

## **THE EFFECT OF BUDGET CONTROL ON BUDGET ABSORPTION IN THE PUBLIC SECTOR: LESSONS FROM NAIROBI CITY COUNTY, KENYA**

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**International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366**

**Received:** 2<sup>nd</sup> September 2025

**Published:** 16<sup>th</sup> September 2025

Full Length Research

**Available Online at:** [https://iajournals.org/articles/iajef\\_v5\\_i1\\_268\\_279.pdf](https://iajournals.org/articles/iajef_v5_i1_268_279.pdf)

**Citation:** Ombaso. J., Kosgei, M. (2025). The effect of budget control on budget absorption in the public sector: lessons from Nairobi City County, Kenya. *International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366*, 5(1), 268-279.

## **ABSTRACT**

The relevance of budgeting in the public sector cannot be overemphasised. For efficient service delivery in governments, there need for proper budgeting and implementation of budgets. At the heart of efficient resource is budget control. However, despite elaborate measures and emphasis on budgeting and prudent expenditure, budget control remains elusive. Besides, while absorption rate for recurrent expenditure is high at over 90%, development budget absorption rate in Nairobi County is lower than 20%. This study aimed to investigate the effect of budget control on the budget absorption of the Nairobi City County Government. The study was anchored on stewardship theory. The research design adopted for this study was a cross-sectional research design. Target population was 304 managerial staff in the Nairobi County government from which a sample of 172 participants was selected using stratified random sampling technique. Data from both primary and secondary sources were utilised collected using semi-structured questionnaire and data collection sheet. Descriptive statistics,

correlation analysis, and simple linear regression analysis were used to examine the data. SPSS version 25 to was used to analyse the data. Tables, were used to display the results. Descriptive results showed that respondents agreed that there were budget control mechanisms in place in Nairobi City County with an aggregate mean score of 3.894. Correlation analysis revealed that budget control had a strong positive and significant correlation with budget absorption ( $r = 0.721$ ,  $p = 0.001$ ). Regression analysis showed that budget control had a significant positive effect on budget absorption ( $\beta = 0.512$ ,  $p = 0.002$ ). The findings emphasize the importance of strengthening budget control mechanisms and aligning budgetary allocation with expenditure to improve budget absorption efficiency in Nairobi City County. The study findings are relevant to various stakeholders, including the Nairobi City County Government. Other county governments in Kenya can also draw insights from the study to enhance their budgeting practices.

**Keywords:** Budget Absorption; Budget Control; Public Sector.

## **INTRODUCTION**

The concept budgeting, budget control and budget absorption has generated a lot of interest among businesses and governments in the last few decades. According to Brusca et al, (2016), governments can only efficient public service if they are fair, transparent and accountable in their spending and ensure proper management. According to Kersan (2017), budget absorption refers to the actual expenditure of authorized funds. A lower absorption rate shows that counties are failing in respect to using authorized money, whereas a higher rate suggests that more funds are being absorbed (Achim and Borlea, 2015). However, presence of a realistic budget in the organization and good governance system does not translate to achievement of objectives. In

2012, Burger found that yearly budgets help keep spending in control and provide detailed information about how money is being spent.

Globally, absorption rate of funds by governments is generally low (<50%). The industrialized world, particularly the USA and the UK governments, have a high marginal eating inclination, has a high absorption rate. Malta has the greatest absorption rate of European funds at 100%, whereas the average absorption rate for the European Union is 27% (Zaman and Cristea, 2011). Additionally, out of the 28 member states of the European Union, Cyprus was the first to use 46 percent of the regional development funds allocated by the EU. In Indonesia, institutions were found to have slowed budget absorption rate during the first three quarters and then high absorption rate in the last quarter (Andriati, 2019). The effect of such activities was poor quality of work on planned projects and hindrances to economic growth.

