THE EFFECT OF BUDGET UTILIZATION ON THE PERFORMANCE OF COUNTY GOVERNMENTS: A CASE STUDY OF EASTERN KENYA REGION

BY

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DECLARATION

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

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This research project has been submitted for examination with our approval as the University Supervisors.

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DEDICATION

I dedicate with a great deal of love, this work to my beloved family especially my: Dad, Moses K. Kisumba, & Mum, Mary N. Kathungu as well as my beloved siblings: Irene, Enoch, Grace and Esther Kathungu for the financial, moral, spiritual and continued support they have rendered to me towards my education.May God richly bless them.

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ABSTRACT

Budget utilisation defines the means by which all planned activities will be delivered and responsiveness in the activities will create the outcome for reporting by the end of the implementation period. This study sought to investigate the effect of budget utilization on the financial performance of county governments in Kenya. The study targeted the county staff involved in the budgeting and revenue collections estimated at 700 in Kenya with a 10% for the study. The study used a structured questionnaire for the collection of data and too included secondary data of approved audit reports from the Office of the Auditor General covering a period of 2013 to 2015. The study used descriptive statistics to analyse the collected data and regressed data on Statistical Package for Social Sciences to illustrate the variable outcomes in the adopted regression model for analysis. The results were presented in form of tables and explained clearly on the impact existence in the variables. The study came up with the conclusion that in joint budget utilization including the Budgeted County Expenditure to the Budgeted County Revenues, Actual County Expenditures to Actual County Revenues and County Resources to the County Poverty Index has a positive influence on the financial performance of the counties. The study recommends properly structured budget composition including experts to provide insights on the proper budgeting inclusions and consultations with periodic update of the county capital structure and how to maximize well the input of donations and grants advanced.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Devolution has been a global practise for decentralisation of resources from the central government to other devolved units or federal units depending on the particular institution. Los Angeles County within the State of California in the US has a composition of 88 cities which receive funding from the federal government however, with huge film industry return contribution constitute as its incomes (Burugu, 2010). Countries vary with kind of administrative systems with others largely practicing federal systems and others central systems of governance. The latter unitary system for long time never proved successful (Mitullah & Owiti, 2007).

The unequal distribution of natural resources has largely contributed to poor governance systems and failed systems (Linda, 1990). In Kenya, post-independence, the country tried the devolved systems with lack or resources and political inclusion, never succeeded (Kipkorir, 2008). Counties established under the Constitution of Kenya, 2010 are sub-structural government institutions that are devolved for the service to the public. This forms Kenya with national government and County Government with former undertaking policy while latter addressing non-policy public service matters to the public. Over time, the budgeting has been in instrumental for the operationalization of the Counties. Proper budgetary systems, prioritisation in development projects and adequate funding have been key advocacy items by relevant parties.

Fund utilization, project output, demographic pressures reduction and overall emerging developmental agenda successes pose as indicators of performance by particular counties. Proper elected leadership and institutional structuring provides ample endeavour into continuity in service delivery. The Kenyan budget system is annual with a period of 1st July of one year to 31st June of the other year. In this case, the National Government does the Ministerial Expenditure Review as the Auditor General conducts overall National Government and County Government expenditures for ineligibles and accountabilities.

1.1.1 Budget Utilisation

A budget is a summary of items with set estimations of expenditures for a specified period of time (Mitchell, 2005). County Governments place budgets on the revenue collections inclusive of not exceeding 5% deficit financing from other external partners. The budget utilization in Kenya is of no limited to challenges as most of the budgeted funds are not utilised and so returned to the National treasury of and the constraints by the legal frameworks makes the procurement processes slow thus exceeding the set time limits for managing the budget timelines set. The expenditure inclusion is subject to the medium term expenditure framework (MTEFs) that provide a compatibility of National plans and policies into public expenditure projects within a certain coherent medium term macroeconomic and fiscal set frameworks. World Bank Report (2008) notes the set budgets require progressive consultations for properly made decisions and inclusion of necessary budget items. The multiple of costing and impropriety observed in the budgeting implementation provides poor outcomes and none use of funds set aside for expenditures.

Approved budgets take one financial year i.e. 1st July to 31st June of the duo running years within twelve month duration. The appropriations are done in such manner to balance all requirements within the economic for proper services delivery. The review by the Parliamentary Finance Committees and National Treasury fiscal teams who work in tandem for delivery of the reallocations if some sectors need more finances for use is essential for success of any approved budgets. The allocated appropriations are adhered to carefully as any misappropriations that may arise will impose some indirect sanctions by ensuring the call for accountability is inclusive.

The Auditor General is tasked constitutionally for audits and overseeing the impropriation and misuse of funds in the Republic and recommend for the recovery of the same (where applicable). The office is mandated to conduct continuous audits for all expenditures in the public sector both national and county governments and provide a report annually for the public. The relevant institutions are required to offer discrepancy in the financial statements and too have them practice the financial prudence in management of public funds. This includes too, the resource utilization as some budget lines have financial inclusion in form of converted resources to capital.

In the budget process, the public participation and social economic groups inclusion is unavoidable as the Constitution of Kenya provides so and mandatorily to be a practice for national and County Governments to comply to. This increases awareness and improves good government and private and public relationships. Further, it creates more awareness and understanding on the usability or key priorities considered by the relevant arms of the Government (s). The extra inclusion of social working groups provides more external insights into the process of budgeting and overseeing the utilisation while ensuring the key sectorial areas are covered for funding to boost growth or facilitate global indicators. This also provides support for getting the deficit financing through the aid support or donor funding to some sectors like health and education however, the utilization is checked more keenly than the internal Government checks and audits as it can be stopped at any period of detection of impropriate in the funds usage.

Though, approvals are mainly done by the respective arms of the government through series of mutual engagements, the office of the Controller of Budgets monitors the budgets both in Government and counties to ensure there is limited over appropriations without considering necessary equity. The office is constitutionally created to provide budgetary oversight and control in the deficit financing or external funding and loan seeking by the relevant arms of Government. In playing to the utilisation, the office is critical in bench making the unutilised funds and the utilised funds with the amount that may be needed for facilitation.

Budget utilisation in Kenya has never had systematic progress as bureaucratic procedures are involved and slows the utilisation with much set for utilisation is refunded to the National Treasury for next period of year funding. This slows the growth and implementation of projects and facilitates more impropriations by governments that may need to spend without following the relevant stages set in the law. This is common with the procurement of itemized contents for project implementation in the budget. It too creates loopholes for reallocations that may not have been due to excessive utilisation in one budget line than the other.

1.1.2 Financial Performance of County Governments

County Government financial performance is the reflective monetary output of the expenditure incurrence or commitment in various sectorial considerations set by the area County Governments subject to the National Government policies and other relational content inclusion in the respective national targets or vision items (Rotich & Ngahu, 2015). The increased of reduced County progress can be observed from different perspectives of measureable items equated into ratios for comprehensive comprehension. The County Government (CG) financial performance can be measured with visible indicators such as the human capital development, the foreign direct investments, infrastructural increment, the audit queries from the Auditor General and levels of monitoring and evaluation reports with the comparison of Cost benefit Analysis of implemented projects (Mwikali & Lucy, 2016). Increase in recurrent expenditures may signify a County Government with more commitments to meet than the positively attained targets that may need less cost incurrence. Improved infrastructural development in County with immediate or expected reflective significance may provide a financial prudence sound. However, the increase in more business expansions and licence applications may prove a sustainable and fair climate for enterprise management and investor welcoming County areas, it is an attribute of financial increase vis-à-vis performance (Mwikali & Lucy, 2016).

