

# **EFFECT OF BUDGETARY PROCESSES ON FINANCIAL PERFORMANCE OF COUNTY GOVERNMENTS UNDER THE WESTERN REGION ECONOMIC BLOC, KENYA**

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## **ABSTRACT**

Financial performance is a major concern for the county governments because through improved financial performance the county governments are able to fulfill their obligation of service delivery to the citizens. Hence, adhering to the budgetary processes is important in enhancing financial performance at the county level. However, the county governments in Kenya especially those in the Western Region Economic Bloc (WREB) are still encountering financial performance challenges despite undertaking of the budgetary processes. It is on this basis that this paper explored the effect of budgetary processes on the financial performance of the WREB counties in Kenya. Specifically, the paper examined the effect of budgetary planning, budgetary implementation and budgetary control and auditing on the financial performance of the WREB counties in Kenya. It also examined the combined effect of budgetary planning, implementation and control and auditing on the financial performance on the financial performance of the WREB counties. The study was anchored on the theory of budgeting and adopted the

causal explanatory research design. The target population was 191 budgeting officers, accountants and internal auditors from 5 WREB counties in Kenya. Data was collected using structured questionnaires and document analysis and both the descriptive and inferential statistics employed in data analysis. The results showed that budgetary planning, implementation and control and auditing significantly affected the financial performance of the WREB counties (Beta=0.428;  $p=.002<0.05$ , Beta=0.324;  $p=.000<0.05$  and Beta=0.460;  $p=.003<0.05$ ). Moreover, the joint effect of budgetary planning, implementation and control and auditing on the financial performance of the WREB counties was significant. It is recommended that the WREB counties should adhere to the provisions of the budgetary processes to enhance their financial performance.

**Keywords:** Budgetary Processes, Budgetary Planning, Budgetary Implementation, Budgetary Control and Auditing, Financial performance

## **INTRODUCTION**

Financial performance is operationalized as the measure of the extent to which organizations are able to meet their financial performance obligations at a particular period and time (Hartenian, 2021). It shows the extent to which organizations utilize their assets to create the revenue that enables them to fulfill their mandate to the citizens (Chapman, 2019). There are diverse mechanisms of examining financial performance. However, Haque and Arun (2022) have asserted that financial performance is concerned with the aggregated organizational net income from the operations as represented by the application of time tested financial ratios such as Return on Assets (ROA) and Return on Equity (ROE). Organizational financial performance can be examined within the context of financial statements that reveal the amount of generated revenue in comparison to the anticipated

expenditures. In the context of the county governments, Anderson (2019) operationalized financial performance as the ability of the county governments to amass sufficient resources to meet their financial obligations and ensure continuous service provision.

While financial performance is an important consideration in determining the ability of the county governments to meet their financial obligations without severing their credit worthiness, studies have not exhaustively examined the concept of financial performance in the context of the county governments. Preliminary studies, however, show that the county governments around the world continue to register poor financial performance fortunes which have hampered service delivery (Matrem & Jayamaha, 2023) including their ability to deliver quality services, pay employees, procure recurrent assets, pay vendors and clear outstanding or pending debts (Anderson, 2019). Isaboke and Kwasira (2016) identified six indicators of financial performance of a county government. These include continued improvement in revenue collection, improved service delivery, efficient financial management capacity, cutting down on unnecessary spending, ability to meet the financial obligations on time and effective implementation of strategic plans. Financial performance was conceptualized in this paper in terms of project completion, settling of bills, revenue collection, prudent financial management and meeting the general financial obligations as postulated by Sande (2023) and Mohamed (2018).

Budgetary processes are conceptualized as the preparation of budgets by quantifying and projecting organizational financial requirements usually in a year. In this paper budgetary processes were operationalized as budgetary planning, budgetary implementation and control and auditing. According to Berman (2020) budgetary planning refers to the process by which the revenue and expenses are planned by breaking down priorities, allocating financial resources and effectively communicating the development priorities. This enables the county government to make a detailed financial plan to facilitate effective implementation of the budget activities. In the county governments, budgetary planning starts with the preparation of budget estimates, public participation, communicating the development priorities and identifying the resources required to undertake the development agenda. Hence the parameters for assessing budgetary planning are setting up of priorities, alignment of the plans with strategic goals.

Budgetary implementation is concerned with executing the budget plans to maximize the intended financial performance outcomes. According to Shand (2023) budget implementation ensures that adequate resources are timely allocated to address the identified development priorities. This means that budgetary implementation depends on inclusive public participatory processes, adequacy of financial resources and a competent human resource to execute the programs. It also depends on the compliance with the prescribed procedures and guidelines on expenditure management.

Budgetary control and auditing is also a critical component of the budgetary processes that serves to safeguard institutions against financial misappropriation. Hawkensen (2019) has thematized budget control as an unperturbably systematic and continuous process schematizing financial performance targets, outlines, procedures, rules as well as boundaries in compliance with the stipulated regulatory frameworks and standards. In Kenya, the legitimate obligation to audit accounts of public entities is vested in the Auditor General's office (OAG). Hence, OAG independently scrutinizes the statements of accountability or the books of account of the county

governments to generate objective financial reports pertaining to revenue regeneration and expenditure. By showing how much money flows in and out of the county's treasury, budget control and auditing can help to ascertain whether the amount of financial resources spent had been budgeted (Joshi & Abdulla, 2019).

Globally, research interrogations have validated the perception that organizational financial performance is a vital issue worthy of consideration especially in the context of the county governments. As a result of this consideration, scholastic pursuits in the realm of budgetary processes and financial performance continue to increase worldwide. As expected, budgeting in the European nations has drawn enormous scholarly works given its anticipated prospects for accelerating institutional financial performance and leadership. For example, Qurant (2022) observed that budgetary processes have been adopted as mechanisms for promoting prudential financial management in Norway. In Germany, Schubert and Kirsten (2021) indicated that budgetary control helps in the identification of the relevant skills needed to make effective budgetary decisions. Similarly, Reichard and KÜchler-Stahn (2019) found that sound budgetary control processes in the public sector in Switzerland and Australia contributed to effective financial performance. In China, Yang (2023) found that budgetary processes were associated with the enhanced financial performance of the regional governments. Hartenian (2021) discovered that budgetary processes in the Saudi's regional governments depended on human resource competence and management support. However, problems associated with the auditing team and perceived autonomy of the regional governments have hampered the financial performance of regional governments in Malaysia (Hartenian, 2021)

Regionally, overreliance on the national governments in spite of the urgency of bringing services at the proximity of the citizens motivated the adoption of all-inclusive budgetary processes in the devolved governments. This is congruent with Alau, Salam and Abdikadir (2019) who found that the financial performance of the regional governments in South Africa was dependent on effective budgetary processes. However, Unegbu and Kida (2019) linked weaknesses in budgeting control and auditing to the fiscal maladministration and the general tendency to turn a blind eye to the fiduciary guidelines/provisions in the regional governments in Nigeria. In Ghana, Odiemeno (2020) looked at the audit control aspects of the budgetary processes and reported that reduced financial leakage were evident in regional governments that emphasized audit control mechanisms. However, there has been a corresponding increase in organizational profitability due to effective budgeting (Ocran, 2019).

