29	4.1724	.46820
3.	County government incorporates both development plans and recurrent plans in the budget	29	4.0000	.26726
4.	Budgeting links county government budget programmes and budget activities to set goals and targets	29	4.03448	.731083
5.	County government budget at planning level considers stakeholders priorities in the coming year	29	2.6552	1.28940
6.	Budget implementation review is done by the office of controller of budgets every three months to examine budget performance	29	4.0690	.52989
7.	Budget implementation report considers revenue and expenditure performance against set targets	29	4.4483	1.24172
8.	County government encounters challenges while implementing their budgets such as non-compliance with budgetary timeliness as per public financial management Act 2012	29	4.5862	1.05279
9.	Citizens and civil society organizations monitors county government implementation of budgets by analyzing published reports as an oversight role as per public financial management Act 2012	29	4.7586	.63556
10.	County government require regular checks and assessment to ensure efficient and effective programmes and projects execution	29	4.7931	.49130
11.	Strict budget monitoring by county government ensures revenue and expenditure are constantly kept at check so that appropriate action is taken in case of significant variance occur	29	4.6897	.80638
	Valid N (listwise)	29		

The study established that Budgeting and budgetary control helps county government to estimate its revenue and expenditure in the coming financial year with a mean of 4.1724, County government incorporates both development plans and recurrent plans in the budget with a mean of 4.0000, Budgeting links county government budget programmes and budget activities to set goals and targets mean 4.03448, County government budget at planning level considers stakeholders priorities in the coming year with a mean of 2.6552, Budget implementation review is done by the office of controller of budgets every three months to examine budget performance with a mean of 4.0690, Budget implementation report considers revenue and expenditure performance against set targets with a mean of 4.4483, County government encounters challenges while implementing their budgets such as non-compliance with budgetary timeliness as per public financial management Act 2012 with a mean of 4.5862, Citizens and civil society organizations monitors county government implementation of budgets by analyzing published reports as an oversight role as per public financial management Act 2012with a mean of 4.7586, County government require regular checks and assessment to ensure efficient and effective programmes and projects execution with a mean of 4.7931 and Strict budget monitoring by county government ensures revenue and expenditure are constantly kept at check so that appropriate action is taken in case of significant variance projection occur with a mean of 4.6897.

4.3.2 County Regulation

The research sought to ascertain the rank at which the respondents agreed or disagreed on relationship between county regulation and financial performance of county governments.

Table 4.2: County Regulation

	N	Mean	Std. Deviation
1. County assembly policies assists in monitoring budget spending	29	2.0000	.88641
2. County Appropriation bills passed in a financial year determines county governments performance in that year	29	4.0690	1.25160
3. Budget legislation and budget plans are well executed to avoid financial performance challenges	29	2.9310	1.81129
4. County agencies comply with set budget levels while implementing and controlling budgets.	29	4.3793	1.04928
5. Customers and stakeholders met expectations account to the managerial performance in the county government which in turn contribute to county performance	29	4.2759	.70186
6. County government service missions give county managerial team directions as to what should be achieved	29	4.3103	1.53770
7. Performance of county government is felt by citizens through the perceived impact on community services	29	4.1379	1.64152
8. County government performance influences stakeholders voting behaviour	29	4.6897	.84951
9. Public service delivery is used by the county governments to measure public satisfaction as a performance indicator.	29	4.7931	.41225
10. Disbursement of funds to county government by national treasury is done in accordance with schedule prepared by national treasury	29	4.6552	.72091
11. Disbursement of funds to county government by national treasury is done in accordance with consultation with the intergovernmental budget and Economic councils	29	4.5172	1.24271
12. Disbursement of funds to county government by national treasury is done in accordance with approved published gazette and not later than 30th may every year	29	4.6552	.85673
Valid N (listwise)	29		

The study established that County assembly policies assists in monitoring budget spending with a mean of 2.0000, County appropriation bills passed in a financial year determines county governments performance in that year with a mean of 4.0690, Budget legislation and budget plans are well executed to avoid financial performance challenges year with a mean of 2.9310, County agencies comply with set budget levels while implementing and controlling budgets with a mean of 4.3793, Customers and stakeholders met expectations account to the managerial performance in the county government which in turn contribute to county performance mean of 4.2759, County government service missions give county managerial team directions as to what should be achieved with a mean of 4.3103, Performance of county government is felt by citizens through the perceived impact on community services with a mean of 4.1379, County government performance influences stakeholders voting behavior with a mean of 4.6897, Public service delivery is used by the county governments to measure public satisfaction as a performance indicator with a mean of 4.7931, Disbursement of funds to county government by national treasury is done in accordance with schedule prepared by National treasury with a mean of 4.6552, Disbursement of funds to county government by national treasury is done in accordance with consultation with the intergovernmental budget and Economic councils with a mean of 4.5172, Disbursement of funds to county government by national treasury is done in accordance with approved published gazette and not later than 30th may every year with a mean of 4.6552.

4.3.3 Managerial Performance

The research sought to ascertain the rank at which the respondents agreed or disagreed on relationship between managerial performance and financial performance of county governments.

Table 4.3: Managerial Performance

Managerial Performance Statements	N	Mean	Std. Deviation
County agencies comply with set budget levels while implementing and controlling budgets.	29	3.935	.57582
1. Customers and stakeholders met expectations account to the managerial performance in the county government which in turn contribute to county performance	29	4.3722	.46221
2. County government service missions give county managerial team directions on quality delivery	29	4.2032	.61732

The study established that County agencies comply with set budget levels while implementing and controlling budgets with a mean of 3.9345, Customers and stakeholders met expectations account to the managerial performance in the county government which in turn contribute to county performance with a mean of 4.3722, County government service missions give county managerial team directions on quality delivery with a mean of 4.2032.

4.4 Financial Performance

The Financial performance of county government was measured by development index and compliance with set budget estimates. This was calculated as follow

$$\text{Development Index} = \frac{\text{Development Expenditure}}{\text{Recurrent Expenditure}}$$

$$\text{Compliance with set budget level} = \frac{\text{Actual expenditure}}{\text{Total approved budget estimates}} \text{x } 100$$

Table 4.4: Financial Performance

Rating of Development index	Development Index	Percentage (%)
1. Very Good	41% and above	39%
2. Good	31-40%	28%
3. Somehow Good	21-30%	21%
4. Poor	11-20%	8.9%
5. Very Poor	10%and below	3.1%
Compliance with set budget level	**Compliance with set budget level**	**Percentage (%)**
1. Very Good	41% and above	32.4%
2. Good	31-40%	25.5%
3. Somehow Good	21-30%	22.1%
4. Poor	11-20%	11%
5. Very Poor	10%and below	9%

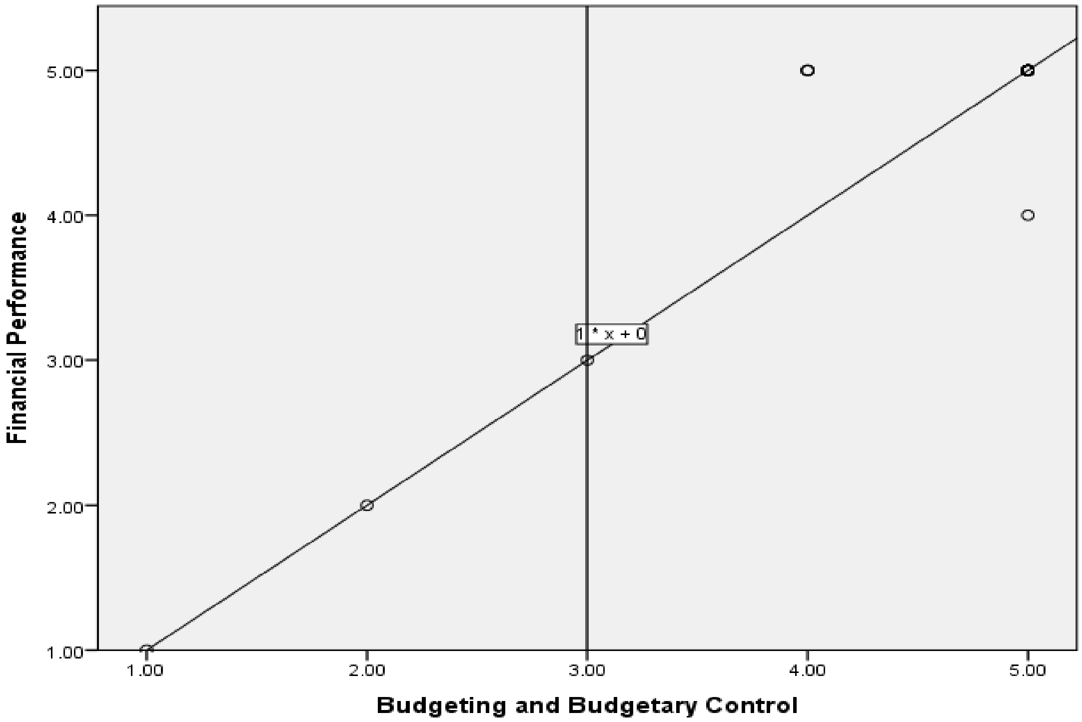
As shown in the table above on Financial performance measured by development index indicated majority of the county governments performed very good with a percentage of 39%, and those rated good were at 28%, while those at somehow good were at 21%, those rated poor attained 8.9% and those performing very poor were 3.1%.