Regionally the absorption rate is even lower. Global fund grants experience persistent and widespread low absorption rates on grant execution, especially in Sub-Saharan Africa (Mikus et al 2019). Government Spending Watch (GSW, 2015) analysed spending in 31 industrialized nations and found that in 2012 and 2013, monies allocated to sanitation, water, and market hygiene were underutilized by over 25% compared to education and agriculture. In Uganda, it was established by Byamugisha and Basheka (2016) that there is low budget absorption rate where the rate ranges from 20% and 60% of the approved budget for the donor funded projects and 80% for government funded projects. In Tanzania, absorption rate averaged 50% between 2021 and 2023.

In Kenya, the absorption rate is high on recurrent expenditure averaging 90% but absorption rate on development expenditure has been declining in the last few years having stood at 54.6% in 2019/2020 fiscal year between the recurrent and development expenditure. In 2023 absorption rate on development funds by ministries, departments and agencies was 36.1% dropping to 25.2% in the first half of 2024. Low absorption rates continue to affect mostly development budgets. According to Findley et al, (2017), about 30% of borrowed funds from international lenders remain unused annually. County governments in Kenya execute important functions to the public including; health services, agriculture, trade, water and sanitation, roads, early childhood development education and environmental conservation. These functions are critical to the public and meticulous public finance management including budgeting is key to realize delivery of these services. Sila (2006) stated that when there is no planning, budget absorption is undermined. This is echoed by Owuor (2023) who observed that the national government is skewed in sharing resources which in turn affected the performance of vital governmental tasks such as procurement processes at county level.

County governments on average absorbed 48.4 percent of their annual budgets in the first nine months of the fiscal year 2018/2019, (COB 2019). An efficient use of devolved monies requires a high absorption rate. During the first nine months of the fiscal year 2020/21, eight counties, Nairobi included, had an absorption rate of the development money lower than 20% (COB, 2021). Among these counties include; Isiolo, Machakos, Turkana, Kilifi, Nairobi, and Elgeyo Marakwet counties. According to (ICPAK), Nairobi County's percentage was the lowest at

11.1%. County governments in Kenya are under scrutiny for their inefficiency in providing public services due to their poor absorption rates. Specifically, Nairobi City County has perennially faced challenges associated with garbage collection, poor sanitation, and drainage, poor road networks, pollution such as noise and environmental pollution, poor service delivery in hospitals including lack of essential drugs, poor housing, and poor emergency response to disasters such as fire.

### **Statement of the Problem**

The budget absorption rate is central in determining whether Nairobi City County delivers the critical functions as outlined in the constitution. The Nairobi County has established a budget implementation committee that strives to ensure there is proper allocation and implementation of the budget. However, despite efforts by the county government of Nairobi there seems to be little improvement in absorption rate of the budget as required by law. In the last six years, development budget absorption in the Nairobi City County has been low. In 2017/2018 the absorption rate was 26.10%, 2018/2019 it was 78.90%, in 2019/2020 it was 85.7%, 2020/2021 it was 50.13%, 2021/2022 it was 46.40% and in 2022/2023 it was 38.8% (KNBS, 2023). This clearly demonstrates under absorption of the approved budget throughout the various financial periods. Cash flow in the county is a critical element in its performance; however, the cash transfer from the National treasury has been slow.

Previous scholars have attempted to explain the relationship existing between the study variables. For instance, Pimpong and Laryea (2016) conducted a study on budgeting and financial performance and concluded that budgeting positively correlated with financial performance of non-bank financial organizations in Ghana. Kiyemba (2018) investigated whether factors influence fiscal responsibility at the Ugandan municipal level. Rotich and Ngahu (2015) did research on factors affecting budget utilization in Kericho County. Koech (2015), examined the relationship between budgetary control and the performance of firms listed on the NSE. He established how budgetary control affects company performance. However, there is a contextual difference. Kipkirui (2020) examined the relationship between budget absorption and performance of the 47 counties in Kenya. The study established despite the existence of extant literature, there still exists methodological gaps, conceptual gap and contextual gaps. To address these gaps, this study sought to determine the effect of budget control on budget absorption in Nairobi City County, Kenya.