According to Mburu, Kinyua and Ogollah (2020) most of the county governments in East Africa, especially in Rwanda have been credited with superb financial performance outcomes owing to the unprecedented accountability measures embraced in managing the available fiscal resources. In the local authorities in Uganda, increased revenue collection has been reported due to accountability measures (Fjeldstad & Hggstad, 2023). In Kenya, devolution has led to the transfer of functional responsibilities to the county governments (Ngigi & Busolo, 2019). Therefore, the procedures guiding budget making processes especially are elaborately explained in sub-sections ranging from 117 intermittently all the way through to 127 in so far as the Public Finance Management (PFM) Act 2022 is expressively concerned. The actual budgeting goes through three stages which

encompass planning, preparation and presentation for legislative approval (Gacheru, 2023). The treasury in the devolved government in collaboration with other players is mandated to initiate the budgetary processes. Although there are elaborate procedures guiding budget making, most county governments cannot achieve the desired financial performance outcomes (Kibugi, 2021). As a result, mini-budgets, budget reallocation and supplementary budget occur due to the mismatch between the expenditures and revenues (Gacheru, 2022).

For ease of governance, Kenya is divided into 47 devolved units of governance. Five of these counties are situated in the Western Regional Economic Bloc, collectively forming the WREB counties. These counties are Trans Nzoia, Kakamega, Bungoma, Vihiga and Busia. Kakamega County has the largest population (1.87 million people), Bungoma (1.6 million people), Trans Nzoia County (0.99 million people), Busia County (0.89 Million people) and Vihiga County (about 0.59 Million people) (KNBS, 2019). Politically the WREB counties were established in 2021 when the executive leaders of the region were collectively convinced that while the devolved systems of leadership were better placed to solve the long running political and governance challenges bedeviling the county governments.

Therefore, WREB counties conglomerated together with the perceived understanding that strategic inter-linkages guided by common interests and shared prosperity could possibly be guaranteed avenues of accelerating common growth and development. Hence, key economic goal of WREB is to speed up the processes of regional development by facilitating cross county investments and strategic partnership. However, the WREB counties have reported mixed results in their financial performance over the past three fiscal years (Otieno, 2020). For example, in 2021, the economic growth of the county government of Bungoma grew from 3.1% to 5.9% in 2021 while that of Kakamega County grew from 0.3% to 7.5%. Similarly, Trans Nzoia County grew by 4.7%, Busia County by 3.7% while Vihiga County grew by 4.9%. However, the expenditure for development exceeded their budget estimates (Kibugi, 2021) in contravention of section 107(2) of the Public Finance Management Act 2022.

Moreover, OCOB (2023) uncontentiously postulated that failure to remit the financial reports on time, directed the resources to finance activities of personal interests, dismal financial performance of the own source revenue, the unprecedented tendency to spend the resources collected before being accordingly accounted for as well as directing the said resources away from the budgetary provisions have adversely and inadvertently undermined the realization of the financial projections of the WREB counties. These undesirable constraints and contraventions have compromised the ability of the WREB counties to execute their scheduled development agenda (Okotchi, Nambuswa & Namusonge, 2020) to meticulously respond to the pledges made to the citizenry. However, the financial performance can be reliably accomplished when there are effective budgetary processes focusing on budgetary planning, budgetary implementation and budgetary control and auditing.

### **Problem Statement**

Accomplishing the financial performance goals of diligently serving the citizenry is undoubtedly the overriding goals of the county governments. When these units are operating optimally, they are

able to complete projects on time, settle their bills and increase employment rate, which align with the function of county governments in poverty eradication and provision of quality services (Mohamed, 2018). However, most of the county governments especially those in the WREB have not been able to fulfill their mandate due to persistent challenges in financial management, which can be resolved through effective budgetary processes. There are also reports of misplaced priorities in the WREB counties evident in higher allocation of the budget to recurrent expenditures, baffling budget shortfalls and staggered budget preparation (Wanyoike, 2019). These have led to overspending in areas that were not initially considered during budgetary planning thus resulting into unpaid bills and unfulfilled budget plans among other financial incongruences which collected dwarfed their overall financial performance. The Kenya Institute for Public Policy Research and Analysis revealed that most of the county governments failed to actualize their legislative mandate due to lack of best financial management practices associated with budgetary processes. Several studies have been done on budgetary processes including Mohamed (2018) which revealed that about 80% of the budget is spent on recurrent expenditures in each fiscal year. For instance, Okotchi, et al (2020) averred that public participation, planning and control significantly influenced the financial performance of counties in Kenya. However, the studies created both contextual and conceptual gaps and to fill these gaps, the paper examined the effect of budgetary processes on the financial performance of the county governments under WREB in Kenya.

## **LITERATURE REVIEW**

### **Theoretical Review**

Originally pioneered by Bower Joseph in 1970 the resource allocation theory argues that budgetary planning is the basis of allocation of resources in an organization. The theory argues that resource allocation exerts an influence on the type of strategic actions to be undertaken once a budget outlay has been projected and carefully planned for. Effectively allocation of resources has significant implication on the budgetary control processes in an organization and may in turn influence its financial performance. The theory considers resource allocation is a process where decisions are made regarding the proportion of resources that should be apportioned relative to varied competing demands. An assumption of the theory is that inefficiencies in resource allocation endeavors of the firm can adversely affect its financial performance. The first independent variable was budgetary planning which coheres with resource allocation has been established as the basis of resource allocation in the organization. In other words, resources in an organization are allocated on the basis of the prepared budgets. Thus, the theory was identified to be suitable as it underpinned budgetary planning consisting as an aspect of budgetary planning. The planning also assesses the deviation between the budget consumption level and outcomes in terms of financial performance as per the dependent objective in this study.