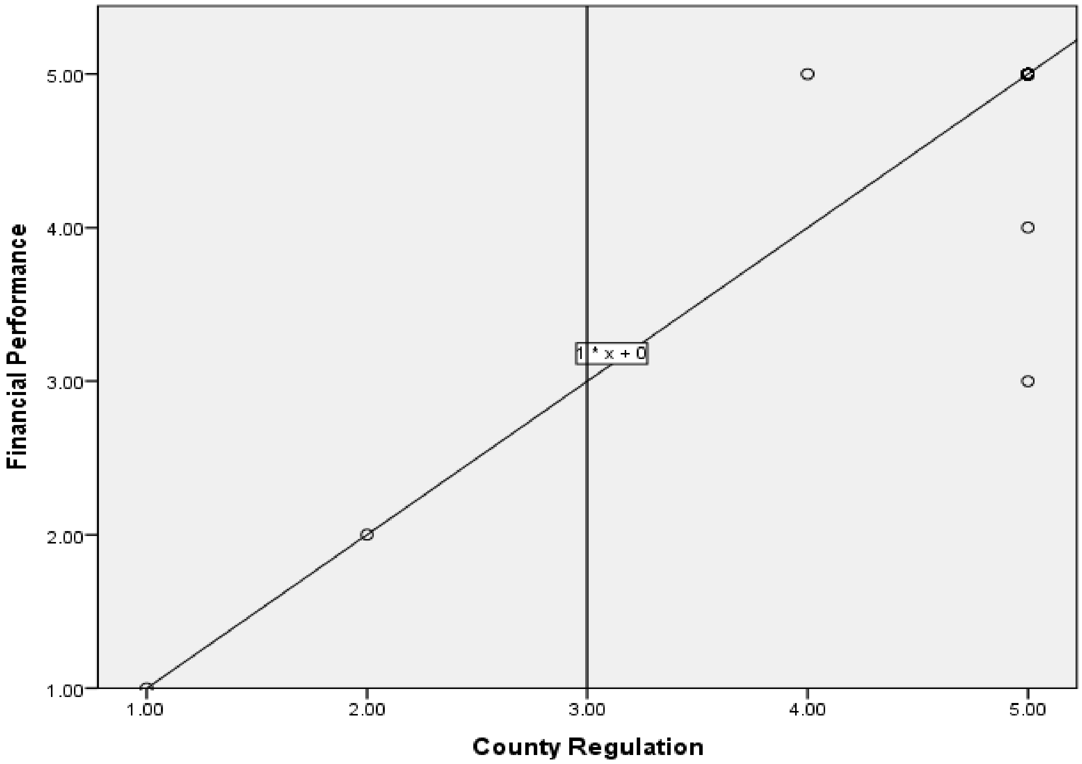
Financial performance measured by compliance with set budget target indicated that majority of the county government performed very good with a percentage of 32.4%, good with a 25.5%, Somehow Good 22.1%, Poor 11% and Very Poor 9%

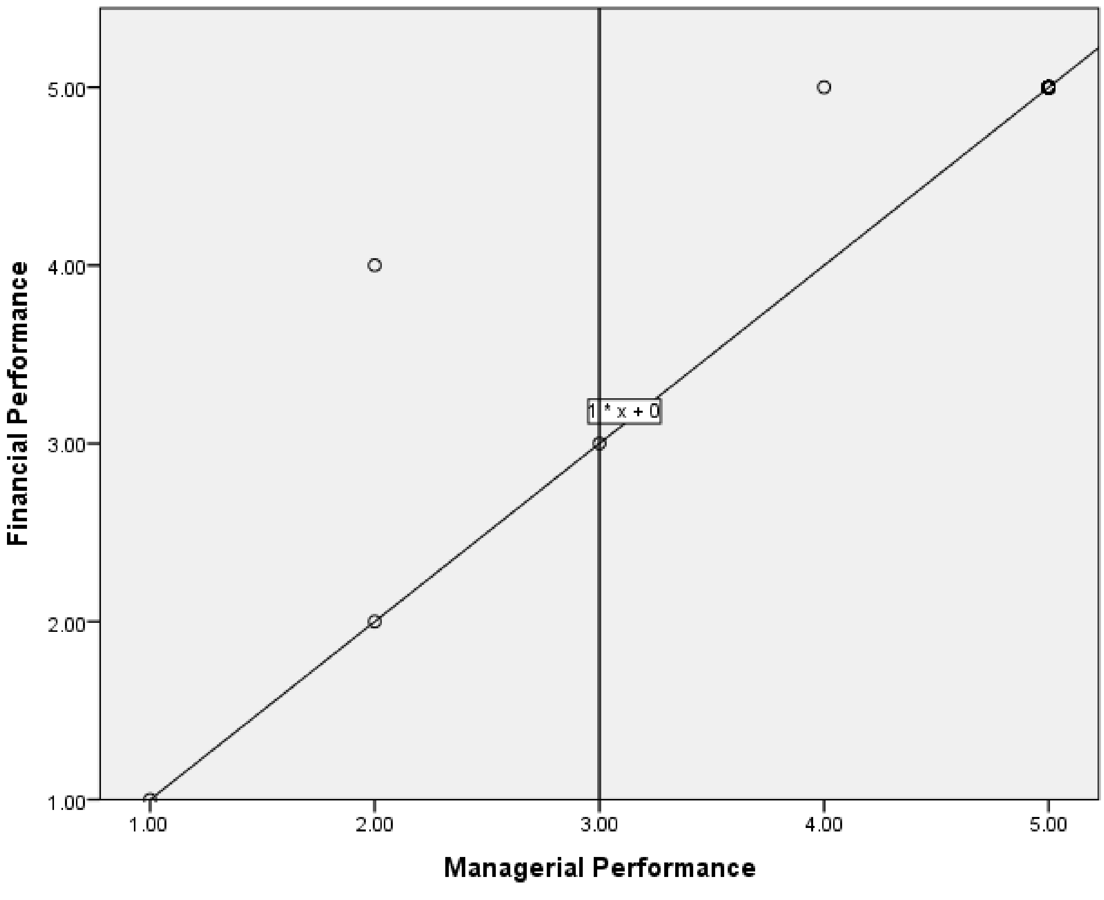
4.5 Inferential Statistics

4.5.1 Linearity Test

For one to fit a linear model to some given data, the dependent variable (Financial Performance) and independent variables has to be normally distributed (Ghasemi and Zahedias 2012).