1.1.3 The Effect of Budget Utilisation on Financial Performance

Budget utilisation affects the financial performance of the County Governments. The success of latter is dependent on the allocations set in the former and how the former allocations are put to execution in the latter. The capital availability in the counties and revenues collections per a given period of time provides support to management of the estimation expenditures in the budgets (Lubale, 2012). The proportionality of the budget contributions and budget expected outputs will showcase the performance of the counties and on how the contributory budgets comprehensively impact the performance itself. The study will anchor proportionality of County Amount Budgeted against the total revenue; County Revenues against Actual Capital Expenditures and County Expenditures against the Poverty Index/ratings to analyse the relationship existence in the two variables.

1.1.4 County Governments in Eastern Kenya Region

County Governments were conceptualized as political governance units for devolved areas and to serve key decentralised mandates that were initially held by the national government-mainly into the policy formulation and implementation. Kenya has forty seven (47) County Governments founded per Article 6 (1) and listed in the First Schedule of the Constitution of Kenya, 2010. The County Governments are headed by elected County Governors and have established County Assemblies which constitute membership of Member of County Assemblies (MCA) for County Legislations (Constitution of Kenya, 2010). All County Governments are subject to receipt of National Government annual proportion tranche releases from the Treasury and broadly are monitored by the Controller of the Budget and all their finances expenditures audited by the Auditor General. County Governments hold consolidated accounts with the Central Bank of Kenya for tranche releases from The National Treasury. However, each County has entitled for subsequent bank accounts in other commercial banks or financial institutions. Annually, the County Governments are subjected to 15% of the National Revenues' share from the National Government of which the balance is to be covered by the County Governments either through levies, infrastructural agreements and partnerships (Constitution of Kenya, 2010).

1.2 Research Problem

Budget is a vital expenditure and planning tool for any institution. The budget line utilizations provide a lead on the target and expected output's evaluation. Effective application of budgeting methodologies and execution of the same has been attributed to bear positive impact on the listed budget lines. In this case, the expected performance of finance management and improvement of the development through anchoring enterprises establishments does play critical role in utilisation of set resources and paying back with high margin of benefits.

Given counties like other local administrative zones collect levies that with relevant tax system may have an enterprise pay tax in some point, the levies are billed upfront and do not match the size and category of business making it bias system (Misc et al., 2011). The collections of revenues facilitate budget gaps and with addition onto the financing of major budget lines as structured before execution. Spiro (2005) notes that over 40% of the American were not tax compliant as they offered their enterprises in the informal sector. The poor tax collections and revenue misappropriation contributes to budget deficit and financial mismanagement in institutions both public and private. The public officials are noted to be effective than private collectors when appointed as revenue collectors (Franzen, 2007). Without proper professionalism and capacity towards the collection of revenues adds into the series of inefficiencies that cause the utilisation of budgets to be more complex and not possible for implementation or otherwise creates constraints in accessibility of the resources required for the implementations.

Kenya with series of budgetary systems observed both in national and county governments have for long periods adopted same implementation format otherwise slow pace of service delivery creating a lag in itemized projects and the expected outputs. This has contributed to slow growth in deliverables and too increased the awaiting expectations by the demography. The proper budgeting with poorly structured tax system otherwise viewed as biased in some context of business and enterprise taxation provide inclusion to huge budget deficits leading to external borrowing or dependence on the Foreign Direct Investments. This has led to high levels of debt magnitudes created by the national government that ought to ensure compliance towards tax returns submissions for budgetary financing. A country with over 15 Million manpower and effective tax system will have good tax collections returns annually however this is the opposite of Kenya with increasing cases of evasions or avoidance.

Kenya has faced challenges in budgeting since independence with lack of fully service delivery to the citizens toping while most of the allocated funds end not utilised. Sach (2008) notes success of budgets in US, New Zealand, Canada, Australia, Singapore, Sweden and Norway with African countries showing success such as Rwanda, Mauritius, and South Africa however, not to the exemption of failed budgets like in Sri Lanka. Locally, studies have been conducted to expound on the budget utilization impact it has on the county performance. Rotich & Ngahu (2015) conducted a research focusing on factors influencing budget utilization Kericho county government in Kenya. The high refund of cash to the National Treasury signifies poorly managed budgets or not prioritised budget lines with less observation of the timelines thus creating room for slow economic and County Government performances and County progress. With little literature on the devolution's set budgets, therefore, this will call for the study to answer the research question: what is effect of budget utilization on the financial performance of county governments in Kenya?

1.3 Research Objective

To determine the effect of budget utilization on the financial performance of county governments in Eastern Kenya Region.

1.4 Value of the Study

The study outcome is crucial in providing technical support to County Governments in realizing the significance of properly managed budgets and evaluating the outputs of the budget lines itemized. Further, it will be of great help to the County Governments in providing reallocations annually to avoid ineligibility expenditures and to ensure effective utilisation of the available funds to meet the many demands. It will also create more lead avenues on how to source new financial support than dependence on the national government ratio tranche and county government collections as revenues.

The study will be of great significance to the National Government (NG) responsible for National Treasury (NT) releases and over State budgeting inclusive of the oversight in the usage. The outcomes of the study will play part in providing insights into monitoring the budgetary expenditures versus the source of the budget deficit finances to enable progressive sustain commenced projects to conclusion.

The study too will be of great values to the Senate House of the Republic of Kenya in understanding the utilisation, considered budgets lines as it is the legislative arm responsible for County Governments (CG) monitoring. This will further provide support in understanding the public finances legislations and any amendments brought upon it on how the particular budgetary systems affects the performance of the county governments. The County Assemblies will too benefit from the study as they will be directly concerned on the need for content inclusion during the passing of finance related bills and understanding the budgeting concept.

The study will support policy makers in the national government and related institutions by stakeholders. It will largely constitute outcome considerations on the budgetary usability in Counties and how it directly influences the performances and how the set policies will conflict or be compatible with the prioritised budget lines by the County Finance Bills passed annually.

Subsequently, the study will be of great institutional significance to financial players who might be interested in providing credit support of financial boost in form of development and infrastructural programmes to the County Governments. It will largely offer the not allowed and foreseeable investable areas of focus for fair returns or and demographic changes out of the projects commenced in the respective areas.

Finally, the study will be of great support to the scholarly world as it will provide insights, recommendations and areas for further research. Further, the outcomes of the research will be scholarly references and also shall be motivational boost to endeavour in more studies in the same area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explains the literature studies and theoretical concepts relevant to this study including the budgeting and financial management in the Counties.

2.2 Theoretical Review

The study reviews optimal taxation, stewardship and agency theories discussed in the same order as they are relevant to the study text where the county governments place dependence on revenues and national government for progression and service delivery.

