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Original Article

Relationship Between Budgetary Monitoring and Financial Performance of County Government of Kericho, Kenya.

Margret Chepkorir[1], Dr. Willy Rugut, PhD[1] & Dr. Penina Langat, PhD[1]*

[1] University of Kabianga, P. O. Box 2030 – 20200, Kabianga, Kenya.
*Correspondence email: margretchepkorir@gmail.com.

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ABSTRACT

Budgeting has become a fundamental issue for many organizations and business entities across the globe. Despite the availability of a legal framework on budgetary processes in the public sector, County Governments are still facing challenges such as delays in payment to suppliers, budget deficit, stalled projects, and poor development records. It is on this basis that this study sought to investigate the relationship between monitoring and financial performance of the County Government of Kericho. The study was guided by expenditure theory. The study adopted a correlation survey research design. The target population for the study was 3,848 employees from 12 departments of the County Government of Kericho. A stratified sampling technique method and simple random sampling technique were used to ascertain the sample size for the study. Data were analyzed using descriptive and inferential statistics. Descriptive statistics were presented by frequency tables, charts, and graphs, while inferential statistics were presented by correlation and regression models. The findings established that there was a significant statistical relationship between budgetary monitoring and financial performance ($\beta = 0.901$, $p < 0.05$). The study concludes that the budgetary monitoring had significant impact on financial performance of County Government of Kericho. The study recommends that for an efficient budgetary process, the county government should set realistic revenue targets to ensure that expected expenditure matches expected incomes and also acquire and train staff involved in budget planning for an efficient planning process. Participation from other stakeholders was also recommended to enhance the implementation process. The study recommends that further research on determinants of budget implementation in county governments should be carried out.

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INTRODUCTION

Budgeting is considered an important exercise in every organization without which an organization will not achieve its objectives (Babalola, 2008). Regardless of the complexity, the size of the organization or the sector of the industry that the organization belongs to, its efficiency and financial performance are greatly influenced by budgets and proper budgetary systems (Suberu, 2010). According to Babalola (2008), budgets provide the organization with means of translating the overall objectives of an organization into a set of actions that provide or establish the source of funds and how the funds will be used. They also enable the organization to evaluate the performance of the personnel who are entrusted with the use of such resources.

The budget process in America is a very complex exercise and tedious practice. The executives and legislators participate in the process which begins one and half years in advance before the fiscal year. After that, the office of management and budget draft a letter in April that is forwarded to various departments. A budget of the United States of America contains rough estimates on revenues, expenditure, economic performance, and recommendations based on the policies in place (Sharp, 2012).

Numerous reforms have been done on the budgetary process in Kenya since independence. The reforms are aimed at maximizing the advantages gotten from budget reforms in the public sector. According to Adongo (2013), the budget reforms are due to the underperforming of the budget in relation to budget provision expectations. With these reforms, still, budgetary reforms process continues to be a failure in attaining public policy objectives. The reason for this is the poor connection between approved policies and the planning process. The shortfall between revenues and expenditure has contributed to supplementary budget estimates, reallocations of budget lines, and mini budgets.

These findings are supported by Gacheru (2012), whose research findings showed that budget control, preparation, and implementation had a great impact on budget variance. A budgetary process is a process where planned income is compared with the real income generated to ascertain whether plans are being adhered to or will be required to be changed to improve on performance or make profits. According to Sidik and Rahim (2012), budgetary process is a system which is meant to

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monitor the performance of the business and it is done by evaluating and looking at the main causes of actual outcome from the planned outcome, thus helping management to take the necessary measures that will minimize or prevent the same problem from reoccurring.

The County Integrated Development Plan establishes medium strategic priorities that reflect the aspirations of the County Governments. The plan provides a description of actions to be taken by the County Government in response to various changes in the economic environment. Therefore, these plans act as the backbone of the budgetary process for each financial year and it provides the criteria for monitoring and evaluation of financial management practices in County Governments.