1 * x + 0
Financial Performance
County Regulation
1.00
2.00
3.00
4.00
5.00

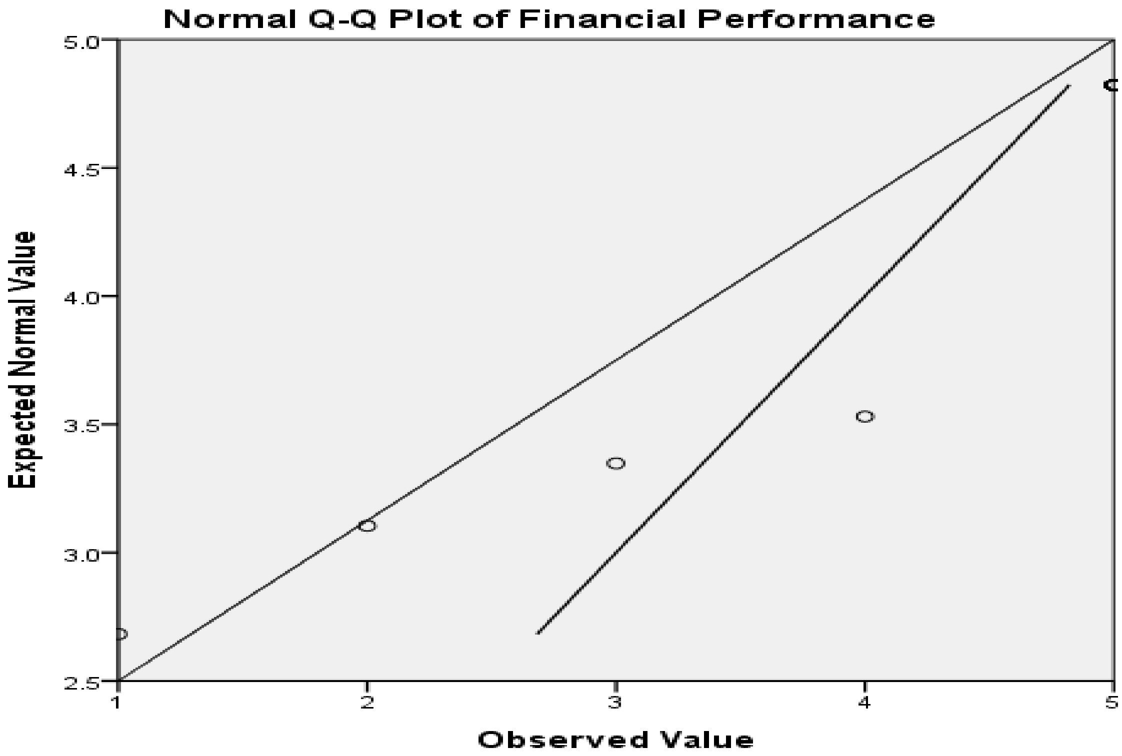

1 * x + 0
Financial Performance
Managerial Performance
1.00
2.00
3.00
4.00
5.00

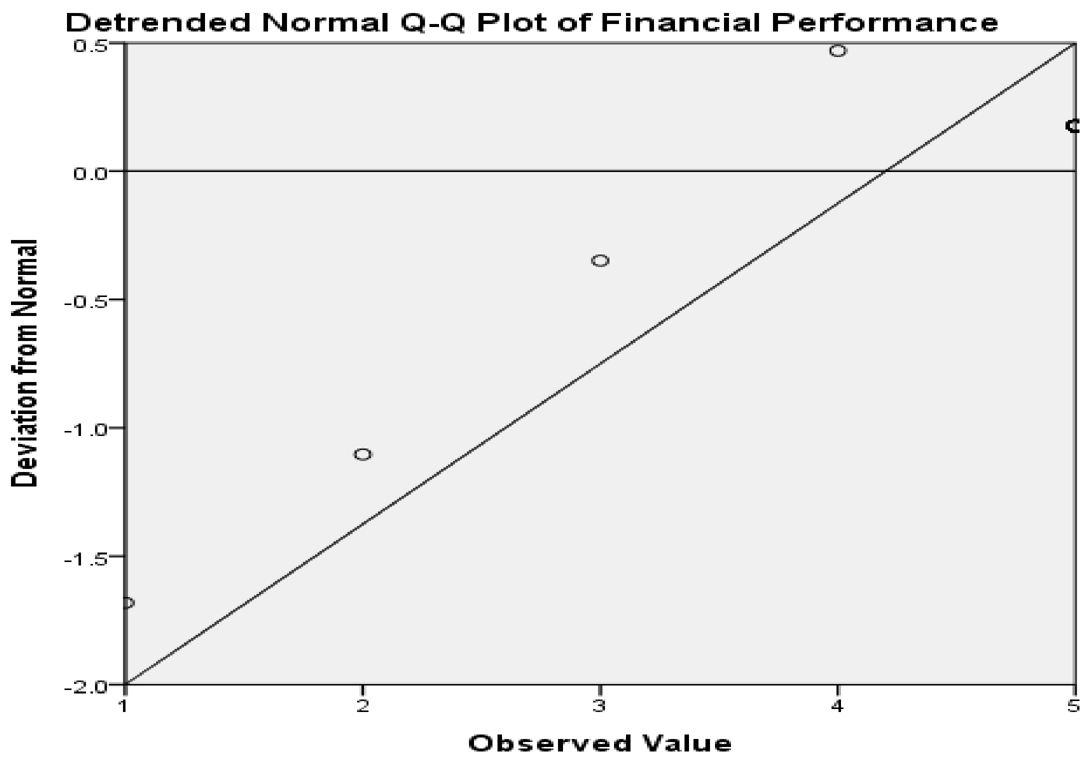
The study established that distribution of the coefficient was a good fit to the standardized fitted scatter plot. The measure of good of fit typically summarized the relationship between observed variables and expected variables.