The theory was also guided by the expenditure Theory which was developed by Rubin in 1990. The proponent of this theory provocatively contended that the theory existed in two dimensions, the normative and descriptive perspective. In the normative perspective, a budgetary process is assumed to place more emphasis on the real and practical circumstances within the firm. Therefore, through this normative perspective, an organization is in good position of determining the soundest policies regarding budgetary implementation and expenditure. A clear understanding of this



normative perspective can allow firms to enhance on their financial performance. The main premise of the expenditure theory, the main premise is on provision of the rationale with key evidence offering explanations of variance in the budgetary implementation processes of the firm. Sharing more information on the variations in budget expenditure during budgetary implementation can go a long way towards establishing possible reasons for the deviations and their implication on financial objectives and goals of the business. During budgetary implementation, budgetary plans laid down at the initial phase of the budgetary process are executed and this requires significant expenditure as suggested by this theory. In the present study, the theory was relevant in anchoring this second and third study's objectives.

## **Empirical Literature**

### **Budgetary Planning and Financial Performance**

The important roles played by budgetary planning in communicating organizational objectives, targets and responsibilities cannot be overemphasized. Hence, budgetary planning can have substantial implications to organizational financial performance. Norven (2022) postulated the presence of a perceived link pitting budgetary planning and financial performance extensively owing to the fact that budgetary processes can assist to visualize the future changes in the financial prospects for the organization. Moreover, Sulistiyo and Pratiwi (2021) delved into ascertaining the circumstances under which budgetary planning would have a sway on financial performance in the context of social services in Karawang Regency, Indonesia. The questionnaires were wired to a sample of 150 respondents and the data collected was analyzed using descriptive and inferential statistics. The outcome of the study averred that budgetary planning and financial performance were significantly related. However, a contextual gap was evidently eminent based on the ascribed fact that the study was domiciled in Indonesia where it was linked with the financial performance of social services and not financial performance as was examined in the current study.

Regionally, Kwarteng (2018) examined the impact of budgetary planning in Ghana to find out if it had any unprecedented impact on resource apportionment focusing on homogenous firms. The study was based on a survey involving top business executives of the involved firms notably listed in the country's forex exchange market. The experimental-paradigm was adopted to analyze data and the findings demonstrated the plausible presence of an undoubted significant association between budgeting and resource allocation as moderated by financial performance management. The study indicated that firms performed optimally when resources were adequately allocated using universal budgetary planning principles. However, the findings created a contextual gap because budgetary planning was linked to resource allocation and not financial performance as considered in the current study. In Uganda Kyaligonza (2023) examined the budgetary planning as a predictor of financial performance of public institutions focusing on the Uganda Communications Commission (UCC). The study placed prominence on the survey design which permitted the interrogator to use both quantitative and qualitative techniques. It was clearly evident that associated linkages between information gathering for budgeting and financial performance was positive but moderate in comparison to the moderate link pitting objectives setting and financial performance while budget strategies formulation and financial performance considerably displayed strong linkages just as was expected and anticipated. Although the study averred that budgetary planning

enhanced financial performance in a significant manner in the context of UCC, the study was nevertheless located in Uganda which presented contextual differences.

In Kenya, Ngumi and Njogo (2023) interrogated the budgetary practices to discern their probable sway on the financial performance of indemnity firms. The enquiry considered the descriptive design as its preferred orientation which made it easy to simply combine diverse statistics. The study's outcome ascertained without a doubt that budgetary planning indeed presented negative linkages with financial performance. This presented a negative association and it was determined whether this is the case in the context of the WREB counties. In another study, Okotchi, et al (2020) examined the extent to which budgetary planning probably projected the financial performance of WREB counties. In strict adherence to the postulations of the contingency theory, all employees involved in the budgetary processes formed the study population and, consequently, census was adopted to come up with 72 study participants and it was these respondents that the investigator delved into fishing out data with the support of skillfully prepared questionnaires. Finally inferential statistics were decidedly considered in data analysis and the outcome postulated that budgetary planning enhanced financial performance. Although the study is important and appears to connect budgetary planning to financial performance, the results cannot be applied to the present study because the study was based in Trans Nzoia alone and not in all the WREB counties.

### **Budgetary Implementation and Financial performance**

Previous studies have scrutinized the perceived impact of budgetary implementation on institutional financial performance. It is evident from these studies that budgetary implementation plays a critical role in enhancing organizational financial performance (Hamimah, 2019). For instance, Putri and Herawati (2022) conducted a study on budgetary implementation and the competency of human resource as predictors of budget absorption in Bukittinggi City, Indonesia. The study adopted quantitative methods and sampled the respondents using the purposive sampling procedures that resoundingly singled out 55 study participants. While introducing the questionnaires as the preferred data gathering/collecting tools with the consequent usage of PLS to analyze data, the outcome of the study averred that budget implementation related significantly with budget absorption in comparison to human resource competence which was not significantly linked to budget absorption. This research has created a contextual gap as it was domiciled in the Bukittinggi City in Indonesia. A further consideration averred that a conceptual gap existed given that the reviewed interrogation did not link budgetary planning to financial performance but to budget absorption.

In Africa, Akpan and Chizea (2019) examined the determinants of failed local governments in Nigeria. Budgetary implementation was isolated as being necessary in delineating the financial performance of local governments. The *ex post facto* design was deemed suitable with the data being collected through questionnaires from a sample of 26 heads of 3 selected regional governments. The study ascertained that loopholes in the budgetary implementation undermined the financial performance of the concerned units of administration. However, the study was not domiciled in Kenya and used the *ex post facto* design and not mixed methods as proposed in the current study. Nationally, Okotchi et al. (2020) scrutinize the assumed determinants/components of budgetary process in regard to the financial performance of the Kenya's county governments in Kenya. The theory of budgetary process was considered a suitable theoretical conjecture as well as



the contingency approach. Based on the survey design, the study gathered data from 72 employees using the questionnaire which was consequently analyzed with the help of appropriate statistics most profoundly the multiple regression analysis. It emerged that budgetary process participation, considered alongside control and planning jointly enhanced the perceived financial performance of the concerned unit of analysis. However, conceptual gaps were evident since budgetary implementation was not linked to financial performance in the county.