### **Objective of the Study**

To determine the effect of budget control on budget absorption in Nairobi City County, Kenya.

### **LITERATURE REVIEW**

Stewardship Theory, developed by Donaldson and Davis (1991) is a new perspective to understand the existing relationships between ownership and management of the company. The major principle of this theory is that managers should behave more like stewards than agents, putting the interests of their company ahead of their own. Managers should prioritize the success of the organization over their own gain (Torring & Bentzen, 2020). Therefore, managers are aware that their own needs are met when they work towards the goals of the firm.

Directors in their stewardship role prioritize doing the right thing and behaving honourably over looking out for their financial interests (Rouault & Albertini, 2022). The study found the theory applicable in anchoring the study because it aims at aligning organizational goals to that of managers to achieve better results. Therefore, the study will apply stewardship theory to support budgetary controls. This is in line with promotion of responsible budgetary planning aligned with organizational goals, ethical implementation of controls, continuous monitoring and evaluation, ethical considerations in decision-making, and stakeholder engagement.

There exists extant literature on the study variables. For instance, Schubert and Kirsten (2021) investigated the effect of budgeting control on the financial performance of SMEs in Germany. The study sought to examine the effect of budgeting control on the financial performance of SMEs in Germany. The study used the quantitative technique where data was gathered from the local business owner of SMEs located in Germany's three cities Munich, Berlin and Stuttgart because they have a high number of SMEs. Surveys were self-administered and also sent out to the business owners. The research instruments adopted included questionnaires and the interview guide. The study found that budgetary control integrates the organization's strategic planning with budgets and processes of cost control. The budgetary control also identifies the budgeting/financial skills required for better decision-making and identifies key financial indicators for the business and how and when to monitor them. The budgetary control identifies sources of financial and business data that provide insights into business and financial strategies when converted into budgets. The budgetary control helps interpret budgets and performance measurements as communication tools and finally helps to think pro-actively beyond budgeting. The study also found that budgetary control economizes management time by using the management by exceptional principle. The study was conducted in Germany, a developed economy and therefore the results may not be inferred in Kenya. Thus, there is a contextual gap.

AL Mahroqi (2021) examined the effect of budgetary controls on the financial performance of Oman telecommunication company. This study aims to assess the effect of budgetary control on the financial performance of the Oman Telecommunications Company. The survey method based on questionnaires and interviews was used. Data were analysed using frequency distribution, correlations, and regression analysis. Microsoft Excel was used to analyse the collected data. As for the interview, they were analysed by descriptive and explanatory methods. The results indicated that there is a positive relationship between budgetary control and the financial performance of the company, the differential impact of budgetary control techniques, and the confirmation of the company's use of the technique of variance analysis and accounting responsibility, as well as the importance of budgetary control procedures. The results also indicate the importance of support and the role of top management for budgetary control techniques. The study was however conducted in an Oman telecommunication company while the current study was conducted in Kenya. Thus, there is a contextual gap.

Halwiindi and Mwanza (2020) studied the effect of budgetary control on financial performance: A case study of a mining company in Zambia. This study aimed to establish the effect of budgetary control on the financial performance of First Quantum Minerals. The study used a mixed method approach using both quantitative and qualitative data. Data was collected

from both primary and secondary sources that included financial reports for First Quantum Minerals and a sample of 98 employees at First Quantum Minerals using questionnaires and informal interviews. Data analysis was done using financial ratios, SPSS, correlation analysis and content analysis. The study found that budgetary control had a positive effect on financial performance for First Quantum Minerals. There exists a contextual gap since the study was conducted in Zambia while the current study was conducted in Nairobi, Kenya.