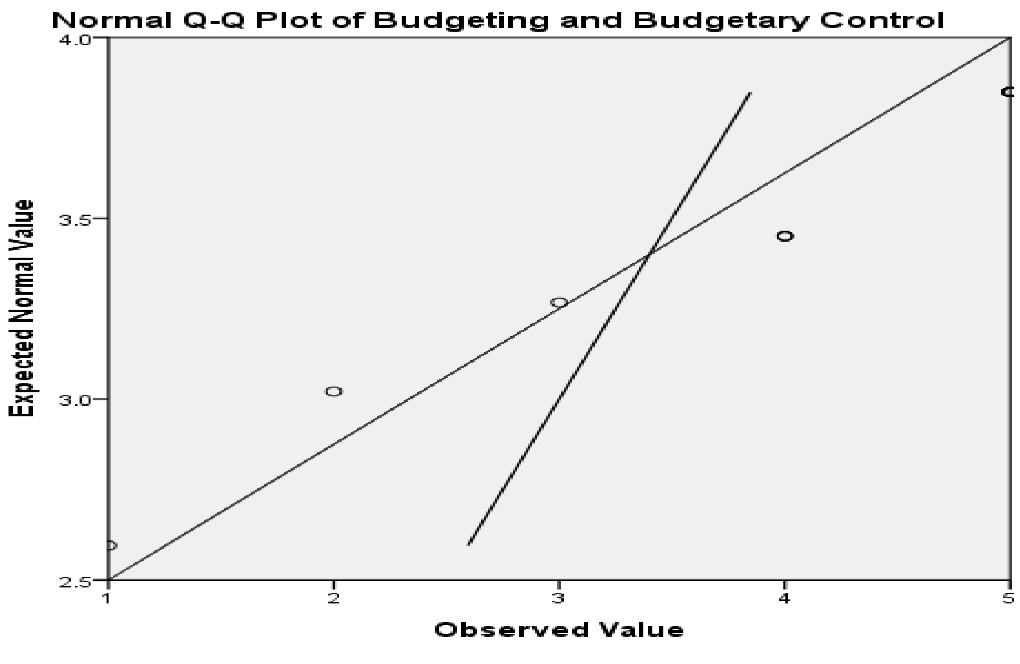
4.5.2 Normality Test

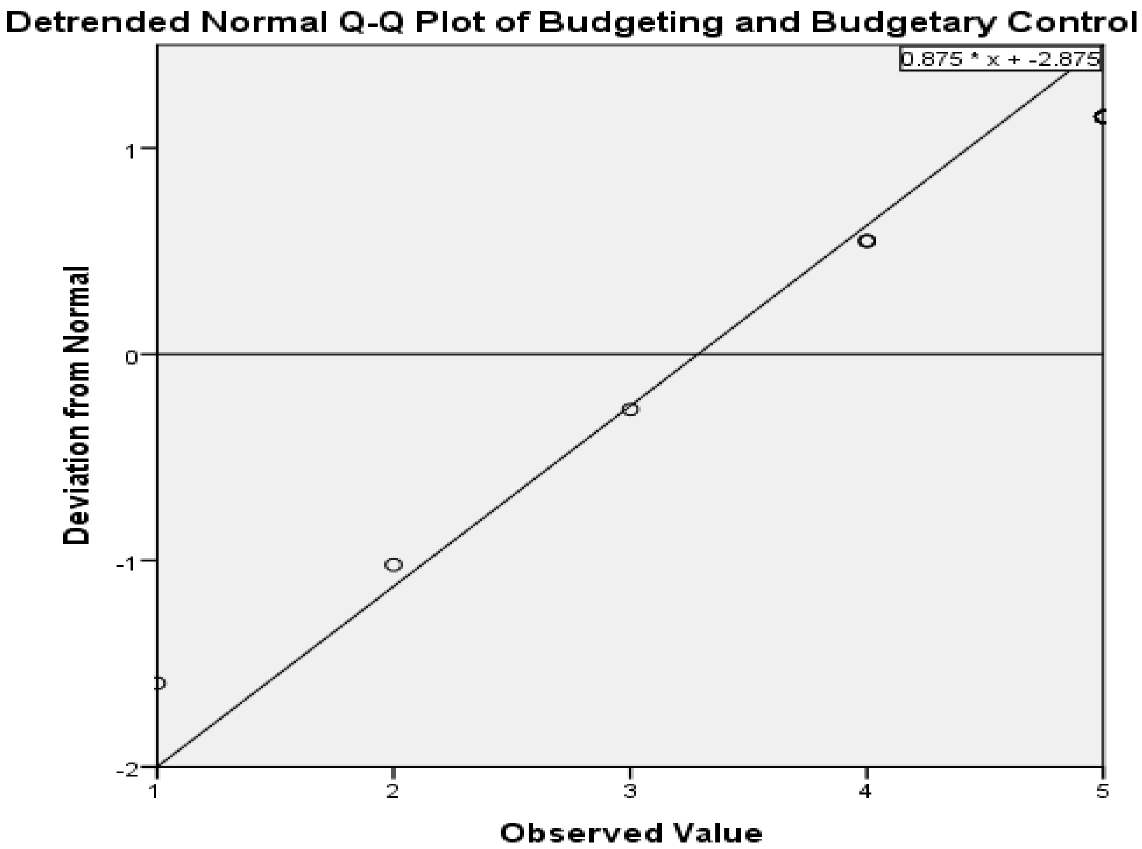
Q-Q Plot

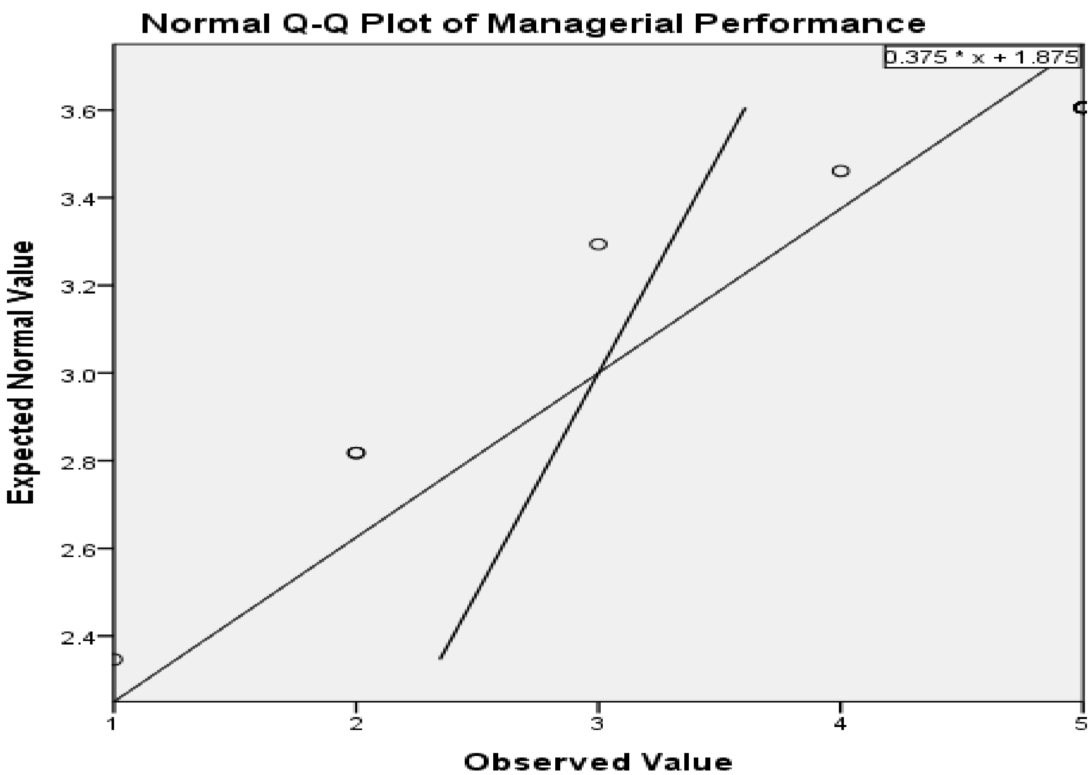
For data to be normally distributed, the observed values should be spread along the straight diagonal line shown in figure below. Since most of the observed values are spread very close to the straight line, there is high likelihood that the data are normally distributed. This finding is confirmed by the Q-Q plot test below.

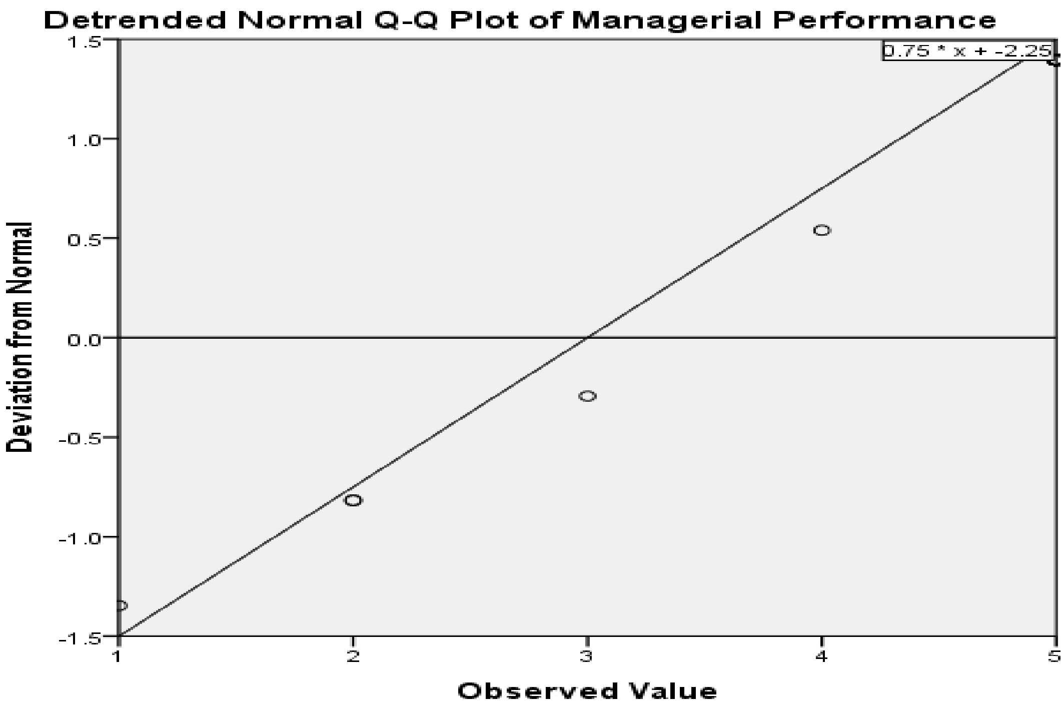



Detrended Normal Q-Q Plot of Financial Performance
Deviation from Normal
0.5
0.0
-0.5
-1.0
-1.5
-2.0
1
2
3
4
5
Observed Value

