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FINANCIAL PLANNING PRACTICES AND BUDGET IMPLEMENTATION IN COUNTY GOVERNMENTS OF KENYA

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***Abstract*:** *Since devolution in 2013, much has been done to improve the budgeting process in the counties but very little has been done to address issues of budget implementation in county governments. The office of the Controller of Budget has observed that there is always low absorption of resources especially with development fund in many counties. This indicates poor budget implementation. The present study therefore sought to establish the effect of financial planning practices budget implementation in county Governments in Kenya. The specific objectives of the study were to establish the effect of risk management on budget implementation in county governments; to determine the effect of revenue management on budget implementation in county governments; to investigate the effect of budget formulation skills on budget implementation in county governments in Kenya, and to establish the effect of stakeholder engagement on budget implementation in county governments in Kenya. The descriptive research design was used in this study. The target population for this study was all the 94 Directors of Accounting Services in the two arms of Government in the 47 Counties in Kenya. A census survey was used to select the 94 Directors of Accounting Services to participate in the study. The study will use primary data to accomplish the research objectives. Regression methods and correlation analysis were used to analyse that data. Results show that; risk management has a positive significant effect ($\beta = 0.270$, $p = 0.007$) on budget implementation of the counties; revenue management affect budget implementation positively and significantly ($\beta = 0.117$, $p = 0.001$); budget formulation has a positive significant effect on budget implementation ($\beta = 0.257$, $p = 0.034$); stakeholder engagement has a positive significant effect ($\beta = 0.248$, $p = 0.000$) on budget implementation. The findings may increase efforts to improve understanding of expenditure control and budget implementation combined with increased flexibility for managers in return for stronger accountability for the results, so as to enable them give better service delivery.*

Keywords: *Financial Planning Practices, Budget implementation, County Governments*

INTRODUCTION

According Budgeting is the basis of the management control process in nearly all institutions (Hansen *et al.*, 2013) and is known as a common accounting tool that institutions use for implementing strategies (Ostergre and Stensaker, 2017). The purpose of a budget is to give targets and plans financial values, making the progress easily measurable and to transform the strategic ideas into understandable operative actions through public expenditure (Hanninen, 2018). The main objectives of public expenditure are to achieve fiscal discipline, allocate resources in a way that reflect government policy priorities and deliver public service effectively and efficiently. The components of budget process include: preparation, planning, execution, accounting, control,

reporting, monitoring and evaluation as well as the existing legal framework. Therefore, a budget is used as performance evaluation tool. Budgets are however actualized through budget implementation.

Budgeting in public sector is used as a planning document. Institutions use it as a guiding tool in the implementation of activities. The financial task in budget implementation includes spending money specified, maximizing saving and avoiding over expenditures during the end of the financial year. A good budget implementation process should ensure that the intended government policies and priorities are achieved, operational efficiency, effective service delivery, transparency and elimination of corruption (Shard & David, 2017). Government budgets can either be classified as surplus when the revenue exceeds expenditure, deficit budget when expenditure exceeds revenue and a balanced budget when expenditure and revenue are equal (Smith *et al.*, 2014).

In Kenya, the budget implementation process aims at maximizing the contribution of public expenditure to national welfare. The Public Management Act 2012 section 35 and section 125 gives the guidelines on the national and county governments' budget making, approval and implementation procedures. The budget process in Kenya is an important part of government planning and decision making in itself, the budget making process in Kenya is a comprehensive process which begins in August of the current financial year to December of the next financial year.

A financial year or (fiscal year, or sometimes a budget year) is the period that governments use for accounting and budgeting purposes and financial reporting. It varies in countries. A full financial year in Kenya begins on 1st July of the current calendar year and it ends on 30th June of the coming year. The constitution of Kenya provides the broad principles of public finance whereas the public finance management Act 2012 sets out the rules of how the national and county governments can raise and spend money (Kiringai, 2016).