2.2.1 Optimal Taxation Theory

Taxation has been noted to impose extra costs on the purchasing power of consumers. This theory explains the mode of cost minimization largely attributed by the efficiency costs of not well defined taxation system of a place or country. Fowler (2002) notes that the evasion of taxes plays critical analyses as compared to costs that are direct or administrative in nature. The tax evasion content provides more insights on the way the tax design is and does give limelight to the administration of taxes (Ghura, 2006). The kind of tax system is intended to maximize the relevant social welfare or utility function subject to a given set of restrictions. The satisfaction of persons in a given society provides the contents for the social welfare function. Graham (2000) notes the nonlinearity does allow social planners to conduct analyses. It is assumed of equal preferences by the society in revenue collection through taxation. It is critical to employ a properly structured tax system that will enable the maximization of consumers' preference (Hazel, 2005).

2.2.2 Agency Theory

This theory describes the contractual existence between the owners or shareholders and managers. It was formulated in 1932 by Berle and Means. The theory captures the conflict existence that gives rise to agency costs. It is geared to reducing the information asymmetry that is largely contributed to organizational failures. The main objective of the theory is the agents to maximize the welfare that the principals or owners may have. Various models formulated to explain the concept, indicate that there is a significant progression conflict existence in the management of firms and organizations (Khalil & Lawaree, 2006). The National Treasury (Principal) with other relevant Ministries in the National Government does provide control of expenditures and project implementation in the national cadre. The County Governments (Agents) play key roles (devolved) in delivering to national mandates through relevant prioritised itemized budgetary lines onto the public. The National Treasury in providing budgets estimates, it covers the necessary projects under implementation and forecasted plans in the Strategic Plans of various ministries.

It is in the knowledge of National Treasury, the county governments to too play critical roles in achieving same targets. The county governments are provided with necessary substantial tranches to meet the equivalent output expected by the national government through its National Treasury and Devolution Ministry evaluation reports. The public and civic societies participation in the budget process is essential in particular the developing countries as it offers the extra insights into development process and legislation inclusion (Krafchik, 2003). This helps in curbing information asymmetry that maybe observed during the process to include non-essential items or budgetary appropriations in the plans. The choice-agent model is influenced by the participation of the public and social welfare groups or expertise collective inclusion in the process (Dirk-Jan Kraan, 2007).

2.2.3 Stewardship Theory

Donaldson & Davis (1989 & 1991) observes in examination of the executives as the stewards for the principals, they are motivated to provide services according to the interests of the principals. They further note that the market related reform concept existing in the public service and stewardship have contributed to the restructuring the public service. The particular reforms have had the positivity in itself in the public service however, have not had the compound exposure upon which the market model they are founded on. This theory is significant in addressing efficiency and the stability of governance and too exceeds beyond the self-interests. It is a link model of the market model applicability and its applicability is progressive in nature. In difficulty market systems and inefficiencies, stewards cross the gap with managing the conflict in existence (Armstrong & Associates, 1997). This is very relevant in the county government operationalization whereby there is doubling of service administration with County Governments in place and the county legislative ensuring their deliverables like the National Government are met by the County administration in this case the Governments headed by the governor.

2.3 Empirical Review

This section outlines the international studies and locally conducted studies about the budget utilisation and the financial performance of the County Governments.

2.3.1 International Evidence

Budget process is motivated on appropriation by the levels of revenues collected for use. Baurer (2005) in a World Bank Study about the administration of taxes and small and medium enterprises in the developing countries notes that the corrupt staff may add onto the high information asymmetry and sources of poor relations with the relevant enterprise communities. In addition, there is lack of goodwill to establish a self-assessment and a model to compliance of the relevant laws. Subsequently, the lack of specialization in the tax department administration it has proven with difficulty to ensure comprehensive filing of the returns from the public enterprises. He concludes noting that, a fairly tax compliant institution does encourage taxpayers' responsiveness and limits evaders of the same benefiting mutually the small and medium enterprises and collecting authorities.

Pashev (2005) in a study *Corruption and tax compliance: challenges to tax policy and administration* conducted in Bulgaria, it found out that there is a negative correlation between the amount of wage and the magnitude of corruption. In addition, there is lack of proper interpretation of the government rules and regulations, offer an ample room for the officials to engage in fraudulent activities and illegal fees collections. This is commonly observed with poorly structured tax system. It may include the double taxation and informal enterprises may not be subject to these hefty taxations levies. It further found out there is a significant ability in curbing the taxpayer motivated corruption.

In a study on *"The Politics of Taxation and Implications for Accountability in Ghana 1981-2008* by Prichard, (2008) covering a 27 year period in Ghana's tax administration and collections, it found out a significant evidence of taxation requiring great accountability and that the relationship has periodically evolved depending on the time and tax categories or types with the context of them. It further, observes that in Ghana, the local tax officials have for most times discouraged the local enterprises to pay for the local administration than National Government. This indicates low levels of tax collections and massive deficit gaps in the national budget.

In a World Bank Policy working paper series study paper about subnational taxation in developing counties with focus on the developing countries over a period of ten years using published tax and revenue data by the relevant institutions, the study found out that inadequacy experienced by revenue or tax collections pushes high the low levels of revenues contributed to the exchequer (Bird, 2010) whereby it employed secondary method of data collection, covering time series data for the analysis.

In a review study by Kayaga, (2010) on *Tax Policy Challenges Facing the Developing Countries* with focus on Uganda which employed secondary data with use of time series data in a ten year period for analysis, it found out that, there was need for the Government to check on the tax reforms to increase equity and service provision to the population while ensuring improvement to the small and medium enterprises. Further, this provides non-capacity encouragement to adhere to the relevant ethical laws as most of the staff recruited embraces the vices thus providing the Government agencies with low tax inputs. There is need to have enough tax collectors to avoid tax evasion and budgetary deficits. Subsequently, the low levels of enough knowledge about the taxation laws and concepts have been a key contributor to high financial restrictions experienced by major Governments (Kayaga, 2010).

In a Fjeldstad and Haggstad, (2012) study about *Local government revenue mobilisation in Anglophone Africa* in 2012, 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.

2.3.2 Local Evidence

Chiumya (2006) observed in a study *Counteracting Tax Evasion in Malawi: An Analysis of the Methods and a Quest for Improvement* conducted in Malawi over a decade of tax collection period, that the illegal tax practices have contributed to poor turnovers over a period of time. The study had obtained secondary data from time series data collected in the period of ten years by the Malawi Revenue Authority and analysed capturing the objectives of the study about evasion of taxes and mode of tax collections.

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 low tax collections or losses. The researcher had employed descriptive research design and used the questionnaire to collect data according to the stud objectives.

In Mwikali & Lucy (2016) study focusing on the factors influencing the employee performance of county governments in Kenya with case study in the Mombasa County, the researcher employed descriptive survey research design and collected data through filled questionnaires with inferential and descriptive data analysis through the Statistical Package for Social Sciences, it found out that employee training had a significant influence to the performance of county governments while the employee motivation and resource or funds availability showed limited influence on the same.

2.4 Determinants of Financial Performance of County Governments in Kenya

The study discusses some of the determinants of financial performance of County Governments in Kenya and their relevance inclusion to the budget utilisation.