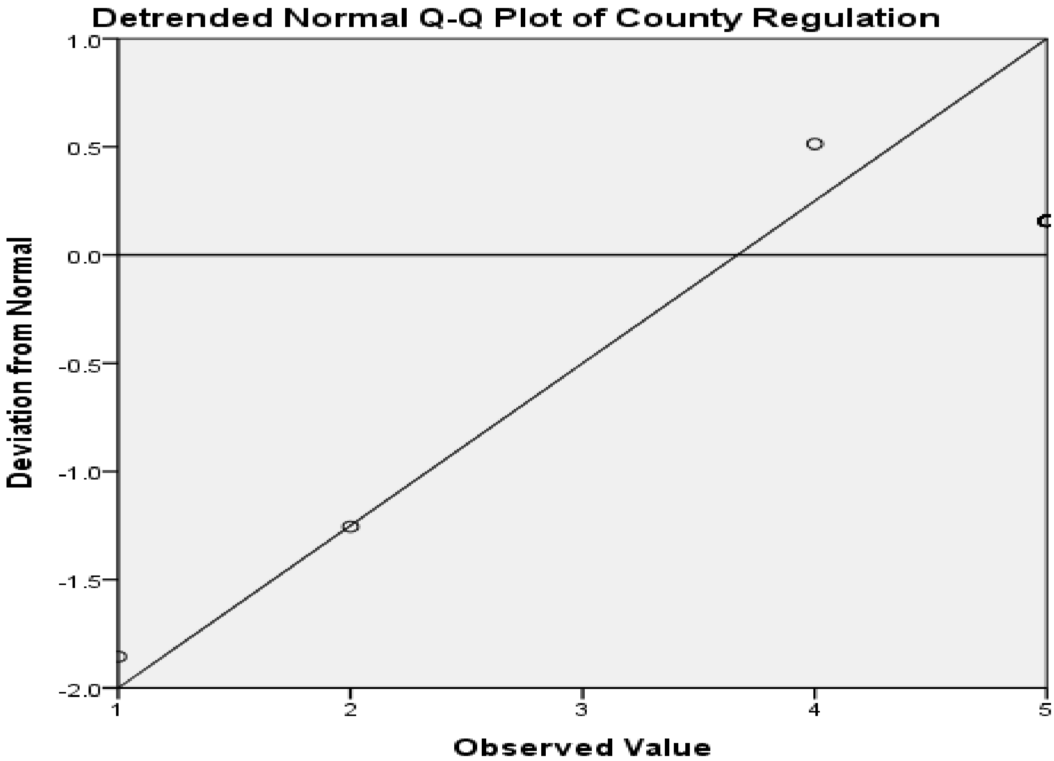

Normal Q-Q Plot of Budgeting and Budgetary Control
Expected Normal Value
4.0
3.5
3.0
2.5
1
2
3
4
5
Observed Value


Detrended Normal Q-Q Plot of Budgeting and Budgetary Control
0.875 * x + -2.875
Deviation from Normal
1
0
-1
-2
1
2
3
4
5
Observed Value


Normal Q-Q Plot of Managerial Performance
0.375 * x + 1.875
Expected Normal Value
3.6
3.4
3.2
3.0
2.8
2.6
2.4
1
2
3
4
5
Observed Value


Detrended Normal Q-Q Plot of Managerial Performance
0.75 * x + -2.25
Deviation from Normal
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
1
2
3
4
5
Observed Value


Normal Q-Q Plot of County Regulation
Expected Normal Value
3.8
3.6
3.4
3.2
3.0
2.8
1
2
3
4
5
Observed Value



The study established that the coefficient distribution followed a standardized distribution by displaying most of the points in the graph along the straight line of fit.. This indicated that the distribution of the coefficient was a good fit to the standardized fitted distribution.

4.5.3 Auto Correlation Test

Auto correlation was computed of a single coefficient called lag-1 Auto correlation coefficient. This Auto correlation coefficient represents the correlationship between the variables at their associated time *t* and those same variables shifted ahead by one unit of time. The Auto correlation coefficient must fall between -1 and +1.

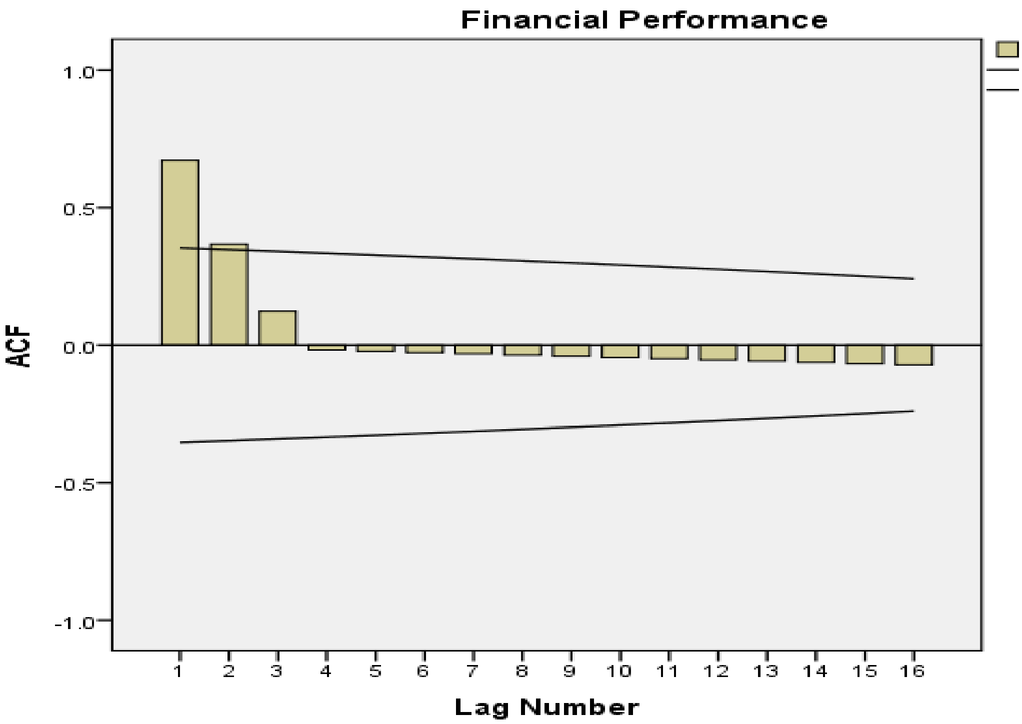
The study establishes the Auto correlation coefficient as shown below

Autocorrelations

Series: Financial Performance

Lag	Autocorrelation	Std. Error[a]	Box-Ljung Statistic Value	df	Sig.[b]
1	.671	.176	14.449	1	.000
2	.366	.173	18.919	2	.000
3	.124	.170	19.452	3	.000
4	-.018	.167	19.464	4	.001
5	-.022	.163	19.482	5	.002
6	-.027	.160	19.511	6	.003
7	-.031	.156	19.551	7	.007
8	-.036	.153	19.606	8	.012
9	-.040	.149	19.679	9	.020
10	-.045	.145	19.774	10	.031
11	-.049	.141	19.895	11	.047
12	-.054	.138	20.048	12	.066
13	-.058	.133	20.238	13	.089
14	-.063	.129	20.474	14	.116
15	-.067	.125	20.763	15	.145
16	-.072	.120	21.118	16	.174

The underlying process assumed is independence.