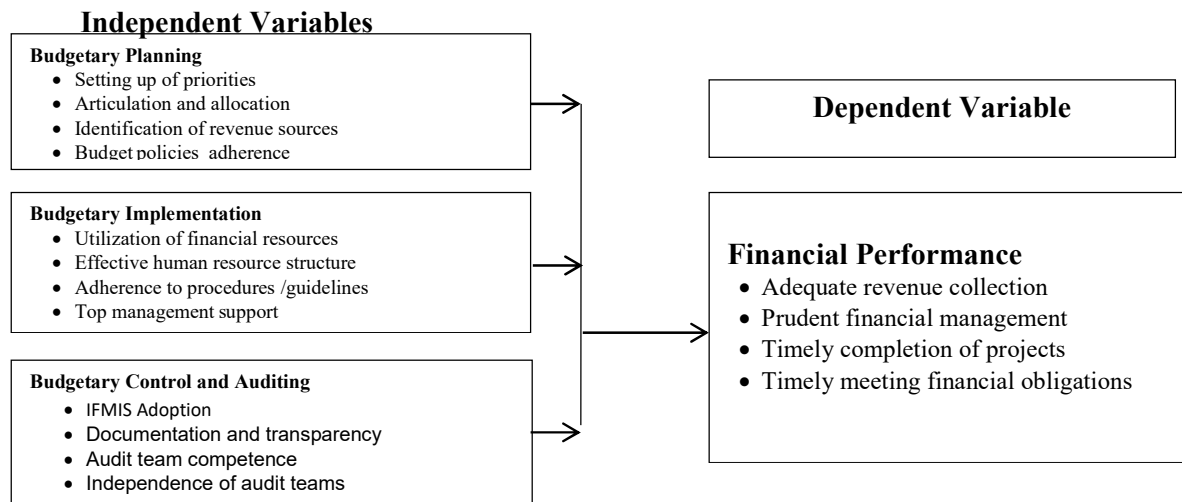
### **Budgetary Control and Auditing and Financial performance**

Budgetary control and auditing presents an essential assessment of organizational financial management. Deloof (2019) contended that expenditures incurred ought to be accounted for unless financial performance was to be boosted. Past scholarly works on budgetary control and auditing and organizational financial performance locally and beyond. Some of these studies have emphasized the importance of budget control and auditing. For example, Hartenian (2021) examined the organizational financial performance during tempestuous financial moments particularly in Middle East focusing on internal audit as a control mechanism. A Likert scaled questionnaire was used in gathering the required data on the factors perceived to be associated with budget control and auditing. Based on regression analysis, budgetary control and auditing was found to be effective instrument of enhancing organizational financial performance during turbulent times. The study was significant but it failed to interrogate the presumed linkages as far as the devolved units are concerned. In Pakistan, Saqbharna, et al (2023) examined the moderating effect of audit activities in the perceived correlation between firm size and financial performance. The survey approach was adopted in which four regional governments were singled out as the units of analysis. Using inferential statistical analysis, budgetary control and auditing was ascertained to significantly moderate the perceived linkages between firm size and financial performance in so far as auditing was concerned. In the study, however, budgetary control and auditing was employed to predict and not to moderate the presumed associations.

Regionally, Enow and Kamala (2022) looked at budgeting as an aspect of financial performance of the Cape Metropolis, South Africa. With the expressed usage of the questionnaire, data was determinately collected from 200 purposively sampled employees of the Cape Metropolis and the analysis of the results revealed that financial performance was dependent on the control measures put during project implementation. However, the results were general making it not quite generalizable in the present study. Still taking a glimpse of the region, Arutamtrima (2019) interrogated the prescribed functionality of the auditing system in Sudan in protecting the loss of public funds in regional governments. With the direction of the descriptive design, the study outcome showed that financial management was linked to the presence of internal audit but auditing of books failed to enhance the financial performance of the regional governments due to the shortage of qualified accountants and reference manuals on accounting systems. It was indeed clearly and poignantly ascertained that budgeting supported the formulation of tractable expenditure prognostications which ended up promoting culpability of the overall financial performance of the health facilities. This notwithstanding, the interrogation excluded the devolved units of analysis, hence inapplicable to shed light on the present study.

Moreover, Korir (2020) examined budget control and its probable financial performance effect within the context of Nakuru County. In consideration of 36 respondents, the descriptive survey approach was employed with the questionnaire being involved in getting the required data. The analysis postulated clearly that budget control helped to minimize financial leakages. The current study ascertained the extent to which budgetary control and auditing significantly influenced the financial performance of WERB counties.

### Conceptual Framework



*Figure 1: The Conceptual Framework  
Source: Adapted from Literature Review*

## RESEARCH METHODOLOGY

### Research Design

The study employed the causal explanatory research design to interrogate the presumed linkages among the study variables. According to Kothari (2004) the causal explanatory research design made it possible to ascertain the effect of the predictor variables on the outcome variable.

### Study Population

The budgeting officers, accountants and internal auditors from the 5 WREB counties (Bungoma, Busia, Kakamega, Vihiga and Trans Nzoia) composed the population. The five WREB counties had a total of 191 budgeting officers, accountants and internal auditors. The study’s population is captured in Table 1.

**Table1: Target Population**

<b>County</b>	<b>Category</b>	<b>Officers/Employees</b>
<b>Bungoma</b>	Budgeting Officers	8
	Accountants	25
	Internal Auditors	8
<b>Kakamega</b>	Budgeting Officers	10
	Accountants	25
	Internal Auditors	7
<b>Busia</b>	Budgeting Officers	9
	Accountants	21
	Internal Auditors	5
<b>Vihiga</b>	Budgeting Officers	8
	Accountants	19
	Internal Auditors	7
<b>Trans Nzoia</b>	Budgeting Officers	9
	Accountants	24
	Internal Auditors	6
<b>TOTAL</b>		<b>191</b>

*Source: WREB Counties Public Service Commissions (2024)*

### **Data Collection**

Primary and secondary data was gathered using the questionnaire and document guide were. The questionnaire enabled the researcher to collect first-hand information while document analysis was used to obtain secondary data regarding the study variables.

### **Data Analysis and Empirical Model**

Both descriptive and inferential statistics were used to analyze data. Frequencies counts as well as percentages were considered in describing expeditiously the information pertaining to the participants’ personal characteristics or bio-data. Means and standard deviations were used to describe the data on each of the study variables. Similarly, Pearson correlation analysis was used to ascertain the whether there were associated linkages pitying the predictor and outcome variables. Simple regression analysis was employed in testing hypotheses  $H_{01}$  to  $H_{03}$  while multiple regression analysis was embraced to check (accept or reject) hypothesis  $H_{04}$ . The regression model was:  $FP = \beta_0 + \beta_1BP + \beta_2BI + \beta_3BCA$ .