2.4.1 Audit Outcomes

All expenditures incurred as set in the budgets have to be accounted for. Relevant institutional bodies in the Government are mandated to check the expenses incurred by the National and county Governments. The Office of the Auditor General plays a key role in managing the auditing of all accounts in the republic. In addition, own County employees with specialization in auditing provide the technical assistance (Mwikali & Lucy, 2016). Auditing plays wide to include accounts and other matters that have financial inclusion. This is largely to include environment, staff capacity, asset capacity, licensing issuance among others. Increased audit queries with ineligibility inclusion does signify poor financial performance attributed with mismanagement of finances in the counties as opposite is true. The positive audit outcomes imply constructive financial prudence and enabling in more proper financial management systems. The financial reports prepared by the Counties are subjects for investigations whereby sighted gaps and loopholes are relevant for questioning.

2.4.2 Income Generating Activities

Income Generating Activities (IGAs) are common indicators of fund availability with positive utilization for the benefit of the government and the public. As Mwikali & Lucy (2016) note that the availability of funds does influence the performance of the county governments as they are motivated to better service delivery unlike the limited funds existence. Most citizens are empowered to run sustainable activities when facilitated by the governments and the success of the same implies properly monitored financial usability. It is occasioned by the government start of activities that too lead to income sharing by the public such as establishment of domestic factories and ready market will cut across in aiding income circulation from the earnings of the activities.

This too explains the availability of natural resources in various counties that are converted into monetary estimations. However, with the relevant laws existence, the counties are not bound to benefit from these resources immediately as the resident benefits are much delayed thus causing lagged investment returns. In addition, resource availability has anchored the Foreign Direct Investments (FDIs) by Multinational Companies (MNCs) who are deeply interested in the capitalization of the endowed resource power. The direction of influence is facilitated by the resource endowment and magnitude of the capital investments to capitalize the resources and the sustainable stakeholder relationship to facilitated resource utilization.

2.4.3 Public Service Utility

Government service provision is very essential in all cadres and in particular the sensitive areas such as security, education and health among others. The public satisfaction of properly delivered services signifies prudence of proper managed resources and finances thereto. In Counties, the roles as guided by the Constitution of Kenya and their establishments under the County Government Act 2012, they are liable for most of the non-policy service provision to the public. Prudence in financial management as guided by the Public Finance Management Act 2012 and infrastructural improvements guided by the Urban Areas and Cities Act 2012 all under the watchful of both national and county governments; do offer lead to utilities of the public services provided. The behaviourial nature of the county governments towards public utility in service provision is dependent on the prudence employed in financial management and resource utilization. It is visible in donor funding and tranche releases from national governments in particular areas that were underdeveloped for a very long time since independence.

2.4.4 Infrastructural Growth

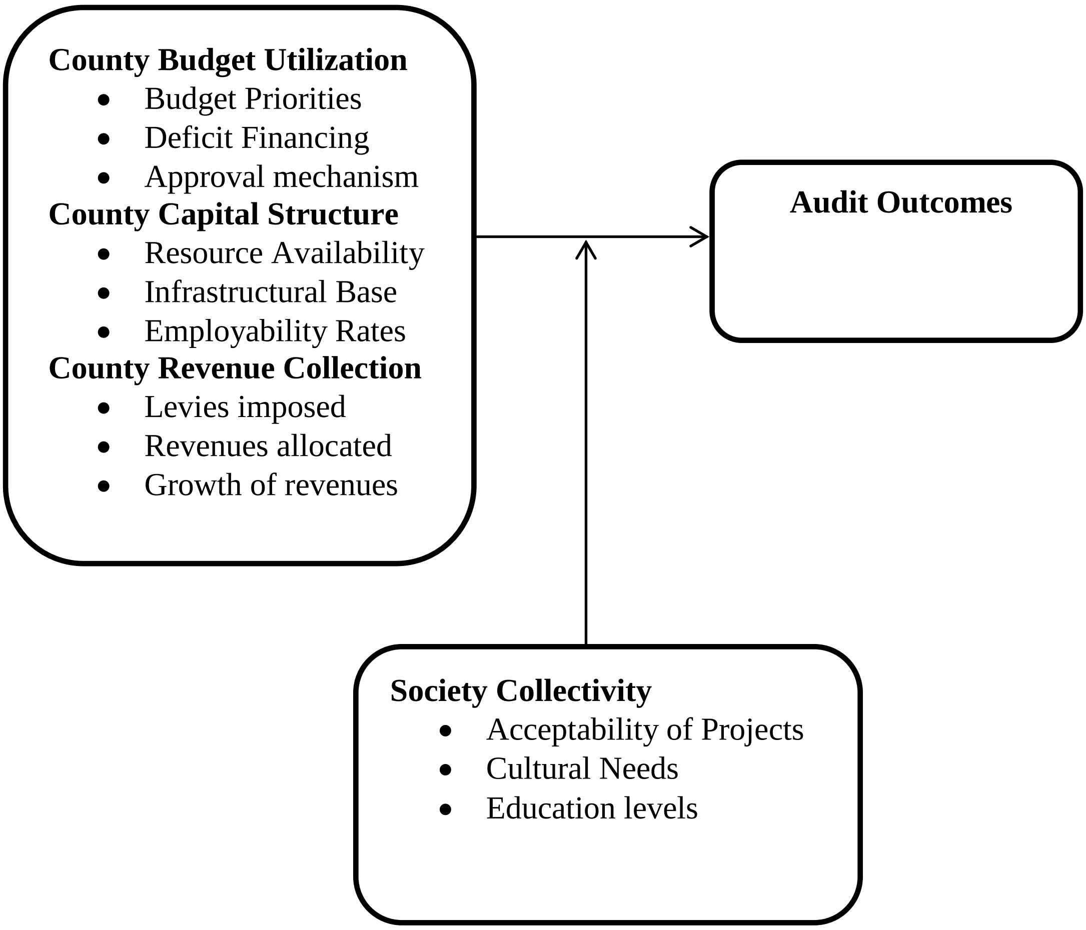
Since the promulgation of the new constitution 2010, leading to 47 county devolved units called Counties as key areas for new power decentralization zones and improved services delivery; most of the counties lacked the basic accessibility including the transportation network (Lubale, 2012). The inaccessibility of the key areas links to lack of development and resources reach to the residents occupying the counties. This is evident with the northern part of Kenya where the telecommunication and road network were minimal thus promoting criminal activities and stagnation movement of resources. In this same measure, such areas miss out on the Foreign Direct Investments input given the reachability problems. Essentially, able communication and employed recent technologies will lead to high output growths in the counties and increase the efficiency of the service delivery.

2.5 Conceptual Framework

The conceptual framework illustrates the variables under study. The dependent variable is county financial performance measured by the audit outcomes, enterprise growth, demographic changes and human capital development. The study identified three independent variables including the main variable county budget utilization measured by the budget lines or priorities, deficit financing, approval or process mechanism; county revenue collection measure by the levies imposes, total revenue collected and the growth proportion of the revenue collections; county capital structure which include employability rates, infrastructure base and resource availability. The variables will be operationalized and mathematically measured using the analytical model in chapter three. The study expects positive correlation in the budget utilization against the audit outcomes with inclusion of the societal factors that intervene.