Nafisatu (2018) studied the effect of budget and budgetary control on a firm's performance: A Case Study of the East African Portland Cement Company Limited. The purpose of this study was to evaluate the effect of the budgetary control system on the performance of the EAPC Company Limited. Descriptive research design was used to describe the independent variable whereas explanatory research design was used to describe the relationship between the independent and dependent variables in the study. Both primary and secondary data was used in the study. Questionnaires were used to collect primary data whereas secondary data was obtained from the published accounts of East African Portland Cement Company for the period 2012-2016. The Statistical Package for Social Sciences (SPSS) was used to analyse the data collected in order to generate descriptive statistics and inferential statistics for the study. The study established that there was a low positive correlation between budgetary controls and sales turnover. Thus, the various budgetary control types for instance, short-term form of budgetary control, long-term budgeting, flexible budgeting, zero based budgeting, rolling budgeting and activity-based budgeting are responsible for the low positive correlation. There exists a conceptual gap since the dependent variable was firm's performance while in the current study the dependent variable was budget absorption. Additionally, the study was conducted in the private sector while the current study was based in the public sector.

Mbuthia and Omagwa (2019) researched on the effect of budgetary control on financial performance of selected commercial banks in Kenya. The purpose of this study was to establish the effect of budgetary control on financial performance of selected commercial banks in Kenya. The study specifically sought to establish the effect of budget planning, budget implementation, budget control and budget review on financial performance of selected commercial banks in Kenya. The study adopted a cross-sectional descriptive design and the target population was the employees in credit, accounting/finance and operations departments in three selected commercial banks. Both secondary and primary data was used and analysed using trend analysis, multiple regression analysis and descriptive analysis. The study results indicated that budgetary planning has a positive and significant effect on financial performance. In addition, the study found that budget implementation was found to have positive and significant effect on financial performance. Further, budget control had a positive and significant effect on financial performance. Also, the study found that budget review was also found to have positive and significant effect on financial performance. The study found that budget planning had the most significant effect on financial performance of selected commercial banks in Kenya followed by budget implementation, budget review and budget control. The study was conducted in commercial banks while the current study was conducted in the public sector. Thus, there is a contextual gap.



## RESEARCH METHODOLOGY

This study adopted a cross-sectional research design by using a single moment in time to gather data from a group of individuals, which is the objective of this form of quantitative research design (Schmidt & Brown, 2019). Target population was 304 managerial staff in the Nairobi County government from which a sample of 172 participants were selected using stratified random sampling technique. The respondents were chosen at random from a population that is separated into three levels of management representing the top-level management, middle level management and low-level management.

The study used semi-structured questionnaires to gather primary data while secondary data collection sheet was used to collect secondary data on actual expenditure and budgeted expenditure. Both structured and open-ended questions were used in the survey. Data was analysed using SPSS software version 25.0. descriptive statistics including frequency, mean score and standard deviation was used to interpret the results. In addition, the study used correlation analysis via Pearson's product moment correlation coefficient to determine the strength of the relationship between budget control and budget absorption. Simple linear regression analysis was used to determine the nature of the relationship between budget control and budget absorption in the Nairobi City County Government.

The regression model took the form;  $Y_t = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \varepsilon$

Where: Y = Performance;  $X_1$  = Budget allocation;  $X_2$  = Budgetary execution;  $X_3$  = Budget control; t = time factor representing period;  $\beta_0$  = Constant term;  $\beta_1, \beta_2, \beta_3$  = Variable coefficients and  $\varepsilon$  = error term.

## RESEARCH RESULTS AND DISCUSSIONS

The participants in this study were 172 county administration employees in Nairobi. Out of 155 surveys sent out, an astounding 90.2% were filled out and returned.

### Descriptive Analysis

The objective of the study was to determine the effect of budget control on budget absorption in Nairobi City County, Kenya.

### Budget Control

This subsection presents the descriptive statistics on budget control, which assesses whether mechanisms for financial monitoring and accountability exist in Nairobi City County. The responses were analysed using the five-point Likert Scale. The results were presented in table 1.