Where:

- P = Financial performance
- $\beta_0$  = constant
- $\beta_1$  to  $\beta_3$  = beta coefficients
- BP = Budgetary Planning
- BI = Budgetary Implementation
- BCA = Budgetary Control and Auditing
- $\varepsilon$  = error term

## **RESULTS AND DISCUSSIONS**

### **Descriptive Statistics Results for Budgetary Planning**

The premier objective scrutinized the effect of budgetary planning on the financial performance of the WREB counties. The participants’ responses to the statements pertaining to budgetary planning are presented in Table 2.

**Table 2: Descriptive Statistics for Budgetary Planning**

Statements/Parameters	N	Mean	Std. Deviation
Budgetary planning is guided by policy documents	111	4.4414	.64222
Budgetary planning is aligned with the county's strategic goals	111	4.2793	.76481
There is public participation in budgetary planning	111	4.2432	1.00196
Budgetary planning policies are known to all county employees	111	4.1982	1.04290
Budget activities adhere to the proposed budget calendar	111	4.1081	.96626
Budgetary planning is guided by the development priorities	111	4.0901	.90000
Budgetary planning is based on analysis of revenue sources	111	4.0180	.73833
There is adequate funds allocation of funds to different projects	111	3.9550	.87788
The budget schedules match financial disbursement schedules	111	3.8649	.97688
The county has identified diverse revenue sources	111	3.8288	1.10267
Valid N (listwise)	111		

*Source: Survey Data, 2024*

Table 2 presents the descriptive statistics for budgetary planning in the WREB counties. It is evident that budgetary planning was guided by key planning policy documents (M=4.4414; SD=0.64222). It was also evident that the budgetary planning was aligned with the strategic goals of the counties (M=4.2793; SD=0.76481). This implied that there were public participation and engagement in budgetary planning activities (M=4.2432; SD=1.00196). The study also revealed that the budgetary planning policies were known to all county employees (M=4.1982; SD=1.04290) while budget activities adhered to the proposed budget calendars (M=4.1081; SD=0.96626). It is also evident that the budgetary planning was guided by the counties' development priorities (M=4.0901; SD=0.9000) and that the budgetary planning was based on the analysis of the revenue sources (M=4.0180; SD=0.73833). The respondents concurred that there was adequate allocation of funds to different projects (M=3.9550; SD=0.87788). As a result, the budget schedules matched the financial disbursement schedules (M=3.8649; SD=0.97628) while the counties had identified diverse revenue sources (M=3.8288; SD=1.100267). Based on the results it was evident that budgetary planning was effectively carried out by the WREB counties.

### Descriptive Statistics Results for Budgetary Implementation

The budgetary implementation in the WREB counties was analyzed and the results pertaining to the statements on budgetary implementation are presented in Table 3.

**Table 3: Descriptive Statistics for Budgetary implementation**

Statements/Parameters	N	Mean	Std. Deviation
Staff have requisite experience in implementing budgetary processes	111	4.2523	1.03105
Staff possesses adequate knowledge in executing the budget	111	4.1892	.84760
The county deploys competent staffs to execute the budget activities	111	4.0811	.92574
The management support the implementation of the budget activities	111	3.8739	.82150
Human resource is continuously developed to enhance budgetary implementation	111	3.9730	.99507
There are clear procedures and guidelines on budgetary implementation	111	3.8919	.97562
Budgetary implementation is decentralized to the departments	111	3.8198	1.14573
There is a sound budgetary implementation framework	111	4.0631	.97495

Funds are released promptly to enhance budgetary implementation	111	3.9279	1.07629
There is community engagement in budgetary implementation	111	3.9910	.98623
Valid N (listwise)	111		

*Source: Survey Data, 2024*

The results in table 3 show that budgetary implementation was examined by ten parameters. The responses gathered based on these parameters postulated that the staff had requisite experience in implementing budgetary processes (M=4.2523; SD=1.03105). Moreover, it was evident that the staff possessed adequate knowledge in executing the budget (M=4.1892; SD=0.8476) and that the county deployed competent staffs to execute the budget activities (M=4.0811; SD=0.92574). Moreover, the respondents were concomitant that the management supported the implementation of the budget activities (M=3.8739; SD=0.8215) and that the human resource was continuously developed to enhance budgetary implementation (M=3.9730; SD=0.99507) such that there were clear procedures and guidelines on budgetary implementation (M=3.8919; SD=0.97562). It is significant to note that budgetary implementation was decentralized to the departments (M=3.8198; SD=1.14573). Furthermore, the results supported the assertion that there were sound budgetary implementation frameworks (M=4.0631; SD=0.97495). Moreover, the respondents were committal that the funds were released promptly to enhance budgetary implementation (M=3.9229; SD=1.07213). In addition, the respondents were committal that there were community engagements in budgetary implementation (M=3.9910; SD=0.98623). It is evident that budgetary implementation was undertaken in the WREB counties.

### **Descriptive Statistics Results for Budgetary Control and Auditing**

The study sought to examine budgetary control and auditing in the WREB counties and the results are presented in table 4.

*Table 4: Descriptive Statistics for Budgetary Control and Auditing*

<b>Statement/Parameters</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The county IFMIS promote transparency in financial management	111	4.1892	1.07461
The IFMIS allows timely corrective actions to prevent budget deviations	111	4.1441	.96150
The county audit teams prepare accurate and reliable audit reports	111	4.0901	.98673
The county audit teams are competent to determine the level of compliance with financial policies	111	4.0901	.80396
The financial and non-financial reports uphold high level of integrity	111	4.1802	.77692
There is accuracy and reliability of financial management systems	111	4.2162	.67964
The county audit teams carry out their work fairly and objectively	111	3.9279	1.01544
Through audit reports the management is able to transparently identify revenue shortfalls	111	3.8919	1.19355
Checks and balances are put in place to minimize financial misuse	111	4.0631	.88707
The county audit team work independently and interdependently	111	3.9730	1.13185
<b>Valid N (listwise)</b>	<b>111</b>		