Figure 2.1 Conceptual Model

Independent Variables **Dependent Variable**



Control Variable

Source: Researcher

2.6 Summary of the Literature Review

In the covered literature cases, it is clear observation of rich endowment of revenues collection creates good budgetary input support however; there is limited focus on both the budgeting and expenditure concepts in the theory and empirical observations. For example, the trio theories cover in a market approach than a public governance and how budgeting impact the subsequent performance of finances. The theoretical inclusion highlights the plain rigidities existing in leadership without any forecast on the attributes of leadership activities where management of finances and budgeting are part of them. The empirical studies bear minimal relationships between the budget utilisation and financial performance of governments as most of the studies focus much on the revenue collections, leadership attributes and human resources structure. It thus forms an ample opportunity to fill the gaps by ensuring more indication focus into realizing the budgetary process, during and the expenditure with how it influences the government financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the study methodology used. It covers the research and sample design, the variable model and operationalization procedures, the reliability and validity, the data collection, instruments and analysis procedures to be followed and relevant research ethics.

3.2 Research Design

Kothari (2004) defines descriptive research design as one that provides the outline of the existing terms and conditions, relationships about the research problem under investigation. The research design is a research plan in logical nature that provides key indications or directions on the way or path the research is to be conducted (Sekran, 2001). Therefore, this study adopted descriptive research design in the collection and compound analysis of the data.

3.3 Target Population

Target population is the set of elements, items or objects or individuals with similar identity characteristics (Mugenda, 2003). Neuman (2000) defines the target populations as the set of observable identities in elements, households, persons or events that have been put under investigation or research by the study. The study targeted 70 finance and management officers working in the Counties' relevant departments for examination. This target included officers from the 5 Counties in Eastern Kenya region: Meru, Embu, Machakos,Makueni & Kitui.

3.4 Data Collection

This study used both secondary and primary data with a structured questionnaire to collect relevant data and secondary data from the annual audited outcomes and economic reports according to the objectives of the study. The audited statements have right information on amounts refunded to the National Treasury, the ineligible amounts and too the growth of the projects under implementation or completed. The questionnaires will be dropped on the first day of the specified week in every County Office and collected after five days (working) from the day of delivery. This was alongside an introduction letter for the respondents before answering the questionnaires. The questionnaire has two sections with the first containing demographic information that was filled and the second part containing the study objectives with relevant questions for information about county performance and budget inclusion.

3.5 Data Analysis

The data collected, was cleaned, coded and with analysis using applicable statistical techniques (Mugenda & Mugenda, 2003). Resnik (2003) opines that analysis of the data is a systematic means of using statistical and logical techniques to illustrate or present collected data. This study used quantitative and qualitative data. Further, the Statistical package for Social Sciences (SPSS) was used in running the descriptive analysis as outcome presentation were made in form of charts, graphs, frequency tables and percentages.

3.5.1 Empirical Model

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

Study Model

$$\mathbf{Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon}$$

Where:

Y is the Performance of County Government that includes **audit outcome** indicator.

The **β** is the slope;

The **α** is the constant or autonomous county government performance;

Whereas, **X** being a set of county budget utilization indicators to be measured against the audit outcomes in the county governments.

In this case,

$\mathbf{X_1}$ as the proportion of budgeted expenditure against budgeted revenue;

$\mathbf{X_2}$ as the proportion of Actual County Expenditures against Actual County Revenues;

$\mathbf{X_3}$ as the proportion of County Resources against the Poverty Index/ratings and;

The **ε** is the error of estimation.

The outcomes were illustrated in frequency means, charts, and graphs and other statistical means of presentation.

3.5.2 Operationalization of the Study Variables

This section is meant to provide the way in which the dependent and independent variables are critically operationalized in the study. The measurement criterion is given as follows:

Table 3. 1 Operationalization of the Variables

Variables	Type of Variable	Operationalization	Measurement	Hypothesized Path
County Budget Utilization	Independent	• Budget Priorities • Deficit Financing • Approval mechanism	**Nominal**	**Positive**
County Revenue Collection	Independent	• Levies imposed • Revenues allocated • Growth of revenues	**Ratio Scale**	**Positive**
County Capital Structure	Independent	• Resource Availability • Infrastructural Base • Employability Rates	**Nominal**	**Negative**
County Government Performance	Dependent	• Audit Outcomes	**Ratio Scale**	**Depends**

Source: Researcher

3.5.3 Test of Significance

The level of significance expected is 1.95 with an accuracy degree of 0.05 by applying the F Test.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter outlines the specific findings from the analysis according to the applicable methodology in chapter three. It provides charts, graphs and descriptions and regression analysis of the analysed data outcomes.

4.2 Data Analysis and Findings

This section outlines the analysed data in table and narration of the findings according to the study objectives as provided in the applied questionnaire.

4.2.1 Response Rate

The researcher randomly distributed 70 Questionnaires across selected counties for data collection whereby 65 were fully well filled with 5 not fully filled of which were discarded. This signifies a 93% rate of response with 7% of no response.

4.2.2 Demographic Information

Table 4. 1: Name of the respondents' Counties

Name of County	Frequency	Percentage
Embu	13	.20
Machakos	16	.25
Makueni	13	.20
Kitui	12	.18
Meru	11	.17
Totals	**65**	**100%**
Mean	**13**	
SD	**1.87**	

Source: Research Findings

The researcher wanted to establish response outcome of the respondents in the selected counties whereby the number of officers in charge of budget and revenues were as at 20% are from Embu, at 25% are from Machakos, at 20% are from Makueni, at 18% are from Kitui and at 17% are from Meru presenting a mean of 13

Table 4. 2: Titles/Role of Respondents

Job Title	Frequency	Percentage
Revenue Clerk	18	.28
Revenue Officer	21	.32
Budget and Allocation Officer	13	.20
Budgeting Officer	13	.20
Others	0	.00
Totals	**65**	**100%**
Mean	**13**	
SD	**8.03**	

Source: Research Findings

The researcher wanted to establish the composition of the budgeting and revenue section staff whereby the respondents indicated that at 28% are Revenue Clerks, at 32% are Revenue Officers, and at 20% are Budget and Allocation Officers, at 20% are Budgeting Officers presenting a mean of 13 and SD of 8.03. This implies that majority of the counties have more revenue collectors and clerking staff with concentration on the collection of various revenues from the businesses and service provisions requiring payment of revenues.

Table 4. 3: Level of Education

Level of Education	Frequency	Percentage
College Graduate	34	.52
University Graduate	12	.18
Professional Certification Graduate	11	.17
All of the above	8	.12
Totals	**65**	**100%**
Mean	**16.25**	
SD	**11.95**	

Source: Research Findings

The researcher wanted to establish the level of education of the county officers in the budgeting and revenue section whereby the respondents indicated that at 52% are

College Graduate, at 18% are University Graduate, at 17% are Professional Certification Graduate and at 12% are have all the trio qualifications presenting a mean of 16.25 and SD of 11.95. This implies that the counties have personnel qualified to manage the budgets and inflow of finances thus right category providing the outcomes of the county financial performance and management.

Table 4. 4:Age Bracket of Respondents

Age of Respondents	Frequency	Percentage
21-25 Years	4	.06
26-30 Years	15	.23
31-35 Years	23	.35
35-40 Years	14	.22
41 Years and Above	9	.14
Totals	**65**	**100%**
Mean	**13**	
SD	**7.11**	

Source: Research Findings

The researcher wanted to establish the age bracket of the county officers serving in the budgeting and revenue section whereby the respondents indicated that at 6% are 21-25 Years, at 23% are 26-30 Years, at 35% are 31-35 Years, at 22% are 35-40 Years and at 14% are 41 Years and Above presenting a mean of 13 and SD of 7.11. This implies that the counties have mature and experienced personnel able to handle the financial management and budgeting in the counties which experience incomes inflow.