*Table 1: Descriptive Statistics for Budget Control*

Aspects of Budget Control	Mean	Standard Deviation
The City County Government always compares actual expenditure with budgeted amount	3.947	0.768
Every department is supposed to compare their budgeted expenditure with actual expenditure	3.998	0.743
We always carry out variance of actual and expected expenditure	3.879	0.802
Variance analysis helps us to ascertain the level of efficiency	3.903	0.788
The objective of variance analysis is to take corrective action well in time	3.852	0.821
Corrective actions must be approved by county executive officer	3.783	0.808
<b>Aggregate Score</b>	<b>3.894</b>	<b>0.788</b>

*Researcher (2025)*

The findings suggest that budget control mechanisms in Nairobi City County are moderately effective, with an aggregate mean score of 3.894. Respondents agreed that variance analysis and expenditure tracking are widely practiced, though challenges exist in the approval of corrective actions. The results suggests that well-controlled financial processes lead to better budget absorption and enhanced service delivery (Benon, 2021). Schubert and Kirsten (2021) found that budgetary control improves financial efficiency by integrating strategic planning with expenditure monitoring, ensuring that funds are allocated and utilized appropriately.

### **Budget Absorption**

Budget absorption reflects how efficiently allocated funds are utilized within a fiscal year. To evaluate this, the study analysed secondary data on actual and budgeted expenditure from 2019 to 2023 to ascertain trends in fund utilization, budget variances, and financial efficiency in the county. The results were summarised in table 2

*Table 2: Budgetary Absorption Analysis*

<b>Period</b>	<b>Budget (Millions KES)</b>	<b>Actual Expenditure (Millions KES)</b>	<b>Budget Absorption (%)</b>
2019	7.48	5.90	78.90%
2020	3.27	2.80	85.70%
2021	3.95	1.98	50.13%
2022	5.63	3.02	46.40%
2023	11.88	4.61	38.80%

#### *Researcher (2025)*

The findings indicate a fluctuating trend in budget absorption, with the highest absorption rate of 85.7% recorded in 2020. However, the absorption rate declined significantly after 2020, dropping to 50.13% in 2021, 46.4% in 2022, and 38.8% in 2023. These findings suggest a progressive decline in financial efficiency, with a growing gap between budgeted and actual expenditure in recent years. The decline in budget absorption from 2021 to 2023 signals challenges in budget execution, procurement inefficiencies, and delays in financial disbursement. The sharp drop to 38.8% in 2023, despite a substantial budget increase (KES 11.88 billion), indicates significant inefficiencies in fund utilization, possibly due to bureaucratic delays and misalignment between resource allocation and actual expenditure capacity.

The high absorption rate in 2019 (78.9%) and 2020 (85.7%) suggests that budget governance mechanisms during this period were relatively effective. However, the subsequent decline highlights weaknesses in financial oversight and execution strategies, requiring improved financial planning, monitoring, and timely disbursement of funds. According to Farazmand (2023), effective budget execution frameworks—such as real-time expenditure tracking and automated disbursement systems—are critical in enhancing financial efficiency and reducing unspent funds in government institutions. While budget allocation has increased over the years, the falling absorption rates suggest weaknesses in budget execution and control mechanisms. The low execution rates in 2021 (50.13%), 2022 (46.4%), and 2023 (38.8%) emphasize the need for improved financial oversight, streamlined expenditure processes, and enhanced monitoring mechanisms to ensure effective fund utilization. Moulick and Taylor (2020) assert



that performance-based budgeting, where fund utilization is directly linked to service delivery, enhances budget absorption and minimizes financial inefficiencies.

### Correlation Analysis

Correlation analysis was performed to assess the degree and direction of the association between budget control and budget absorption in Nairobi City County. Results were summarised in table 3.