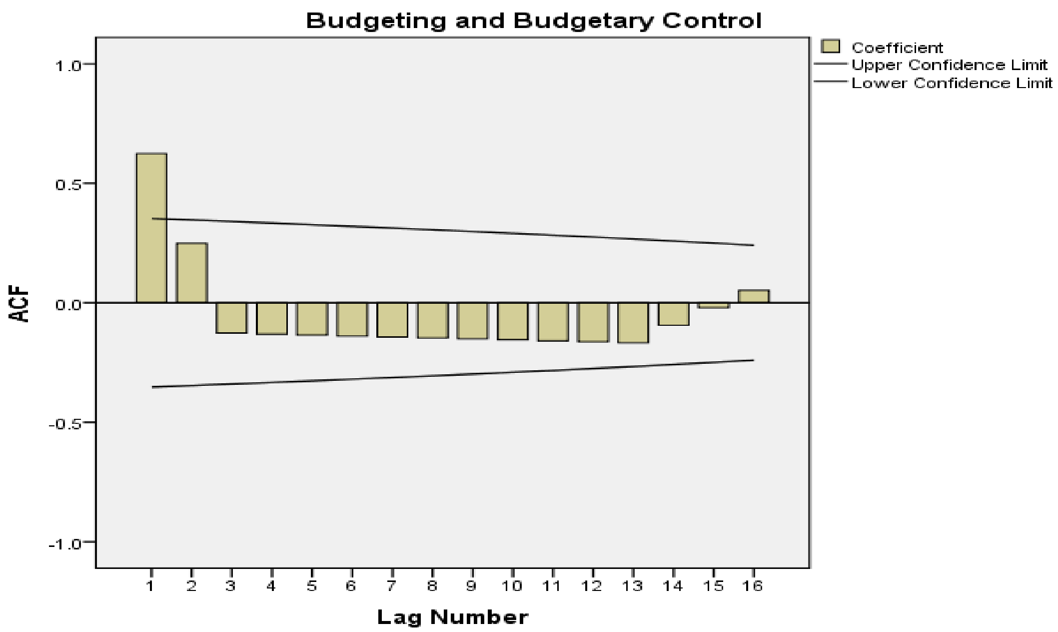


Autocorrelations

Series: Budgeting and Budgetary Control

Lag	Autocorrelation	Std. Error[a]	Box-Ljung Statistic		
			Value	df	Sig.[b]
1	.624	.176	12.511	1	.000
2	.248	.173	14.566	2	.001
3	-.127	.170	15.127	3	.002
4	-.131	.167	15.747	4	.003
5	-.135	.163	16.432	5	.006
6	-.139	.160	17.190	6	.009
7	-.143	.156	18.028	7	.012
8	-.147	.153	18.956	8	.015
9	-.151	.149	19.984	9	.018
10	-.155	.145	21.123	10	.020
11	-.159	.141	22.388	11	.022
12	-.163	.138	23.795	12	.022
13	-.167	.133	25.364	13	.021
14	-.094	.129	25.896	14	.027
15	-.021	.125	25.925	15	.039
16	.052	.120	26.110	16	.053

The underlying process assumed is independence.

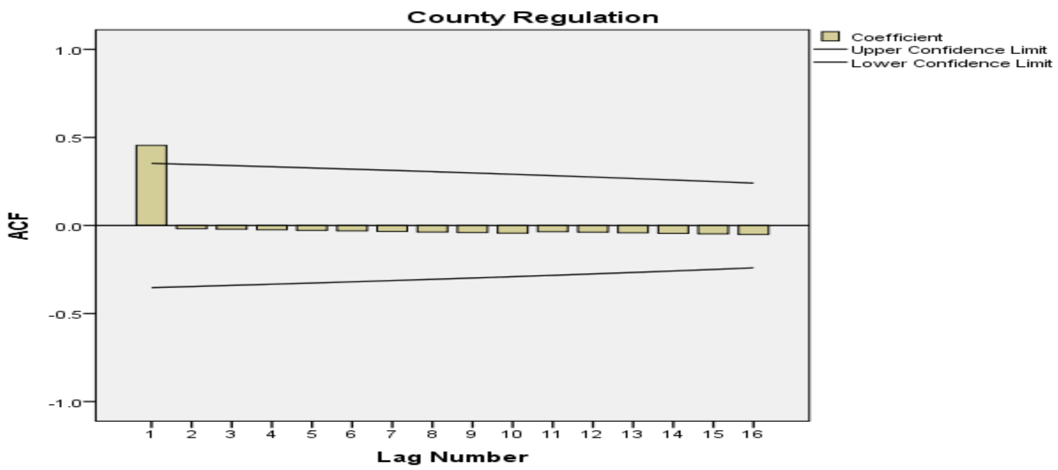


Autocorrelations

Series: County Regulation

Lag	Autocorrelation	Std. Error[a]	Box-Ljung Statistic		
			Value	df	Sig.[b]
1	.455	.176	6.640	1	.010
2	-.018	.173	6.651	2	.036
3	-.021	.170	6.667	3	.083
4	-.024	.167	6.688	4	.153
5	-.028	.163	6.717	5	.243
6	-.031	.160	6.754	6	.344
7	-.034	.156	6.801	7	.450
8	-.037	.153	6.860	8	.552
9	-.040	.149	6.933	9	.644
10	-.044	.145	7.023	10	.723
11	-.035	.141	7.085	11	.792
12	-.038	.138	7.163	12	.847
13	-.042	.133	7.260	13	.888
14	-.045	.129	7.380	14	.919
15	-.048	.125	7.528	15	.941
16	-.051	.120	7.709	16	.957

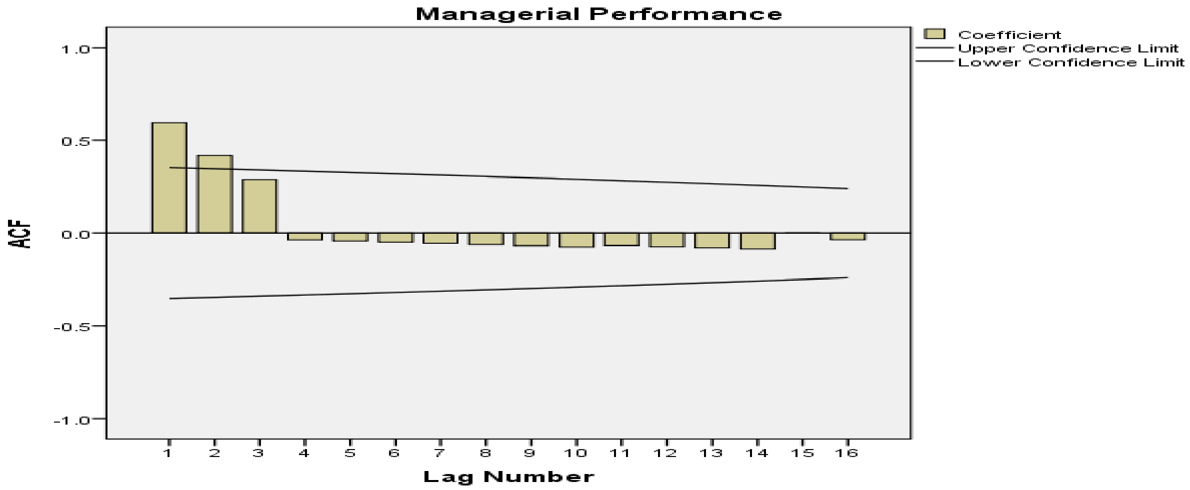
The underlying process assumed is independence.



Series: Managerial Performance

Lag	Autocorrelation	Std. Error[a]	Box-Ljung Statistic Value	df	Sig.[b]
1	.596	.176	11.398	1	.001
2	.419	.173	17.251	2	.000
3	.290	.170	20.149	3	.000
4	-.038	.167	20.201	4	.000
5	-.044	.163	20.272	5	.001
6	-.050	.160	20.370	6	.002
7	-.056	.156	20.497	7	.005
8	-.062	.153	20.662	8	.008
9	-.068	.149	20.870	9	.013
10	-.074	.145	21.130	10	.020
11	-.067	.141	21.351	11	.030
12	-.073	.138	21.631	12	.042
13	-.079	.133	21.979	13	.056
14	-.085	.129	22.410	14	.071
15	.000	.125	22.410	15	.097
16	-.037	.120	22.503	16	.128

The underlying process assumed is independence.