SECTION B

4.2.3 County Budget Utilisation

4.2.3.1 County Budget Committees

Table 4. 5 Existence of County Budget Committee

Budget Committee	Frequency	Percentage
Yes	64	.98
No	1	.02
Not Sure	0	.00
Totals	**65**	**100%**
Mean	**21.67**	
SD	**36.67**	

Source: Research Findings

The researcher wanted to establish if the counties had budget committees whereby the respondents agreed at 98% to existing, 2% not to be existing presenting a mean of 21.67 and SD of 36.67. This implies, there are relevant deliberations into the budgeting process with which consideration submissions can be made.

4.2.3.2 Period for Budget Formulation

The researcher wanted to establish the period of formulating the budgets whereby the respondents indicated that at 14% it takes one month, 3 months at 66% and 20% at half a year or six months with no specific time period at 0% presenting a mean of 16.25 and SD of 18.64. It implies most counties formulate their budgets within three months with dependence on the starting and end period (mostly should be ready before the start of another financial year).

4.2.3.3 Nature of Budget Reviews for the Previous Financial Year Allocations

The researcher wanted to establish the confirmation of the budget review conduction in the counties whereby the respondents confirmed yes at 92% and no at 8% with those not sure at 0% with a mean of 21.67 and SD of 33.29.

4.2.3.4 Period of Occurrence for the Budget Reviews & the Extent of Agreement

Further, the researcher wanted to establish from the yes responses on the frequency of reviews of the budgets in the counties whereby the respondents indicated regular at 62%, rarely at 25% and once at 13% with a mean of 20 and SD of 15.13. This indicates that most budgets are reviewed well before proceeding to the next stages.

The researcher sought out to find the extent of agreement of key observations in budgeting whereby the respondents were neutral that fund disbursements criteria determines success of budgeted items, strongly agreed that poor budgeting procedures induce loopholes for ineligibility, agreed for both that slow budgeting process derail the project implementation and lack of budget experts contributes to poorly drafted budgets presenting respective means of 4.00 strongly agreeing, 8.00 agreeing , 3.50 neutral and 0.75 disagreeing and SD of 6.06, 8.76, 5.07, 0.96 and 0.00 for strongly disagreeing. It implies that most budgets are not professionally improved despite them meeting the relevant common procedures of preparations and this may give rise to loopholes in financial misappropriations and poor revenue collections from the counties by the revenue officers.

4.2.3.5 Ways of Financing Deficits in the County Budgets

The researcher wanted to establish how the counties finance their deficits whereby the respondents indicated that at 35% there is increasing the levy fees in the counties, 31% do apply for Capital Loans, and 18% undertake disposing the obsolete assets as at 15% they undertake the entire trio presenting a mean of 16.25 and SD of 6.24. This implies a poor enterprise and county government in conducting business in the counties.

4.2.4 County Revenue Collection

4.2.4.1 Confirmation of Counties Meeting their Target Revenue Collections & Extent of Agreement

The researcher wanted to establish the confirmation of adequate revenue collection in the counties whereby the respondents indicated that 68% is not enough, 20% agreed to be adequate and 12% were not sure of the adequacy limits with respective Mean of 21.67 and SD of 19.50.

Further, the researcher wanted to establish from the respondents their degree of agreement to specific observations whereby they strongly agreed that enough revenue collections contributes to low budget deficits, disagreed low revenue collections are contributed by lack of enough staff capacity, neutral that low revenue collections contribute to large budget deficits and agreed that high revenue collections are contributed by the growth of enterprises with respective mean of 1, 1, 0.75, 0.50 and SD of .82, 0.82, 0.96 and .058.

4.2.4.2 The Magnitude of the Categories of Revenues into the County Kitty

Table 4. 6 Magnitude of the Categories of Revenues into the Kitty

Mode of Revenue Collection	Frequency	Percentage
County Levies	6	.09
County Licences	8	.12
County Fines	10	.15
All of the above	41	.63
Totals	**65**	**100%**
Mean	**16.25**	
SD	**16.58**	

Source: Research Findings

The researcher wanted to establish the means contribution of revenues to the County kitty whereby County Levies at 9%, County Licences at 12%, County Fines at 15% and a composition of all at 63% with a mean of 16.25 and SD of 16.58.

4.2.4.3 The Extent of Allocations in the Budget Lines

The researcher sought to understand the allocations of the revenues collected where the respondents indicated that Administration & Recurrent Consumptions receives more allocations with medium allocations to Human Resources and Infrastructure & Health Development and Education Development and low to Welfare & Talent Support and Legal and Liaison and Miscellaneous Costs. This presented a mean of high at 3.57, medium at 3.86 and low at 1.86 with respective SD of 5.47, 4.49 and 3.08.

4.2.5 County Capital Structure

4.2.5.1 The Composition of County Capital Structure

Table 4. 7 Composition of County Capital Structure

Capital Structure	Frequency	Percentage
County Assets	14	.22
County Human Personnel	11	.17
County Natural Resources	3	.05
County Institutions Infrastructure	26	.40
All the above	11	.17
Total	**65**	**100%**
Mean	**13**	
SD	**8.34**	

Source: Research Findings

The respondents the researcher interviewed indicated the county capital structure is composed of institutional infrastructure at 40%, county assets at 22%, county human personnel at 17%, and county natural resources at 5% and all inclusive at 17%. This presented an average of 13 and SD of 8.34. This implies most counties do not have capital readily owned but the pre-existing institutional infrastructures that compose the capital to the counties.

4.2.5.2 The Inclusion of Foreign Government Financial Donations into the County Financial Year Budgets

The counties covered were reported not to be including the donations or grants provided to their budgets with a response of agreement at 40%, rejection at 51% and those not sure at 9% presenting a mean of 21.67 and a standard deviation of 14.01. This implies that the foreign income or donations by the foreign states or organizations are not part of the county budgets thus their usability check is not subject to the normal auditor. This may implicate mismanagement and misappropriation of funds for other none-county related gains thus not achieving the expected targets.

4.2.5.3 The Mode of Funding Deficits

From the response outcome, the counties undertake both decrease and increase the reallocations to manage the deficits at 63% and 17% and 20% with a standard deviation of 16.77 and a mean of 21.67. This provides an implication that the counties factor the possible measures to increase the levels of capital progressively with ensuring proper disposals at cost for the county gain.

4.3 Inferential Statistics

This section includes discussed linear regression outcomes and the relationships in accordance to the study objective and the variables under study.

4.3.1 Regression Analysis

The researcher sought to find out the relationship of the independent and dependent variables in (chapter three) the conceptual framework through regression using a structured analytical model. The analytical model outcomes are explained subsequently.

4.3.2 Model Summary

The researcher wanted to establish the fitness existence in the regression model adopted and variation of the variables as illustrated in Table 4.8 with subsequent discussions of the outcomes.