*Source: Survey Data, 2024*

As shown in Table 4, ten statements were used to solicit the respondents' views regarding budget control and auditing. The results showed that the counties' IFMIS promoted transparency in financial management (M=4.1892; SD=1.07461). Moreover, the IFMIS allowed timely corrective actions to prevent budget deviations (M=4.1441; SD=0.9615). It was also evident that the county audit teams prepared accurate and reliable audit reports (M=4.09013; SD=0.91276). In addition, the respondents agreed that the county audit teams were competent to determine the level of compliance with financial policies (M=4.0901; SD=0.8039) while the financial and non-financial reports upheld high level of integrity (M=4.1802; SD=0.77692). The respondents also concurred that there were accuracy and reliability of financial management systems (M=4.2162; SD=0.67964). Moreover, the county audit teams carried out their work fairly and objectively (M=3.9279; SD=1.0168) and that through audit reports the managements were able to transparently identify revenue shortfalls (M=3.8919; SD=1.19355). Moreover, the checks and balances were put in place to minimize potential financial misuse (M=4.0631; SD=0.88707). Furthermore, the county audit teams work independently and dependently (M=3.9730; SD=1.3185).

### **Descriptive Statistics Results for Financial performance**

The financial performance was considered as the outcome variable and the results on the responses to the statements used to examine financial performance are presented in table 5.

*Table 5: Descriptive Statistics for Financial Performance*

<b>Statements/Parameters</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The financial resources are spent as provided for in the budget	111	3.9279	.98822
The county government is financially solvent	111	3.8198	.91650
There is enough resources to complete planned programs/activities	111	3.8108	.96779
All county programs are undertaken until full completion	111	3.7568	1.36326
My county provides services without interruption	111	3.6396	1.18929
My county receives enough resources from national government	111	3.5946	1.25320
There is prudent management of financial resources in the county	111	3.4505	1.29852
In my county programs are delivered within the stipulated time	111	3.4324	1.21072
The revenue collected by the is adequate	111	3.0000	1.56089
The county is able to meet its financial obligations	111	2.9730	1.47992
Valid N (listwise)	111		

*Source: Survey Data, 2024*

From the results presented in table 5, financial performance was measured using ten statements. It is evident that the financial resources were spent as provided for in the budget (M=3.9279; SD=0.98822) and that the county governments were financially solvent (M=3.8198; SD=0.9165). Moreover, the respondents were committal that there were enough resources to complete planned programs and activities (M=3.8108; SD=0.96779) and that all the county programs were undertaken until full completion (M=3.7568; SD=1.36326). Also the respondents were committal that the county governments provided services without interruption (M=3.6396; SD=1.02110) and that the counties received enough resources from the national government (M=3.5946; SD=1.21285).



However, the respondents were noncommittal that there was prudent management of financial resources in the counties (M=3.45045; D=1.29852). Consequently, the respondents were noncommittal that the county programs were delivered within the stipulated time (M=3.4324; SD=1.21072) and the revenue collected by county governments was adequate (M=3.0000; SD=1.556089). Moreover, the respondents were noncommittal that the counties were able to meet their financial obligations (M=2.9730; SD=1.47992). These results imply that the respondents were noncommittal that the WREB counties had registered improved financial performance.

To reinforce the results gathered through questionnaires, documents pertaining to the financial performance of the WREB counties were also analyzed. The document analysis focused on the number of projects completed, amount of bills settled and the amount of revenue generated. The results obtained are presented in table 6.

**Table 6: Descriptive Analysis of the Financial Performance of the WREB Counties**

Indicators	FY	FY	FY	FY	FY	Mean	Std. Deviation
	2017/18	2020/19	2019/20	2020/21	2021/22		
Number of completed projects	3437	5039	4075	3034	6039	4328.8	1228.23
Amount of bills settled	13.26B	7.55B	10.35B	8.40B	8.95B	9.702B	2.23
Revenue generated	1.23B	1.47B	1.18B	2.51B	2.22B	1.722B	.605

**KEY:** B (Amount in Kenyan Shilling ‘Billion’); FY (Financial Year)

Sources: Republic of Kenya; County Government Consolidated Financial Statements (FY 2017/2020-FY2021/2022); Auditor General’s Report on the County Governments (FY 2017/2020-FY2021/2022); Office of the Controller of Budgets (OCOB); County Governments Budget Implementation Review Report, CIDPs, (FY2017/2020-FY2021/2022).

Table 6 show the descriptive statistics results for financial performance of the WREB counties. Documents pertaining to financial performance of the WREB counties were analyzed. In particular, the County Government Consolidated Financial Statements, the Auditor General’s Report on the County Governments, the reports of the OCOB and the CIDPs were analyzed from the (FY2017/2020-FY2021/2022). The analysis was based on the thematic content analysis where the number of projects completed, the amount of bills settled and the amount of revenue generated were considered as the parameters of financial performance. It was evident from the analysis that the mean average of projects completed in the WREB counties was 4328.8 with a corresponding standard deviation of 1228.23. Similarly, the average revenue collection from own sources for the WREB counties for the period under review was 1.722B with a standard deviation of 0.605. The document analysis also revealed that the average pending bills settled for the period FY2017/2020-FY2021/2022 was 9.702B with a standard deviation of 2.23.

It is evident that own source revenue for most of the WREB counties improved over the period under review in spite of the adverse effect of Covid-19 pandemic in the middle of the period under review. There was also high absorption rate of development budget as revealed by the high number of projects completed. However, the ICDPs for the period reviewed show that major development projects were still ongoing. The reports scrutinized revealed that that delay in disbursement of the equitable share revenue, failure to provide a report on the execution of development projects, late submission of financial returns and increase in wage bill hampered the financial performance of the

WREB counties. There were also inadequate budgetary controls that resulted in excess expenditure contrary to Section 135 and 154 of Public Finance Management (PFM) Act of 2012.

### **Correlation Analysis Results**

Correlational analysis was carried out to determine whether there were significant associations between the study variables. In this regard, Pearson’s product-moment correlation coefficient (r) was used to examine both the direction and strength of the associations of the concerned variables. The correlation analysis results are presented in Table 6.