The study established that the variables of fitted model had a strong correlation. The study established that the variables were at significance level and the coefficients were strong at upper boundary, therefore they exist good correlation. Also the study established that the lower boundaries coefficients had weak negative values. Thus the study established that the auto-correlation coefficients were related.

4.5.4 Correlations Analysis

Correlation refers to the strength of a relationship between two variables. It is measured by correlation coefficient which ranges between negative 1 to positive 1.00. Where -1.00 signifies a perfect negative correlation whereas +1.00 signifies a perfect positive correlation.

Table 4.5: Correlations

		Financial Performance	Budgeting and Budgetary Control	County Regulation	Managerial Performance
Financial Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	29			
Budgeting and Budgetary Control	Pearson Correlation	.928**	1		
	Sig. (2-tailed)	.000			
	N	29	29		
County Regulation	Pearson Correlation	.885**	.855**	1	
	Sig. (2-tailed)	.000	.000		
	N	29	29	29	
Managerial Performance	Pearson Correlation	.927**	.789**	.798**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	29	29	29	29

The study established positive association between them at 0.05 significance level. The research findings illustrated strong positive relationship. Thus the variables shows budgeting and budgetary control and financial performance with Pearson correlation of .928**,County regulation and financial performance with Pearson correlation of .885**,Managerial performance and financial performance with Pearson correlation of.927**.The correlation matrix implies that the independent variables: managerial performance, budgeting and budgetary control, county regulation are very crucial determinants of financial performance of county government.

4.5.5 Model Summary

Statistical measure R-squared shows closeness of fitted data to regression line. Generally, a better fit of the model data is reflected by high R-squared (Cameron and Windmeijer, 1997).

Table 4.6: Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.983[a]	.965	.961	.19184

Predictors: (Constant), Managerial Performance, Budgeting and Budgetary Control, County Regulation

Table 4.6 shows the regression model of financial performance of county government coefficient of determination R^2 at 0.965. This coefficient of determination R^2indicated that 96% of the variation on Financial Performance of county government can be explained by the set of independent variables $\mathbf{X_1}$–Budgeting and budgetary control, $\mathbf{X_{2}}$- Managerial performance and $\mathbf{X_3}$– County regulation. An explanation of the remaining 4% variation on financial performance of county government can be given by other factors not in this model. The model has a good fit since the value is above 50%. This concurs with Kothari (2004) that R-squared always ranges from 0 to 100%. The adjusted R square is slightly lower than the R square which implies that the regression model may be over fitted by including too many independent variables. Dropping one independent variable will reduce the R square to the value of the adjusted R square.

4.5.6 ANOVA

According to a statistician Ronald Fisher, a statistical model ANOVA is used in testing significance of all variables and analyzes the variances of group means (Anova, 2002).

Table 4.7: ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	25.632	3	8.544	232.144	.000[b]
Residual	.920	25	.037		
Total	26.552	28			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Managerial Performance, Budgeting and Budgetary Control, County Regulation

The results of regression in table 4.7 shows significance value of 0.000 for F statistics is which is less than 0.05 and F value of (232.144).

4.5.7 Regression Coefficients Results

Table 4.8: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.072	.190		.376	.710
Budgeting and Budgetary Control	.444	.076	.448	5.865	.000
County Regulation	.128	.082	.121	1.551	.133
Managerial Performance	.427	.059	.477	7.267	.000

The results in the table 4.8 above show that managerial performance and county regulation had a significant value less than 0.05 indicting a 95% confidence level. The Budgeting and Budgetary Control had a significance level of 0.000 which is less than

P-value 0.05. This indicates that the results were portrayed at the 95% confidence level.

The regression model of the research was $Y = \alpha + B_1X_1 + B_2X_2 + B_3X_3 + \varepsilon$

Y – Financial performance of county government (development index and compliance with set budget estimates).

X_1- Budgeting and budgetary control

X_2- Managerial Performance

X_3- County regulation

Thus the study established that;

$Y=0.072+0.444X_1+0.128X_2+0.427X_3$

The model indicated that the presence of budgeting and budgetary control, managerial performance and county regulation leads to a gain of 0.072 units in financial performance of county government. Increase in 0.444 units of budgeting and budgetary control, 0.427 units of managerial performance and 0.128 units of county regulations, other factors held constant increases financial performance of county governments.

4.7 Discussion of Research Findings

The research was done to ascertain effects of budgeting and budgetary control on performance of devolved government in Kenya. Similar studies have been carried by various researchers. According to Nickson and Mears (2012) who investigated how budgetary control and financial performance of government institutions related, it was established a positive relationship existed. A further research by Marcarmick and Hardcastle (2013) to investigate budgetary control and corporate financial performance in government entities in regard to parastatals found a strong relationship existed.

In the research, it was established that budgeting and budgetary control integrates budgeting planning and implementations with control and monitoring with a mean of 4.0345, Budgeting and budgetary control helps county government to estimate its revenue and expenditure in the coming financial year with a mean of 4.1724. This study agrees with that of Davidson (2009) budgetary control entails preparing of budgets, recording of actual performance, ascertaining of variance, evaluation of financial outcome and taking corrective action to ensure target financial performance is achieved.

The study established that County appropriation bills passed in a financial year determines county governments performance in that year with a mean of 4.0690, Budget legislation and budget plans are well executed to avoid financial performance challenges year with a mean of 2.9310, County agencies comply with set budget levels while implementing and controlling budgets with a mean of 4.3793, County government performance influences stakeholders voting behavior with a mean of4.6897.

This concur with that of Han (2016) that county governments should adhere to laws made by county assemblies while executing their functions to ensure their citizens attain the intended benefit. County assembly members pass appropriation bills authorizing county executive to withdrawal funds from county revenue funds and approving county budget expenditures.

The study established that County agencies comply with set budget levels while implementing and controlling budgets with a mean of 3.9345, Customers and stakeholders met expectations account to the managerial performance in the county government which in turn contribute to county performance with a mean of 4.3722, County government service missions give county managerial team directions on Quality delivery with a mean of 4.2032. The study is in agreement with Siemiatycki (2016) an effective and performing management helps an organization to increase productivity through identifying high performers and motivating them to work harder. Performing management also ensures all corporate activities and projects are well coordinated towards achieving the set objectives and goals.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the summary of the findings, conclusion and recommendation of the study objectives and the corresponding hypothesis.

5.2 Summary of the Findings

The objective of the research was to determine relationship between budgeting and budgetary control and financial performance of county governments. The study established that budgeting and budgetary control integrates budget planning and implementations with control and monitoring, budgeting and budgetary control helps county government to estimate its revenue and expenditure in the coming financial year, budgeting links county government budget programmes and budget activities to set goals and targets and budget implementation report considers revenue and expenditure performance against set targets.

The study found that county assembly policies assists in monitoring budget spending, county appropriation bills passed in a financial year determines county governments performance in that year and county agencies comply with set budget levels while implementing and controlling budgets.

The study found that budgeting and budgetary control, managerial performance and county regulation variables used in this model were significant predictors of the financial performance at 0.000 which is less than 0.05, thus signifying the overall regression model as significant at the confidence level of 0.05 confidence level.

5.3 Conclusion

The study concluded that county government encounters challenges while implementing their budgets such as non- compliance with budgetary timeliness as per public financial management Act 2012, budget implementation review is done by the office of controller of budgets every three months to examine budget performance, county government budget at planning level considers stakeholders priorities in the coming year and budgeting links county government budget programmes and budget activities to set goals and targets.

The study also established that budgeting and budgetary control helps county government to estimate its revenue and expenditure in the coming financial year, County treasury ensures that county governments budgets estimates tally with bills adopted by the county assembly on the county fiscal policy paper, County government incorporates both development plans and recurrent plans in the budget with, Budgeting links county government budget programmes and budget activities to set goals and targets, County government budget at planning level considers stakeholders priorities in the coming year with, Budget implementation review is done by the office of controller of budgets every three months to examine budget performance, Budget implementation report considers revenue and expenditure performance against set targets with, County government encounters challenges while implementing their budgets such as non-compliance with budgetary timeliness as per public financial management Act 2012.