Table 4. 8 Summary of the Model

Regression Statistics	
Multiple R	0.952626
R Square	0.907496
Adjusted R Square	0.629983
Standard Error	0.049902
Observations	5

Source: Research Findings

Table 4.8 provides the overall fitness of the model. By 91% of the variance in the dependent variable (audit outcomes) is jointly accounted by the predictor variables (Budgeted County Expenditure to the Budgeted County Revenues, Actual County Expenditures to Actual County Revenues and County Resources to the County Poverty Index).

4.3.3 Analysis of Variance (ANOVA)

The researcher wanted to establish the variability of the predicted and predictor variables inside the regression model and the significance existence as illustrated in Table 4.9 with subsequent outcome discussion.

Table 4. 9 Analysis of Variance (ANOVA)

	df	***SS***	***MS***	***F***	***Significance F***
Regression	3	0.02443	0.008143	3.270107	0.381193
Residual	1	0.00249	0.00249		
Total	4	0.02692			

Source: Research Findings

Table 4.10 indicate the variability within the regression model whereby it is jointly significant at p-value<0.5.

4.3.4 Coefficients Analysis

The researcher wanted to establish the regression outcomes of the predicted and predictor variable which are illustrated in Table 4.10 with subsequent discussions of the outcomes.

Table 4.10 Coefficients Analysis

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Constant	0.695	0.524	1.318	0.413	-5.968	7.349	-5.968	7.349
BE/BR	0.306	0.375	0.816	0.564	-4.456	5.072	-4.459	5.072
ACE/AR	0.120	0.423	0.284	0.823	-5.248	5.489	-5.248	5.489
CR/PI	-0.073	0.115	-0.637	0.639	-1.523	1.382	-1.528	1.382

Source: Research Findings

$Y=0.695+0.306X_1+0.120X_2+0.073X_3+\varepsilon$

Table 4.11 presents regression outcomes of the predicted outcome (Audit Outcomes) regressed against the predictor variables (Budgeted County Expenditure to the Budgeted County Revenues, Actual County Expenditures to Actual County Revenues and County Resources to the County Poverty Index).

The results indicate that Budgeted County Expenditure to the Budgeted County Revenues is positive β=0.306 and significant (p-value=0.56) implying an increase in the ratio will lead to an increase in financial performance of the counties. In addition, Actual County Expenditures to Actual County Revenues signify a positive β=0.120 and significant (p-value= 0.823) implying increase in the ratio will lead to an increase in the positive outcomes of the audit in the counties. The ratio of County Resources to the County Poverty Index is positive (β=0.072) and significant (p-value=0.638) with an implication of an increase in the resources to the poverty levels will have a positive increase in the financial performance of the counties.

4.4 Interpretation of the Research Findings

From the above findings based on the R Square value it indicates that there exist a variation of the audit outcomes or financial performance by the changes presented in the budget utilisation of Budgeted County Expenditure to the Budgeted County Revenues, Actual County Expenditures to Actual County Revenues and County Resources to the County Poverty Index.

Looking further from the equation adopted $Y=0.695+0.306X_1+0.120X_2+0.072X_3$, it depicts a positive relationship of influence by the budget utilisation on the financial performance of the counties.

This further explains the Budgeted County Expenditure to the Budgeted County Revenues (X1) in the budget of a county is expected to have a positive outcome upon audit examination after the implementation of the budget. This means at 31% there is an increase or prudence in the financial performance that is influenced by the ratio of Budgeted County Expenditure to the Budgeted County Revenues.

Upon the implementation of the budget, the ratio of actual expenditures and revenue collections provide an influence of audit outcomes by 12%. It means that a unit increase in the ratio of actual county expenditures to actual county revenues will lead to an increase in positive audit outcomes by 12%. It further provides a proof that if well management of the actuals is considered in following budget year by the relevant counties subject to the terms of the [1]Controller of Budget for formulation will offer properly improved audit outcomes from the [2]Office of the Auditor General.

The counties' capital composition is inclined to the formerly existing structures thus with a standard deviation of 8.34, it is evidently most counties need to raise their capital composition through more infrastructural growth. Further, from the research findings, the non-inclusion of the foreign donations into the budgets at a standard deviation of 14.01 it implies poor accountability or otherwise less focus into the management of the finances.

Proper resource utilisation in the counties can be observed by the very population occupying in the area and how well they are maximized for the livelihood improvement and cost minimization to the very counties. The unit increase in counties resources to the poverty index in the counties will offer an increase in the influence of the audit outcomes or signify improved financial performance in the counties. This means that improved county resources with equitable distributions subject to the relevant poverty levels in the counties will signify a positive impact on the management of finances used in allocating and utilizing the resource existence in the counties. This confirms to (Lucy & Mwikali, 2016) study that indicated a positive funds performance influence by the existence or availability of resources or funds in the counties.

[1] Office of the Controller of Budget is the office mandated to offer approval and examination of all public budgets;
[2] Office of the Auditor General is the sole officer mandated in auditing all public accounts.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings in chapter four and relationship to the literature covered in chapter two with conclusions and recommendations.

5.2 Summary

The study analysis outcomes indicate that most of the serving staff members in the finance management of the counties are revenue officers with majority of them aged in 31-35 Years and are equally qualified to ensure the prudence of financials in the counties at 52% being college graduates. In addition, most budgets are formulated within a period of 3 months and review by the county budget committees before assenting for debate in the County Assemblies.

The study observed with a mean of 8 that most counties lack budget experts to review the enacted budgets for implementation and upon deficit existence, the budgets are funded by the increase of levies. The study established too that most counties collect their revenues in form of licence fees, levies and fines imposed upon the offenders and operationalization of the enterprises in the counties. Further, most counties place their revenue collections in the administration area when formulating budgets with a high standard deviation of 5.47.

The study found out that most of the institutions in the counties largely owned by the Government of Kenya sum as the composition of the capital structure with most of the counties not including the donor donations or asset finances into their budgets.

Further, the study revealed that the Counties undertake reallocations in their budgets to meet the implementation of the activities in the budget lines.

The study established the below model with regressed outcomes for the analysis.

$$Y=0.695+0.306X_1+0.120X_2+0.073X_3$$

The study found out a positive relationship between audit outcomes and the budget utilisation (County Budgeted Expenditure to the Budgeted County Revenues, Actual County Expenditures to Actual County Revenues and County Resources to the County Poverty Index). A unit increase in the ratio of County Budgeted Expenditure to the Budgeted County Revenues has a 31% positive audit outcomes and an increase in Actual County Expenditures to Actual County Revenues ratio has a positive audit outcome of 12%. Subsequently a unit increase in the ratio of County Resources to the County Poverty Index poses a positive audit outcome 7.3%.

5.3 Conclusions

The study concludes that the budget utilisation has an influence on the performance of the County Governments.

The County budgeting and utilisation is essential for the performance of County Governments as observed from the study findings. High deficits in the county budget imply low performance as the available revenues will be reallocated or spread to maximize the itemization of the budgets and consider the priorities giving negative performance to sections of the budget lines. In addition, the allocations and reallocations with relevant statutory procedures and consideration of the budget priorities signify the performance of the counties in terms of finance and general development progresses. Effective consideration of the deficit existence and priority choice does provide clear view of the influence the county performance is to face.