**Table 6: Correlation Coefficients**

		FP	BP	BI	BCA
FP	Pearson Correlation	1	.330*	.361*	.447**
	Sig. (2-tailed)		.027	.011	.000
	N	111	111	111	111
BP	Pearson Correlation	.330*	1	.583**	.287**
	Sig. (2-tailed)	.027		.000	.002
	N	111	111	111	111
BI	Pearson Correlation	.361*	.583**	1	.558**
	Sig. (2-tailed)	.011	.000		.000
	N	111	111	111	111
BCA	Pearson Correlation	.447**	.287**	.558**	1
	Sig. (2-tailed)	.000	.002	.000	
	N	111	111	111	111

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

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

KEY; FP (Financial performance); BP (Budgetary Planning); BI (Budgetary Implementation); BCA (Budgetary Control and Auditing)

*Source: Survey Data, 2024*

The correlation statistics in Table 6 show that there exist significant relationships between the study variables at different lengths. For example, the results indicate a significant positive but weak relationship ( $r=0.330$ ,  $p<0.05$ ) between budgetary planning and the financial performance of the WREB counties. This suggests that as budgetary planning increases, there is a tendency for financial performance to improve. The results also show that there a weak positive relationship ( $r=0.361$ ) between budgetary implementation and financial performance of the WREB counties. However, the correlation is significant at the 0.011. The correlation analysis between budgetary control and auditing and financial performance reveals a moderate positive relationship, with a correlation coefficient of 0.447.

### **Regression Analysis for Budgetary Planning and Financial Performance of the WREB Counties**

The simple regression analysis for the effect of budgetary planning on the financial performance of county governments under WREB in Kenya was computed and the results of the model summary obtained are presented in Table 7.

**Table 7: Model Summary for Budgetary Planning and Financial performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.784 <sup>a</sup>	.615	.635	.1092

a. Predictors: (Constant), Budgetary Planning

*Source: Survey Data, 2024*

Table 7 presents the model summary for the relationship between budgetary planning and financial performance. The coefficient of determination (R-squared) for the relationship between budgetary planning and financial performance was 0.615. This indicated that 61.5% of the variance in financial performance of the WREB counties can be explained by budgetary planning. The adjusted R-squared, which takes into account the number of predictors in the regression model was 0.635 and the standard error of the estimate of 0.1092 reflected the accuracy of the regression model in predicting financial performance based on budgetary planning. It was, however, necessary to examine whether the model was fit and this was done by using ANOVA and the results obtained are presented in Table 8.

**Table 8: Analysis of variance for Budgetary Planning and Financial performance**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.407	1	2.407	13.446	.017 <sup>b</sup>
	Residual	52.181	109	.179		
	Total	54.588	110			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Budgetary planning

*Source: Survey Data, 2024*

Table 8 presents the results of the analysis of variance (ANOVA) for the regression model. The regression model accounts for a significant amount of variance in financial performance, as evidenced by the F-statistic of 13.446 and a p-value of 0.017, indicated that there was a significant and positive relationship between budgetary planning and financial performance. Hence, the model summary displayed goodness of fit. The beta coefficient results for budgetary planning and financial performance are presented in table 9.

**Table 9: Regression coefficients for Budgetary Planning and Financial performance**

Model		Unstandardized		Standardized		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	1.878	.745			2.522	.013
	Budgetary Planning	.695	.181	.513		2.242	.017

a. Dependent Variable: Financial performance

*Source: Survey Data, 2024*

From the findings presented in Table 9, there was a positive and significant relationship between budgetary planning and financial performance of the WREB counties as indicated by  $\text{Beta}_1=0.513$  and probability value (p-value)= $0.017 < 0.05$  respectively. Thus, one unit increase in budgetary planning resulted in 0.513 increase in the financial performance of the WREB counties. Based on the results, the study confirmed that budgetary planning significantly affected the financial performance of the WREB counties.

### **Regression Analysis for Budgetary Implementation and Financial performance of WREB Counties**

The simple regression analysis for the effect of budgetary implementation on the financial performance of the WREB counties was computed and the model summary results are presented in Table 10.

**Table 10: Model Summary for Budgetary Implementation and Financial performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741 <sup>a</sup>	.5491	.531	.11681

a. Predictors: (Constant), Budgetary Implementation

*Source: Survey Data, 2024*

Table 10 provides the results of the model summary for the relationship between budgetary implementation and financial performance. The coefficient of determination (R-squared) for budgetary implementation is 0.5491 which implies that 54.91% of the variation in the financial performance of the WREB counties. The adjusted R-squared value of 0.531 accounts for the number of predictors in the model. The standard error of the estimate was 0.11681, indicating the accuracy of the regression model in predicting the financial performance based on budgetary implementation. ANOVA for budgetary implementation and financial performance was computed and the results presented in Table 11.

**Table 11: Analysis of Variance for Budgetary Implementation and Financial performance**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.171	1	7.171	26.364	.001 <sup>b</sup>
	Residual	51.416	109	.272		
	<b>Total</b>	<b>54.588</b>	<b>110</b>			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Budgetary Implementation

*Source: Survey Data, 2024*

Table 11 indicates that the regression model, which included budgetary implementation as a predictor, is significant (F=26.364, p=0.01<0.05). The regression sum of squares value of 3.171 represents the amount of variation in the financial performance explained by budgetary implementation. Statistically, the model was significant and displayed goodness of fit. Further analysis focused on beta coefficients and the results are presented in Table 12.

**Table 12: Regression coefficients for Budgetary Implementation and Financial performance**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.143	.543		3.948	.000
	Budgetary Implementation	.549	.135	.441	2.593	.011

a. Dependent Variable: Financial performance

*Source: Survey Data, 2024*

The results in table 13 shows that budgetary implementation had a significant effect on the financial performance of the WREB counties as indicated by Beta<sub>2</sub>=0.441 and probability value (p-value)=0.011<0.05 respectively. For a unit increase in budgetary implementation, financial performance increased by 0.441 units. The findings provided evidence to conclude that budgetary implementation significantly influenced the financial performance (p=0.011<0.05) of the WREB counties.

### **Regression Analysis for Budgetary Control and Auditing and Financial performance of the WREB Counties**

The simple regression analysis for the effect of budgetary control and auditing on the financial performance of the WREB counties was computed and the results are presented in Table 14.

**Table 14: Model Summary for Budgetary Control and Auditing and Financial performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.826 <sup>a</sup>	.683	.6199	.01043

a. Predictors: (Constant), BCA

*Source: Survey Data, 2024*

Table 14 presents the model summary for budgetary control and auditing and financial performance of the WREB counties. The results demonstrate that approximately 68.3% (R-square=0.683) of the

variation in financial performance in the WREB counties was explained by budgetary control and auditing. The adjusted R-square of 0.1043 accounts for the number of predictors in the model, providing a more accurate measure of the relationship. The ANOVA results for budgetary control and auditing and financial performance are presented in table 15.