Despite the introduction of devolution in Kenya, very little attention has been given to budget implementation as a tool of achieving planned targets and safeguarding public funds (Kiringai, 2016). The need for accountability and efficiency of service delivery in the public sectors across Africa and in Kenya, puts the public sector at the fore front of establishing control systems. Margah (2015) asserts that budgetary controls are important tools for a country's economy. This is because it allows planning for expenditures thus facilitating systematic spending. Finances are put to optimum use, extending benefits to national economy.

As observed by Kiringai (2016), Parliament and the 47 county assemblies are in charge of the approval stage at the national and county levels. At the approval stage, some of the key events are: Parliament adopting the budget policy statement (BPS) and the county assemblies adopting their respective county fiscal paper (CFSP) as a basis for future deliberations, amending and approving the budget estimates after the national or county executive (specifically the treasury) tables them before parliament or the county assembly and enacting the appropriation bill and any other bills required to implement the budgetary proposals. The executive at the national and the county level is in charge of the implementation stage. The executive implements the budget proposals passed by parliament or the county assemblies. This stage involves: evaluating and accounting for, the national and county governments' budgeted revenues and expenditures; and reviewing and reporting on those budgeted revenues and expenditures every three months. The national government and county governments are required to prepare quarterly budget implementation reports and submit to the office of controller of budget (COB) who is mandated to oversee the implementation of budgets in national and county governments.

Financial Planning involves creating goals, policies, procedures, programs, and budgets related to the financial activities of an organization. The strategic long-term financial plans provide a framework for developing short-

term operational plans. The short-term plans typically cover a period of one to two years, while the long-term plans span from two to ten years. The purpose of this approach is to minimize uncertainties and risks that could impede the company's growth, thus ensuring stability and profitability. In everyday language, a financial plan can refer to a budget or a plan for managing and allocating future income, applicable to both private and public sectors.

A study by Adongo (2017) shows that since independence Kenya has introduced a number of reforms to the budgetary process with an aim of maximizing benefits accruable from spending through budget reforms in the public sector. These reforms are necessitated by perceived unsatisfactory performance when compared with the expectations of the budget provisions. In spite of these attempts to reform budgetary process in Kenya, it remains unsatisfactory instrument of achieving public policy objectives. This is because budgets are not clearly linked to the planning process and approved policies. The mismatch between expenditures and revenues are unending which leads to mini-budgets, reallocations of budget lines and supplementary budgetary estimates.

Since the advent of devolution in 2013, counties been shown to have low budget absorption rates over the years. For example, in the Financial Years 2017/18, 2018/19 and 2019/20, statistics from the Commission for Revenue Allocation (CRA) have shown that there was an under-absorption of the allocated development budget of 35%, 37% and 34% respectively in the counties. This shows poor budget implementation. There is always low absorption of resources especially with development fund, at the same time, little support has been given to monitoring and evaluation of s. Also experienced are large deviations between approved budget and actual spending which tend to undermine policy and planning. Use of revenue at source and leakages in revenue collection has led to underperformance in revenue management. Despite there being a number of studies that have been conducted to evaluate the reasons of this low budget absorption, the factors affecting budget implementation by counties.

Despite the presence of budgets in all counties, the majority of them have struggled with effectively implementing their budgets (CRA, 2019). A notable instance occurred in December 2014 when 27 counties had already depleted their budgeted revenue, resulting in impending financial crises, including salary payment difficulties (GOK, 2018). The budget implementation challenges faced by county governments can be attributed to inadequate financial management practices. According to the Constitution of Kenya (2010), the primary source of budget funding for counties is the Central Government. However, these funds are sometimes delayed or disbursed in installments, posing challenges during the budget implementation process (Gachithi, 2019). For instance, in the 2014/15 financial year, Kitui County was allocated 6.3 Billion Shillings but received only 5.1 Billion, while Marsabit received 6.6 Billion instead of the allocated 6.7 Billion. This points to inefficiencies in budget implementation in the counties. The present study will seek to link financial planning practices to budget implementation in the counties.