The study concluded that county appropriation bills passed in a financial year determines county governments performance, budget legislation and budget plans are well executed to avoid financial performance challenges, customers and stakeholders met expectations account to the managerial performance in the county government which in turn contribute to county performance, public service delivery is used by the county governments to measure public satisfaction as a performance indicator and performance of county government is felt by citizens through the perceived impact on community services.

5.4 Recommendations

The study recommended that budget plans should be well executed to avoid financial performance challenges, county assembly appropriation bills should be passed regularly in a financial year to improve county governments' performance and public service delivery should be improved to increase customer satisfaction which in turn shows good county performance.

The study also recommend that there should be compliance with budgetary timeliness as per public financial management Act 2012, the budget implementation review should be done by the office of controller of budgets on monthly basis to examine budget performance and the county government budget at planning level should considers stakeholders priorities.

The study recommended that county budget legislation and budget plans should be well executed to avoid financial performance challenges, customers and stakeholders met expectations account to the managerial performance in the county government which should turn contribute to county performance, and public service delivery should be used by the county governments to measure public satisfaction as a performance indicator and performance of county government is felt by citizens through the perceived impact on community services.

The study further recommended that County assembly policies assists in monitoring budget spending, County appropriation bills passes in a financial year determines county governments performance in that year, Budget legislation and budget plans are well executed to avoid financial performance challenges year, County agencies comply with set budget levels while implementing and controlling budgets.

5.5 Limitations

The target population was 47 county governments in Kenya, this left government ministries and State Corporation. The study was limited to relationship between budgeting and budgetary control and financial performance of county governments.

The study factored in three independent variables that is budgeting and budgetary control on financial performance of county governments, effect of county regulations on financial performance of county governments and effect of managerial performance on financial performance of county governments.

The study was faced with several limitations during data collection. Some respondents didn’t give information due to fear of confidentiality and others refused to provide answers to questions they viewed to be personal.

5.6 Areas for Further Research

The research sought to ascertain relationship between budgeting and budgetary control and financial performance of county governments. The study recommended that budget plans should be well executed to avoid financial performance challenges, county bills should be passed regularly in a financial year to improve county governments' performance and public service delivery should be improved to increase customer satisfaction which in turn shows good county performance.

The study recommended that county appropriation bills should be passed in a financial year to determine county governments performance, budget legislation and budget plans should be well executed to avoid financial performance challenges, customers and stakeholders met expectations account to the managerial performance in the county government which should turn contribute to county performance.

The study recommended a research to be done on financial performance of county governments using different variables to cover the 4% variance of the study. The study recommended another research to be conducted on other sectors so as to examine the relationship between budgeting and budgetary control and financial performance.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 05/10/2017

TO WHOM IT MAY CONCERN

The bearer of this letter ZIPPORAH WAYUA MUTUNGI

Registration No. D61/82468/2015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
05 OCT 2017
P. O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: RESEARCH QUESTIONNAIRE

SECTION A: Budgeting and Budgetary Control

1. Kindly reply to the following statements by ticking where appropriate. Strongly disagree [1] Disagree [2] Not sure [3] Agree [4] Strongly Agree [5].

Budget Control Statements	1	2	3	4	5
1. Budgeting and budgetary control integrates budgeting planning and implementations with control and monitoring					
2. Budgeting and budgetary control helps county government to estimate its revenue and expenditure in the coming financial year					
Budget Planning					
3. County government incorporates both development plans and recurrent plans in the budget					
4. Budgeting links county government budget programmes and budget activities to set goals and targets					
5. County government budget at planning level considers stakeholders priorities in the coming year					
Budget Implementation Statements					
6. Budget implementation review is done by the office of controller of budgets every three months to examine budget performance					
7. Budget implementation report considers revenue and expenditure performance against set targets					
8. County government encounters challenges while implementing their budgets such as non-compliance with budgetary timeliness as per public financial management Act 2012					
Budget Monitoring and Evaluation Statements					
9. Citizens and civil society organizations monitors					

county government implementation of budgets by analyzing published reports as an oversight role as per public financial management Act 2012					
10. County government require regular checks and assessment function for efficient projects implementation					
11. Strict budget monitoring by county government ensures revenue and expenditure are constantly kept at check so that appropriate action is taken in case of significant variance projection occur					

SECTION B: County Regulation

County Assembly Legislation

Kindly rank the following statements that relate to the county government performance due to county assembly legislations. Strongly disagree [1] Disagree [2] Not sure [3] Agree [4] Strongly Agree [5]. Tick where appropriate

Statement	1	2	3	4	5
1. County assembly policies assists in monitoring budget spending					
2. County Appropriation bills passed in a financial year determines county governments performance in that year					
3. Budget legislation and budget plans are well executed to avoid financial performance challenges					

Involvement of Stakeholders

Kindly rank the following statements that relate to the county government performance due to involvement of stakeholders in county government activities and budgeting. Strongly disagree [1] Disagree [2] Not sure [3] Agree [4] Strongly Agree [5]. Tick where appropriate

Statements	1	2	3	4	5
1. Performance of county government is felt by citizens through the perceived impact on community services					
2. County government performance influences stakeholders voting behaviour					
3. Public service delivery is used by the county governments to measure public satisfaction as a performance indicator.					

National Treasury Release of Funds

Kindly rank the following statement by ticking where appropriate. Strongly Agree [1] Agree [2] Not sure [3] Disagree [4] Strongly Disagree [5].

Disbursement of funds to county government by national treasury is done in accordance with?

Statements	1	2	3	4	5
1. Schedule prepared by National treasury					
2. Consultation with the intergovernmental budget and Economic councils					
3. Approved published gazette and not later than 30th may every year					

SECTION C: Managerial Performance

Please respond to the following statements by indicating the extent to which you agree or disagree with activities. Strongly disagree [1] Disagree [2] Not sure [3] Agree [4] Strongly Agree [5]. Tick where appropriate

Managerial Performance Statements	1	2	3	4	5
1. County agencies comply with set budget levels while implementing and controlling budgets.					
2. Customers and stakeholders met expectations account to the managerial performance in the county government which in turn contribute to county performance					
3. County government service missions give county managerial team directions on Quality delivery					

APPENDIX III: DATA CAPTURING FORM: FINANCIAL PERFORMANCE

NAME OF THE COUNTY :………………………………………………………….

Variables	Indicators	Measure	2013/2014	2014/2015	2015/2016	2016/2017
Financial Performance	Development Index	Development Index $= \frac{\text{Development Expenditure}}{\text{Recurrent Expenditure}}$				
	Compliance with set budget level	Compliance with set budget level $= \frac{\text{Actual expenditure}}{\text{Total approved budget estimates}}$ x 100				

APPENDIX IV: LIST OF COUNTY GOVERNMENTS

1. Mombasa County
2. Kwale County
3. Kilifi County
4. Tana River County
5. Lamu County
6. TaitaTaveta County
7. Garissa County
8. Wajir County
9. Mandera County
10. Marsabit County
11. Isiolo County
12. Meru County
13. TharakaNithi County
14. Embu County
15. Kitui County
16. Machakos County
17. Makueni County
18. Nyandarua County
19. Nyeri County
20. Kirinyaga County
21. Muranga County
22. Kiambu County
23. Turkana County
24. West Pokot County
25. Samburu Coutny
26. Trans Nzoia County
27. UasinGishu County
28. Elgeyo Marakwet County
29. Nandi County
30. Baringo County
31. Laikipia County
32. Nakuru County
33. Narok County
34. Kijiado County
35. Kericho County
36. Bomet County
37. Kakamega County
38. Vihiga County
39. Bungoma County
40. Busia Count
41. Siaya County
42. Kisumu County
43. Homa Bay County
44. Migori County
45. Kisii County
46. Nyamira County
47. Nairobi County