In addition, the revenue collection in the county governments plays a significant role in contributing to success of budgets passed by the County Assemblies. From the study findings, high revenue collections are necessity for low deficit existence in the budgets with poor collections aiding the high levels of deficit thus need for more financing for implementation of the itemized budget lines. The study concludes that county revenue collections influence the county performance whereby the high the revenue collections the high indication of county performance and prudence in financial management.

Subsequently, that the capital structure composition in the counties determine the county performance on how the budgets itemization is allocated and is to be funded. This is evident with some counties lacking essential capital compositions whereby reallocations in the budgets have to be set to create the structure existence. The lack of natural resources and high human resource composition provide capital composition with latter providing inflow of service delivery and former with nil composition. Thus, the researcher finds concludes that high capital structure is a necessity influencing factor for high county performance.

Further, the study concludes the audit queries or outcomes raised by the relevant agencies in the National Government aid the description of county performance. In this case, as observed, increased audit outcome queries on management of finances is an implication of poor county performances in both administration and structural or implementation conduct as the allocated funds entirely do not end to facilitate the respective budgeted item as opposite is to be true.

5.4 Recommendations for Policy and Practice

The study recommends more study consideration into the study of audit outcome and the subsequent effect it imposes on the management of finances and structuring of budgets vis-à-vis the implementation of prior targets and forecasted itemization for county performances. The study too recommends that there exist financial advisory and internal auditing on the utilization of the revenues collected and of the county government expenditures with relevant consideration in the diversification of existing capital structure composition. Counties need to calculate their net magnitude worthy with realization of relevant estimates for funding rather than puffing dependence on the revenues collected (some below par) in the counties. This will ensure sustainability of funds and reduction in the high deficit existing in the counties.

The study too recommends that more budgetary consideration be made to reduce the recurrent expenditures that are observed to receive high allocations rather consider on more return based itemization that will create more gains to the county governments. In this case, there is need for consideration into the reduction of non-essential human capital that adds less to the county performance and concentrates on wide range of budget expenditures that will create relevance otherwise more county performance gains. More expenditure concentration is corrosive to the performance and sustainability of county governments as many may encourage the existence of lagged debt repayment schedules and transferred citizenry burden.

5.5 Limitations of the Study

The study was limited to five counties out of the forty seven counties for the purposes of the study of the counties in Kenya. In addition, the study was limited to the revenue and budget officers than including other officers related in the management of finances in the counties. Subsequently, the study was limited to audit outcomes obtained from the period of 2013 to 2016 given it is the period all county governments started operationalization.

5.6 Suggestions for Further Research

The study suggests sectional areas for further research by the interested parties. There is need to focus on the impact of inflows from other foreign countries as donations or grants and how they impact the performance of counties with consideration into the budgeting adjustments. In addition, there is need to focus on the capital composition of the counties and the influence they have on the utilisation of the natural resource endowment in the areas. Further, there is need for more research focus into the influence of National Government budgetary processing period on the performance of the Counties with consideration of the evaluation outcome activities.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

TO WHOM IT MAY CONCERN.

Dear Sir/Madam,

RE: RESEARCH ASSISTANCE

I **Ruth Kathungu, D61/77695/2015,** a postgraduate Master of Business Administration (Finance) student at the University of Nairobi conducting a research study titled "***The Effect of budget utilization on the performance of county governments in Kenya: A Case Study of Eastern Kenya Region***" do hereby request for your assistance in the filling of the questionnaire to facilitate the study conclusion.

Thank you for your consideration.

Sincerely,

Ruth Kathungu

Reg. No: D61/77695/2015

Supervisor's Name: Mr**.** Herick Ondigo

APPENDIX II: QUESTIONNAIRE

QUESTIONNAIRE

This questionnaire is geared to facilitating the research on **"The Effect of budget utilization on the performance of county governments in Kenya: A Case Study of Eastern Kenya Region"** thus your support in answering will be greatly appreciated.

SECTION A: Demographic Information

1. What is the name of your County in the Eastern Region of Kenya?

i) Embu ( )

ii) Machakos ( )

iii) Makueni ( )

iv) Kitui ( )

v) Meru ( )

2. What is your JOB TITLE at work?

i) Revenue Clerk ( )

ii) Revenue Officer ( )

iii) Budget and Allocation Officer ( )

iv) Budgeting Officer ( )

v) Others………………………. ( )

3. What is your level of education?

i) College Graduate ( )

ii) University Graduate ( )

iii) Professional Certification Graduate ( )

iv) All of the above ( )

4. **What is your age bracket?**

i) 21-25 Years ( )

ii) 26-30 Years ( )

iii) 31-35 Years ( )

iv) 35-40 Years ( )

v) 41 Years and Above ( )

SECTION B: County Budget Utilisation

5. **Does your County have a Budget Committee?**

i) Yes ( )

ii) No ( )

iii) Not Sure ( )

6. **How long does your County take to formulate a Budget for the next Financial Year?**

i) 1 month ( )

ii) 3 months ( )

iii) 6 months ( )

iv) No Specific Timeline ( )

7. **Do you conduct Budget reviews of the previous Financial Year allocations?**

i) Yes ( )

ii) No ( )

iii) Not Sure ( )

7.1. If YES, to what periods does that occur?

i) Regularly ( )

ii) Rarely ( )

iii) Once ( )

8. To what extent do you agree to the following statements?

1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
Fund disbursements criteria determines success of budgeted items					
Poor budgeting procedures induce loopholes for ineligibility					
Slow budgeting process derail the project implementation					
Lack of budget experts contributes to poorly drafted budgets					

9. How does your County fund the Budget Deficits?

i) Apply for Capital Loans ( )

ii) Disposing the obsolete assets ( )

iii) Increasing the levy fees ( )

iv) All the above ( )

SECTION C: County Revenue Collection

10. **Do you collect enough revenues as targeted in particular financial year (s)?**

i) Yes ( )

ii) No ( )

iii) Not Sure ( )

10.1. If YES, to what extent do you agree to the following statements?

1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree

Statement	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Enough revenue collections contributes to low budget deficits					
Low revenue collections are contributed by lack of enough staff capacity					
Low revenue collections contribute to large budget deficits					
High revenue collections are contributed by the growth of enterprises					

11. **Which of the following contributes MORE revenues to your revenue collection kitty?**

i) County Levies ( )

ii) County Licences ( )

iii) County Fines ( )

iv) All of the above ( )

12. From the revenues collected in the order of "High, Medium and Low", to what order to you allocate them to the following budget lines?

Statement	**High**	**Medium**	**Low**
Administration & Recurrent Consumptions			
Human Resources			
Infrastructure & Health Development			
Welfare & Talent Support			
Education Development			
Legal and Liaison			
Miscellaneous Costs			

SECTION D: County Capital Structure

13. What has composed your County Capital Structure?

i) County Assets ( )

ii) County Human Personnel ( )

iii) County Natural Resources ( )

iv) County Institutions Infrastructure ( )

v) All the above ( )

14. Do you include Foreign Government Financial Donations in your Financial Year Budgets?

i) Yes ( )

ii) No ( )

iii) Not Sure ( )

15. In your financial year budgets, do you increase levels of county capital or sell off to fund deficits?

i) Increase without reallocations ( )

ii) Decrease with reallocations ( )

iii) Both of the above are conducted ( )

Thank you for your participation.