**Table 3: Correlation Analysis Results**

		Budget Absorption	Budget Control
Budget Absorption	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	155	
Budget Control	Pearson Correlation	.721**	1
	Sig. (2-tailed)	.001	
	N	220	155

*Researcher (2025)*

The results demonstrated that budget control has a significant positive association with budget absorption ( $r = 0.721$ ,  $p = 0.001$ ), suggesting that robust financial oversight and control procedures enhance resource utilization.

### Regression Analysis

A simple linear regression analysis was performed to assess the effect of budget control on budget absorption in Nairobi City County. Results were summarised in table 4.

**Table 4: Regression Analysis Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	0.878 <sup>a</sup>	0.772	0.770	0.40302		
Model	Sum of Squares		df	Mean Square	F	Sig.
Regression	83.936		1	83.936	516.768	0.000 <sup>b</sup>
Residual	24.851		153	0.162		
Total	108.787		154			
Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	0.482	0.187		2.578	0.031
	Budget Control	0.478	0.072	0.512	6.639	0.002

<sup>a</sup> Dependent Variable: Budget Absorption

<sup>b</sup> Predictors: (Constant), Budget Control

*Researcher (2025)*

The results indicated that the adjusted R-squared was 0.770 indicating that 77.0% of the variation in budget absorption was influenced by budget control. These results suggests that a significant relationship between budget control and budget absorption. The ANOVA results validate the model's statistical significance, shown by an 'F-statistic of 516.768 and a p-value of 0.000, signifying that budget control has a considerable effect on budget absorption. The high F-value emphasises the model's robust explanatory capacity, confirming the need budget control in evaluating financial efficiency in county governments. The coefficient results demonstrates that budget control significantly affects budget absorption in Nairobi City County ( $\beta = 0.512$ ,  $P = 0.002$ ). These results therefore suggest that budget control is a significant

predictor of budget absorption thus demonstrating that financial monitoring, variance analysis, and supervision methods substantially improve budget utilisation.

These results correspond with Farazmand (2023), who determined that public sector financial performance is mostly influenced by robust budget governance frameworks, especially in execution and control mechanisms. Besides, this conclusion is corroborated by Galperti (2019), who contended that efficient budgetary control systems augment resource allocation efficacy and boost service delivery in public organisations. Results also corroborate the results of Williams (2016), who found that counties using rigorous financial management techniques have greater budget absorption rates owing to increased responsibility and compliance. Machado and Macagnan (2015) contend that budget control alleviates financial mismanagement by guaranteeing that funds are used as planned, hence reducing occurrences of unutilised or misallocated resources. These results corroborate the principles of stewardship theory proposed by Donaldson and Davis (1991), which assert that public resource managers are only stewards and must behave responsibly in the utilisation of financial resources, guaranteeing optimum budget execution and minimising waste.

### **Conclusion**

The study concluded that budget control mechanisms are effective in tracking expenditure through variance analysis and financial monitoring. However, bureaucratic delays in approving corrective actions slow down financial decision-making. Enhancing financial oversight and streamlining approval processes will improve budget control efficiency and absorption rates.

### **Recommendations**

The study recommends that the Nairobi City County Government should strengthen budget control by ensuring that there is financial accountability for optimum budget absorption. The county government should decentralize financial oversight responsibilities by allowing departmental financial officers to approve budget adjustments within specified thresholds, reducing delays in corrective actions. Empowering internal audit teams to conduct real-time financial reviews can further enhance oversight and ensure that financial discrepancies are addressed promptly.

### **Suggestions for Further Research**

Future research should explore the influence of political dynamics and stakeholder engagement on budget absorption in county governments. Understanding how political decisions, leadership changes, and public participation affect financial governance can provide deeper insights into budget performance.

Additionally, further studies could examine the role of digital financial management systems in improving budget control. With increasing adoption of technology in public finance, assessing how automation impacts fund utilization and financial transparency would be valuable.

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