Previous studies done in Kenya on budgetary process are not exhaustive on the effect of financial planning practices on budget implementation in counties. Kihara (2013) studied the factors affecting the implementation of strategic performance measurement system of parastatals in Kenya concentration on one aspect of strategic performance, while Gachithi (2015) focused on factors influencing budget implementation in public institutions in Kenya giving an overview of institution and the budgetary process it adopts. The study by Njagi and Malel (2017) examined the relationship between budget management strategies and job performance in organizations concentrating on parastatals while Maritim (2013) examined the effect of budgetary process on budget variances. It is evident from the above studies that the effect of financial planning practices on budget implementation has received low attention. Thus, this study therefore sought to fill this gap by seeking to

determine the effect of financial planning practices on budget implementation in County Governments in Kenya.

RESEARCH OBJECTIVE

To determine the effect of financial planning practices on budget implementation in County Governments in Kenya.

RESEARCH METHODOLOGY

The descriptive research design was used in this study. This is because the study described and critically evaluated the effect of financial planning practices on budget implementation in County Governments in Kenya. The target population for this study was all the 94 Directors of Accounting Services in the two arms of Government in the 47 Counties according to statistics available at the Counties. This study will target the Directors of Accounting Services because they are responsible for budget implementation. The study used the census to select the respondents for the study.

The study mainly used primary data to accomplish the research objectives. The main data collection instrument was questionnaires.

The data that was collected was edited for accuracy, uniformity and completeness and arranged for coding. The research used the multiple regression model below for data analysis;

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

Where: -

$\mathbf{Y}$ = Budget Implementation

$\boldsymbol{X_1}$ = Risk management

$\boldsymbol{X_2}$ = Revenue management

$\boldsymbol{X_3}$ = Budget Formulation skills

$\boldsymbol{X_4}$ = Stakeholder Engagement

$\boldsymbol{\beta_0}$ = Intercept of $\boldsymbol{Y}$

$\boldsymbol{\beta i}$ = Coefficient of independent variables

$\boldsymbol{\varepsilon}$= Error term

The independent variables X_1, X_2, X_3 and X_4 are factors used for this study that was measured using the various questions to be presented to the respondents in the questionnaire. The computer programme SPSS, version 24.0 was used to analyse the data. The level of significance for the variables in this study was established at 95% confidence level.

RESULTS AND DISCUSSION

The researcher first analysed the data descriptively in order to describe the general central tendencies of the responses concerning the study variables. The questionnaire was designed to have 5-point Likert scale measurement which is a measurement with five response categories ranging from “Strongly disagree” (1) to “Strongly agree” (5) which requires the respondents to indicate a degree of agreement or disagreement with

each of a series of statements related to explanatory variables. The information is presented in the sub-sections below.

Descriptive Statistics on Risk Management

The first variable of the study was Risk Management The descriptive statistics for Risk Management based on the responses received is shown in Table 1 below.

Table 1: Descriptive Statistics on Risk Management

Statement	N	Min	Max	Mean	Std. Dev
We conduct risk identification on a regular basis	78	2	4	3.54	0.954
Risk assessment is integrated in our systems	78	2	4	3.29	0.973
Risks are monitored by a dedicated team	78	2	4	3.48	0.890
The risk management system is effective	78	4	5	4.10	0.301
The county processes risk information as it comes.	78	4	5	4.01	0.598
There is a clear policy on risk management in our county	78	2	5	3.58	0.124
Weighted Average				**3.67**	**.879**

Descriptive results in Table 1 show that the Counties conduct risk identification on a regular basis (M= 3.54, S.D = 0.954), that the respondents neither agreed nor disagreed that risk assessment is integrated in their systems (M= 3.29, S.D = 0.973), and that they agreed on the issue that risks are monitored by a dedicated team (M= 3.48, S.D.=0.890). On the other hand, the respondents agreed on both issues that risk management system is effective and that the county processes risk information as it comes (M= 4.10, S.D. = 0.301 for both). The weighted average of 3.67 (S.D. =0.879) shows that the respondents generally agree that there are risk management practices in the Counties.