Statement of the Problem

Budgeting is an important planning tool in any organization including county governments. Guidelines on how county governments and national governments can generate and spend money are provided for by Public Finance Management Act (2012) under section 125. The act provides for procedures of budgeting to be followed in the counties including the establishment of long-term and short-term plans in terms of revenue mobilization and expenditure. Despite the available regulations on budgetary processes, County Governments in Kenya still face financial challenges such as delays in paying suppliers, stalled projects, and poor development records at the county level due to budget deficits. These challenges raise a lot of questions about whether the budget-making process in the counties is a reality or a formality. Several studies have tried to determine the linkage between the effect of the budgetary process and its effect on organization performance in both the public sector and private sector. Despite the fact that numerous studies have been conducted to explore the link between budgetary process and performance of organizations, they have not conclusively addressed how effective budgetary process is linked to organizational performance. The literature reviewed seems to suggest that majority of government institutions in Kenya have failed to improve on financial performance by adhering to a strict budgetary process system and implementation process. This study, therefore, sought to fill this gap by examining the relationship between the budgetary process and the performance of the County Government of Kericho, Kenya. Specifically, the study examined the relationship between budgetary monitoring and financial performance of the County Government of Kericho

The objective of the study was to analyze the relationship between Budget monitoring and financial performance of the County Government of Kericho which was hypothesized as follows;

H_{O1}: There is no significant relationship between budget monitoring and the financial performance of the County Government of Kericho.

LITERATURE REVIEW

Theoretical Framework

Expenditure theory is credited to Rubin (1990). The theory is explained from two perspectives; descriptive and normative theory. The budgetary process requires a normative theory where it focuses on the practical and real situation in the organization. The Normative theory helps an organization in deciding the critical policies regarding financial expenditures. It explains the rationale of giving certain corporate expenditures importance over the rest, which are not even included in the budget-making process. Understanding this aspect helps organizations perform well financially (Posner & Blondal, 2012).

On the other hand, the descriptive theory is based on providing a basis with relevant facts to explain variance in the budget process. In other words, providing information on budget expenditure variations will help the organization to establish why the expenditures change and their impact on set financial goals. The theory emphasizes keen observation and participation in the budget-making process. The objectives and financial targets of the organization should be well understood in advance (Ulrich, 2008). Corporates should use normative theory to select projects and activities to be undertaken priority-wise and based on the prestige of the project given the expression on the budget which will then help the organization achieve the set financial targets.

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Budgetary Monitoring and Financial Performance

Monitoring refers to a continuous assessment of project implementation through a process of verification of activities against the organization's set targets. Evaluation is a periodic exercise that is used to objectively and methodically assess the performance, appropriateness, and effect of continuing projects and government initiatives (Gachithi, 2010). The aim of monitoring and assessment is to determine the accomplishment of the County Government initiatives against the preset standards. The budgetary monitoring process is characterized by the subsequent stages; setting performance targets or standards to be achieved by the various departments within the organization, informing the relevant stakeholders about the budgetary policy for easy setting of targets, and appreciation of the targets that have been set. This will be important as it improves ownership of the performance outcomes at the end of the budgetary period.

Hansen and Kræmmergaard (2013) argue that accessing and attainment of high levels of budgeting preparation and implementation is a tedious and challenging task for county governments. Burger and Hawkesworth (2011) note that many county governments fail to embrace the internal audit function efficiently in their budgeting process and implementation. This failure has led to intentional manipulation and mismanagement of resources. There is no evidence that frequent and efficient follow out is conducted to authenticate the accountability reports give in to the relevant departments in the county government. Onumah and Krah (2012) suggest that these frequent follow-ups should be done regular basis by the internal audit committees. This will ensure that misuse and misappropriation of funds are detected earlier and action was taken by the county government.

Actual revenue or cost data monitoring can be done by way of continuously making a comparison between actual performances and the targeted or budgeted performance. The outcome of this comparison should be reported regularly to the responsible office (Theletsane, 2014). Reporting of discrepancies or compliance in performance according to the set goals may go a long way in helping the County Government to take timely corrective action. Evidence from various studies from both developing and developed countries on budget monitoring and evaluation suggest that the higher the complexity and scale of ICT adoption to support financial systems, the higher the efficiency in managing and controlling the use of resources according to the set standards.

A study by Mpakaniye (2017) on the effect of internal audit and budget process on the performance of decentralized units in Rwanda, a case study of Nyabihu District found that management control, asset management, and staff management enhanced good budgeting process and implementation in the local government. This study used a descriptive research method where the target population was the decentralized entities in Nyabihu District. The study relied on both the primary and secondary information collected by questionnaires and interview schedules. 100% of the respondents agreed that internal audit and risk management influence the performance of the decentralized units. 20% of the respondents agreed that earlier detection of errors and frauds increased efficiency. In conclusion, there was a significant positive relationship between internal audit and the budgetary process in Nyabihu District

Richard (2015) conducted a study to examine the factors of financial management information systems methodology application that is integrated into devolved units in Kenya. In this study, the researcher adopted a descriptive research design and purposeful sampling to determine the appropriate sample size. The findings of this study showed that many devolved units have challenges in the use of integrated financial management systems. These systems in Kenya were introduced as reform initiatives in public finance management.