**Table 15: ANOVA for Budgetary Control and Auditing and Financial performance**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.846	1	6.846	26.364	.000 <sup>b</sup>
	Residual	48.742	109	.2747		
	<b>Total</b>	<b>54.588</b>	<b>110</b>			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Budgetary Control and Auditing

Source: Survey Data, 2024

Table 15 displays the results of the analysis of variance which reveal that the regression model, which included budgetary control and auditing as a predictor, was significant (F=26.364, p=0.000<0.05). Hence, the regression model exhibited goodness of fit. The regression coefficient results for budgetary control and auditing and financial performance are presented in Table 16.

**Table 16: Regression coefficients for Budgetary Control and Auditing and Financial performance**

Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	1.710	.510			3.350	.001
	Budgetary Control and Auditing	.659	.124	.647		3.616	.000

a. Dependent Variable: Financial performance

Source: Survey Data, 2024

The regression coefficients results presented in table 16, show that budgetary control and auditing has a significant effect on the financial performance as indicated by Beta<sub>3</sub>=0.647 and probability value (p-value)=0.000<0.05 respectively. This implied that for every unit increase in budgetary control and auditing, financial performance is predicted to increase by 0.647 units. Hence the study deduced that budgetary control and auditing in deed significantly and positively affected the financial performance of the WREB counties.

### Joint Regression Analysis for Budgetary Processes and Financial Performance of WREB counties

Multiple regression analysis was carried out where the composite variables were aggregated to assess their collinearity with financial performance of the WREB counties. The results of the model summary obtained for the composite variables are presented in Table 15.

**Table 15: Model Summary for the Joint Independent Variables**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.8759 <sup>a</sup>	.7673	.6911	.11193

a. Predictors: (Constant), Budgetary planning, Budgetary Control and Auditing, Budgetary Implementation

Source: Survey Data, 2024

Table 15 presents the model summary for the composite variables (budgetary planning, budgetary control and auditing and budgetary implementation) and financial performance of the WREB counties. The coefficient of determination (R-square) for the four independent variables was 0.7673 which implied that the four variables jointly accounted for 76.73% of the variation in the financial performance of the WREB counties. The analysis of variance was computed to determine whether

the regression model applied in predicting the linkages among the composite variables displayed goodness of fit. The results are presented in Table 16.

**Table 16: Analysis of Variance for the Joint Variables**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.841	4	8.960	22.283	.002 <sup>b</sup>
	Residual	46.746	106	.4021		
	<b>Total</b>	<b>54.588</b>	<b>110</b>			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Budgetary planning, Budgetary Control and Auditing, Budgetary Implementation

Source: Survey Data, 2024

Table 16 presents the results on the analysis of the variance (ANOVA) for the combined independent variables. The results indicate that the F-statistic of 22.283 was greater than the *f*-critical (3.83) implying that the model was significant and exhibited the goodness of fit. Further, the results imply that the four variables were good predictors of financial performance of the WREB counties. This was also supported by the reported  $p=0.02<0.05$ . The results of the combined regression coefficients are presented in Table 17.

**Table 17: Regression Coefficients for the Combined Independent Variables**

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
	(Constant)	1.259	.808		1.558	.022
1	Budgetary planning	.446	.214	.428	1.150	.002
	Budgetary Implementation	.380	.211	.324	.854	.000
	Budgetary Control and Auditing	.494	.161	.460	3.069	.003

a. Dependent Variable: Financial performance

Source: Survey Data, 2024

The results presented in Table 17 indicated that without the joint independent variables, the financial performance of the WREB counties would remain fixed at 1.259 units. However, a unit increase in budgetary planning in the joint regression coefficients would lead to a significant increase of 0.428 (42.8%) in the financial performance of the WREB counties. However, the significance level decreased from 0.017 to 0.02 under H0<sub>1</sub>. Similarly, a unit increase in budgetary implementation would lead to a significant increase of 0.426(42.6%) in the financial performance of the WREB counties ( $p=0.000<0.05$ ). It is evident that the amount of change decreased by 11.7% while the significance level remained unchanged under H0<sub>2</sub>. Moreover, a unit increase in budgetary control and auditing would lead to a significant increase of 0.46 (46%) in the financial performance of the WREB counties ( $p=0.03<0.05$ ). This represented a percentage decrease of 18.7% while the significance decreased from 0.000 to 0.003 under H0<sub>3</sub>. The regression model equation can be presented as:  $P=1.259+0.428BP+0.324BI+0.46BCA$  Where;

P= Financial performance

BP= Budgetary Planning

BI= Budgetary Implementation

BCA= Budgetary Control and Auditing



The results revealed that budgetary planning, budgetary implementation and budgetary control and auditing jointly affected the financial performance.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusion**

The study examined the effect of budgetary processes on the financial performance of the WREB counties. Setting up of priorities, articulation and allocation, alignment with strategic goals, identification of revenue sources, budget policies, adherence and periodic fund allocation plans in the WREB counties were found to have a weak but positive effect on the financial performance of the WREB counties. The relationship between budgetary planning and financial performance was found to be weak but positive. Hence, the parameters for budgetary planning accounted for 31% (0.31) of the variance in the financial performance of the WREB counties.

Secondly, the study concluded that the relationship between budgetary implementation and financial performance of the WREB counties was positive but moderate. The parameters for budgetary implementation notably utilization of financial resources, effective human resource structure, adherence to procedures and guidelines, staff competency and top management support accounted for 34.1% (0.341) of the variance in the financial performance of the WREB counties. It was also concluded that the relationship between budgetary control and auditing and financial performance was positive and moderate. It was evident that 42.7% of the variation in the financial performance of the WREB counties was influenced by IFMIS adoption, documentation and transparency, audit team competence and independence of audit teams.

### **Recommendation**

Based on the research findings several recommendations are made. Given that budgetary planning is related to financial performance, comprehensive budgetary planning should be undertaken to ensure that the WREB counties realize their financial projections. Budgetary implementation should also be undertaken in close compliance with the guidance from known budgetary implementation frameworks to facilitate the realization of the county's financial goals. It is also recommended that when budgetary control and auditing is undertaken, the integrated approach should be adopted so that all the phases of the budgetary processes are audited.

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