Descriptive Statistics on Revenue management

The second variable of the study was revenue management. The descriptive statistics for revenue management practice based on the responses received is shown in Table 2 below.

Table 2: Descriptive Statistics on Revenue Management

Statement	N	Min	Max	Mean	Std. Dev
There are continuous efforts to diversify revenue sources	78	4	5	4.06	0.891
We continuously build capacity within the revenue collection department to enhance revenue collection	78	2	4	3.48	0.979

The revenue collection is monitored by automated systems	78	2	5	2.94	1.091
There are performance measures that are implemented in revenue management	78	4	4	2.58	0.923
We set priorities for revenue management for the coming year at budget committees.	78	1	2	1.94	1.237
All departments prepare budget plans on revenue management prior to the budget year	78	1	5	2.54	1.154
Weighted Average				**2.93**	**0.732**

Table 2 reveals that the respondents agreed that there are continuous efforts to diversify revenue sources (M= 4.06, S.D. = 0.891). The respondents neither agreed nor disagreed that they continuously build capacity within the revenue collection department to enhance revenue collection (M= 3.48, S.D. = 0.979), and that there are performance measures that are implemented in revenue management (M= 2.58, S.D. = 0.923). The respondents however disagreed that set priorities for revenue management for the coming year at budget committees (M=1.94, S.D. = 1.237). The weighted average of 2.93 (S.D. = 0.732) shows that the respondents generally neither agree nor disagreed on whether there existed proper risk reduction practices in the Counties.

Descriptive Statistics on Budget Formulation

The third variable of the study was budget formulation. The descriptive statistics for the budget formulation practice based on the responses received are shown in Table 3 below.

Table 3: Descriptive Statistics on Budget Formulation

Statement	**N**	**Min**	**Max**	**Mean**	**Std. Dev**
The budget planners in the county departments are highly qualified	78	2	4	3.94	0.794
The budget planners have much experience in budgeting	78	2	5	3.52	0.926
The budgets are planned in conjunction with external experts	78	4	5	4.19	0.402
The budget planners are regularly trained on budgeting skills	78	2	4	2.53	0.723
The budget planners are regularly trained on budgeting skills	78	4	5	4.94	1.037
The staff are conversant with data analysis and technical skills.	78	1	5	2.45	1.005
Weighted Average				**3.60**	**0.839**

The descriptive findings of the study based on variable three show that the respondents agreed that the budget planners in the county departments are highly qualified (M= 3.94, S.D.=0.794), that the budget planners have much experience in budgeting (M=3.52, S.D.= 0.926), and that the budget planners are regularly trained on

budgeting skills (M=2.53, S.D.= 0.723). Respondents also agreed that the budget planners are regularly trained on budgeting skills (M=4.94, S.D.= 1.037). The respondents neither agreed nor disagreed that the staff are conversant with data analysis and technical skills (M=2.53, S.D. = 0.723). The weighted average of 3.60 (S.D. = 0.839) shows that the respondents generally agree that there existed budget formulation in the Counties.

Descriptive Statistics on Stakeholder Engagement

The fourth variable of the study was stakeholder engagement The descriptive statistics for the Stakeholder engagement practice based on the responses received is shown in Table 4 below.

Table 4: Descriptive Statistics on Stakeholder Engagement

Statement	N	Min	Max	Mean	Std. Dev
The budgets in your department are prepared in conjunction with other stakeholders	78	2	4	2.90	1.012
The planning of the budgets is always aimed at attaining accuracy	78	1	2	1.94	0.250
The budgeting information system is always accurate	78	4	5	4.23	0.425
The skills competency are aimed at achieving accuracy in budget estimates	78	4	5	4.42	0.502
All budgets have always achieved minimum variances	78	1	4	3.21	0.425
There are systems for stakeholder engagement	78	1	5	2.45	1.025
Weighted Average				**3.046**	**0.933**

Descriptive study results based on variable four show that the respondents agreed that the budgeting information system is always accurate (M=4.23, S.D.=0.425), and that the skills competency are aimed at achieving accuracy in budget estimates (M=4.42, S.D.=0.502). Additionally, the respondents agreed the budgets in your department are prepared in conjunction with other stakeholders (M=2.90, S.D.=1.012). The respondents however disagreed that the planning of the budgets is always aimed at attaining accuracy (M=1.94, S.D.=0.250). The weighted average of 3.046 (S.D. = 0.933) shows that the respondents generally neither agree nor disagreed on whether there existed proper stakeholder engagement strategies in the Counties.