Chebet (2013) also conducted a study on the critical success factors in the implementation of the re-engineered integrated financial management systems in government departments in Kenya. The study findings established that a set of 9 factors were critical in the success of Integrated Financial Management and Information system. The study recommends that there should be corporation between various government departments to ensure efficiency in the use of the systems. This implies

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that for efficient monitoring and evaluation of budgets in the county governments, the IFMIS should be well managed. While this study aimed at examining critical success factors, the current study will seek to establish the effect of IFMIS in monitoring and evaluation.

Kipkemboi (2013) conducted another study on the influence of budgetary control on performance in non-governmental organizations in Kenya. Specifically, the study aimed at establishing the influence of budgetary targets and periodic performance evaluation and reporting. The study's target population was 7,127 NGOs in Kenya; using a convenience judgmental sampling technique was used to select 30 NGOs for the study. Data were collected by the use of questionnaires. The results from the study indicated that reports should be made periodically on the status of the organization's finances. He further reveals that reports should be accurate to make it easy for the organization to take corrective remedies in case of discrepancies.

Financial Performance in County Governments

The aspect of financial management, both in the private and public sectors has attracted the attention of many scholars from both the business and strategic management fields. Financial management in an organization is of primary concern because it portrays the health status of an organization which determines its survival. High performance implies the management's effectiveness and efficiency in resource utilization which in turn contributes to the well-being of the country's economy.

A study by Haque and Arun (2016) on governance structures and financial performance in the public sector in Bangladesh asserts that financial performance can be measured by the net income from operations, rate of return on assets, earnings per share, and rate of return on equity. Another way for assessing the performance of a government institution is by assessing the fiscal health of the institution in terms of solvency and the rate of completion of projects. According to Richard (2015), this is attributed to budgetary processes, especially efficient implementation and monitoring

From Ndungu (2013)'s study, the researcher opines that sections 163,164 and section 165 of the Public Finance Management Act of 2013 demand that the county treasury prepares a financial statement for each County Government at the end of every financial year. These statements should be made in accordance with the prescribed format by the public sector standards board. Article 229 of the Kenya constitution confers powers to the office of the auditor general to audit and report on the accounts of the national and county governments (ROK, 2013).

RESEARCH METHODOLOGY

A correlation survey research design was used for this study. A total population of 3848 County workers with a sample of 362 from each department was chosen using a stratified sampling technique. Data analysis was done quantitatively with an aid of SPSS to produce descriptive and inferential statistics analysis. Where mean and standard deviation was used in descriptive statistics while regression analysis was used in inferential statistics.

RESULTS AND DISCUSSION

The study wanted to establish how budget monitoring practices influenced the financial performance of the county government. A summary of the mean and standard deviation was presented in *Table 1*.

Table 1: Frequency table for budget monitoring

Statement on budget monitoring	N	Min	Max	Mean	Std. Dev.
The internal audit function of the County Government strengthens the internal controls by reporting on a regular basis	350	2.00	5.00	4.0743	1.02974
The monitoring and evaluation section of the county government is operational.	350	1.00	5.00	4.0629	.92501

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Statement on budget monitoring	N	Min	Max	Mean	Std. Dev.
Use of IFIMIS for the processing of financial statements has enhanced audit trails	350	2.00	5.00	4.1429	.83761
The county government submits financial reports are submitted to the controller of budgets on a timely basis	350	2.00	5.00	4.0886	.86355
Auditor general reports are always evaluated and recommendations adopted	350	1.00	5.00	3.8714	1.00602
The controller of budgets reports are always evaluated and recommendations adopted by the county government	350	1.00	5.00	3.9343	1.04277
Good budgetary monitoring techniques enhances efficiency in decision making	350	1.00	5.00	4.2114	.92460