Descriptive Statistics for Budget Implementation

The study's dependent variable was budget implementation. The results are presented in Table 5. The practices measuring budget implementation.

Table 5: Descriptive Statistics for Budget Implementation

Statement		Min	Max	Mean	Std. Dev
The budgets have always been followed when plans have been made	78	2	3	2.97	0.194
The budget is always reviewed to conform to the plans	78	1	4	2.72	0.626
There is a definite budget committee that implements the budgets	78	2	3	1.59	0.431
Any deviations from the budgets are immediately corrected	78	2	4	1.53	0.567
The budget is always discussed by all stakeholders	78	1	3	1.94	0.797
The rate of budget absorption is high	78	1	4	1.45	0.895
Weighted Average				**2.03**	**0.831**

Table 5 shows that budget implementation is very low. This is shown by the weighted average mean of 2.03 which indicates that the respondents generally disagree that there are effective budget implementation practices in the Counties. Out of the six indicators of Budget implementation, the respondents generally disapproved most the fact that the rate of budget absorption is high (M = 1.45 SD = 0.895). However, they were undecided on the statement that the budgets have always been followed when plans have been made (M = 2.97, S.D. = 0.194).

INFERENTIAL RESULTS

Correlation Analysis

Correlation analysis shows the direction, strength and significance of the relationships among the variables of study (Sekaran, 2000). Table 6 shows results of the correlation analysis.

Table 6: Correlation between Study Variables

	Y	X_1	X_2	X_3	X_4
Y	1				
X_1	0.769***	1			
X_2	0.612***	0.451	1		
X_3	0.786***	.321	.417	1	
X_4	0.564***	.178	.341	.411	1

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table from the results in Table 6, several conclusions can be drawn. First, it has been indicated that Risk management (X_1) is positively and significantly correlated with Budget implementation in Counties in Kenya.

This is indicated by the correlation coefficient of 0.769 that is significant ($p < 0.01$). This implies that there is a strong and significant positive association between Risk management and Budget implementation in Counties in Kenya implying that Risk management increases as Budget implementation increases in the Counties. Furthermore, the use revenue management (***X2)*** was found to be positively and significantly related to budget implementation as shown by the correlation coefficient of 0.612 ($p < 0.01$). This implies that there is a moderate but significant positive association between the use of revenue management and budget implementation in counties in Kenya implying that Revenue management increases as budget implementation also increases.

Moreover, Table 6 shows that budget formulation (X_3) is also positively and significantly correlated with Budget implementation with a significant correlation coefficient of 0.786 ($p < 0.01$) implying that the use of budget formulation increases as the budget implementation of the counties in Kenya also increases. This implies that there is a strong positive association between budget formulation and budget implementation in counties in Kenya. The correlation between stakeholder engagement (X_4) and Budget implementation was also found to be positive and significant 0.564 ($p < 0.01$). The implication here is that there is a weak positive association between budget formulation and budget implementation in counties in Kenya implying that there is a positive association between the budget formulation and the budget implementation in the counties in Kenya.

Regression Analysis

The regression results from the filed data are presented in the sub-sections below. Regression tests the magnitude between the variables. The results for the regression analysis are presented in Tables 7, 8 and 9 below.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Sig
1	0.821[a]	.674	.650	.000

The model summary in Table 7 above indicates that the general correlation between financial planning practices and budget implementation in counties is positive and highly significant. This is shown by the model correlation coefficient of 0.821. The suitability of the model in predicting budget implementation is revealed by the coefficient of determination (*R* square) value of 0.674. This implies that the 67.4% of budget implementation can be predicted by managing the financial planning practices, with other factors not in the model predicting the remaining 32.6%. Further, the significance of 0.000 shows that the model is significant. The model suitability relationship in the Table 7 shows that the general relationship between the variables is strong. Table 8 below on analysis of variance was also extracted to show the general relationship among the variables.

Table 8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.425	4	15.106	162.81	.000[a]
	Residual	6.773	73	.093		
	Total	67.198	77			

a. Predictors: (Constant), ***X₁, X₂, X₃, X₄***
b. Dependent Variable: ***Y***

The analysis of variance (ANOVA) Table 8 above shows that the model that predicts budget implementation at counties in Kenya using the financial planning practices is significant. This is based on the relatively large F-value of 162.81 that is significant. It therefore implies that the model is a significant predictor of budget implementation at counties in Kenya.

Table 9: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		Beta	Std. Error	Beta	t-stat	Sig.
1	(Constant)	0.320	0.146		2.192	.000
	X₁	0.270	0.061	0.264	4.426	.007
	X₂	0.117	0.041	0.113	2.853	.001
	X₃	0.257	0.098	0.204	2.622	.034
	X₄	0.248	0.134	0.233	1.851	.000

Dependent Variable: *Y*

From Table 9 above, several inferences can be derived. The constant term in the regression equation of 0.320 indicates the level of budget implementation that is in existence in the Counties.

On the regression between financial planning practices and budget implementation, the first sub-objective was to evaluate the effect of risk management on budget implementation at counties in Kenya. Table 9 shows that risk management has a positive significant effect (β = 0.270, p = 0.007) on Budget implementation of the counties. This implies that holding all factors constant, a unit increase in Risk management practices leads to a 27.0% significant increase in budget implementation at counties in Kenya. The second sub-objective was to determine the effect of Revenue management on Budget implementation in Counties in Kenya. Regression results in Table 9 show that revenue management affect budget implementation positively and significantly (β= 0.117, p = 0.001). This implies that a unit increase in revenue management results in a 11.7% increase in budget implementation when all factors are held constant.

Regression results based on the third sub-objective which was to establish the effect of budget formulation on budget implementation of counties in Kenya show that budget formulation has a positive significant effect on budget implementation (β = 0.257, p = 0.034). This implies that when all factors are held constant, a unit

increase in budget formulation leads to a 25.7% significant increase in the budget implementation in the organizations. The fourth sub-objective of the study find out the effect of stakeholder engagement on budget implementation at counties in Kenya. Regression results show that stakeholder engagement has a positive significant effect ($\beta = 0.248$, $p = 0.000$) on budget implementation. This implies that when all other factors are held constant, a unit increase in stakeholder engagement results into a significant increase in budget implementation of 24.8%.

CONCLUSIONS

Based on findings for the first sub-objective, which showed that risk management has a positive effect on budget implementation hence implying that holding all factors constant, a unit increase in risk management leads to a significant increase in budget implementation, it is concluded that risk management is an important factor in increasing budget implementation in the organizations. Following the results from the second sub-objective that revenue management affects budget implementation positively and significantly, it is concluded that revenue management is a significant contributor to increase in the budget implementation in the counties. However, of the four financial planning practices, revenue management was found to have the least significant positive effect. It is concluded therefore that revenue management is the least important in increasing the budget implementation of organizations such as counties.

Regression results based on the third sub-objective shows that budget formulation has a positive significant effect on budget implementation implying that when all factors are held constant, an increase in budget formulation leads to a significant increase in budget implementation in the organizations. It is therefore concluded that budget formulation is significantly important in increasing the budget implementation in the organizations. Findings from the analysis of data based on the fourth sub-objective which was to evaluate the effect of stakeholder engagement on budget implementation in the counties show that stakeholder engagement has a positive significant effect on budget implementation. It is therefore concluded that stakeholder engagement is a significant positive contributor to Budget implementation of organizations.

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