From *Table 1*, the majority of the respondents agreed that the internal audit function of the County Government strengthens the internal controls by reporting on a regular basis (*M* = 4.0743, *SD* = 1.02974). The monitoring and evaluation section of the county government is operational. On whether the monitoring and evaluation section of the county government was operational and efficient, the majority of the respondents agreed (*M* = 4.0629). On whether the use of IFIMIS for processing of financial statements enhanced audit trails majority of the respondents agreed with a mean of 4.1429. Likewise, the majority of the respondents agreed that the county government submits financial reports to the controller of budgets on a timely basis (4.0886). The majority of the respondents were also neutral on whether the auditor's general reports are always evaluated and recommendations adopted (*M* = 3.8714). When asked whether the controller of budgets reports is always evaluated and recommendations adopted by the county government, the majority of the respondents were neutral with a mean of 3.9343 and finally, the majority of the respondents agreed that good budgetary monitoring techniques enhanced efficiency in decision making with a mean of 4.2114.

Mpakaniye (2017) found a similar result where internal auditing has a significant influence on the budgetary process. The current research, however, established that the internal audit function of the County Government strengthened the internal controls by reporting on a regular basis. This has assisted in the budgetary monitoring process. On the contrary, Richard (2015) found that IFMIS was still facing challenges in the devolved unit. However, the current research established that IFMIS assisted in the processing of financial statements which enhanced audit trails. This is a great stride for the County Government in using IFMIS in the budgetary monitoring process. A similar recommendation was made by Chebet (2013) that for efficient monitoring and evaluation of budgets in the county governments, the IFMIS should be well managed.

The study wanted to establish how the budget budgeting process influenced the financial performance of the county government.

Table 2: Frequency table for financial performance

Statements on the budgeting process	N	Min	Max	Mean	Std. Dev.
The financial expenditure in the county government is as per the budget appropriations	350	1.00	5.00	3.9200	1.04588
Efficient budgeting process enhances service delivery in the county government.	350	1.00	5.00	4.2914	.86026
Projects undertaken by the county government are completed in time	350	1.00	5.00	3.3086	1.24467
There is good funds absorption rate in the county government	350	2.00	5.00	3.6800	1.01304

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Statements on the budgeting process	N	Min	Max	Mean	Std. Dev.
Decisions are made efficiently and easily in the county government	350	1.00	5.00	3.7143	1.24324

On the influence of the budgeting process on financial performance, the majority of the respondents agreed that financial expenditure in the county government was as per the budget appropriations (M =3.9200). On whether an efficient budgeting process enhances service delivery in the county government, the majority of the respondents agreed (M = 4.2914). Whether projects undertaken by the county government were completed in time, the majority of the respondents were neutral with a mean of 3.3086. The majority of the respondents were also neutral as to whether there was good funds absorption rate in the county government and finally, the majority of the respondents were also neutral as to whether the decision made was made efficiently and easily in the county government.

Table 3: Regression Coefficient

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.861	0.185		4.651	0.000		
	Budget Monitoring	0.910	0.082	0.780	11.039	0.000	0.230	4.355

a. Dependent Variable: Financial Performance of County Governments

The regression model represented in *Table 3* indicates that monitoring has a significant positive relationship with financial performance ($p < 0.05$). A unit increase in budget monitoring contributed to a 0.910 increase in financial performance (β = 0.910, $p < 0.05$).

HO_1 There is no significant relationship between budget monitoring and financial performance of the County Government of Kericho

The study established that there existed a significant positive relationship between budget monitoring and financial performance. Therefore, the null hypothesis was rejected meaning that the alternate was accepted. This means that budget monitoring has an appositive relationship with financial performance (β = 0.910, $p < 0.05$). The study was in agreement with Chebet (2013) and Kipkemboi (2013) studies that established that efficient budgetary implementation has a positive relationship with financial performance.

CONCLUSION AND RECOMMENDATION

The study established that budgetary monitoring has a significant positive relationship with financial performance (β = 0.910, $p < 0.05$). The study revealed that the internal audit function at the county strengthened the financial reporting enhancing transparency. The monitoring and evaluation section of the county government was also found to be operational. The findings further revealed that the county government submitted its financial reports to the controller of budgets and the auditor on a timely basis. Reports from the two constitutional bodies were always evaluated and recommendations adopted.

The study concluded that budget monitoring was found to be efficient. This was due to the efficient audit function at the county government, availability of efficient monitoring, and evaluation of the government. The use of IFMIS contributed greatly in ensuring that dispersal of money is efficient and this also enhances audit trails.

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