



**INFLUENCE OF BUDGET UTILIZATION ON EFFECTIVE PUBLIC EXPENDITURES IN THE COUNTY GOVERNMENT OF TRANS NZOIA, KENYA**

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**Mukaramoja, J. K.,<sup>\*1</sup> & Malenya, A.<sup>2</sup>**

<sup>\*1</sup> MBA Candidate (Finance), Jomo Kenyatta University of Agriculture and Technology [JKUAT], Kenya

<sup>2</sup> Ph.D, Lecturer, Jomo Kenyatta University of Agriculture and Technology [JKUAT], Kenya

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**ABSTRACT**

*This study investigated the influence budget utilization on public expenditures in the county government of Trans Nzoia, Kenya. The study was informed by Theory of Budgeting and Resource allocation theory. This study adopted the descriptive survey design and targeted 112 respondents consisting of internal auditors, accountants, economists, Directors of departments, Chief Officers and finance officers; from where Taro Yamane's proportional sampling technique formula had been used to get sample size of 88 respondents. Data was collected from respondents directly using self-administered structured questionnaires. Pilot testing was done in Uasin Gishu county government to test instrument validity and reliability. Collected data was edited, cleaned, and coded; and then SPSS version 24 was used to analyze the data. Descriptive statistical analysis was used to summarize data using frequencies, percentages and means while inferential statistics were computed; that is, Pearson correlation coefficient and multiple regression analysis were computed to find out whether there is correlation, linear and multiple relationship between the independent and dependent variables. Analyzed data was presented in tables. This study would be useful to the policy makers to formulate policies which can be effectively implemented in the utilization of the budget by the accounting officers. The study would also assist relevant stakeholders to give them an insight on what means to be used to get effective county budget execution so as to regulate excessive expenditures in county governments.*

**Key Words:** Budget Utilization, Public Expenditures

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## INTRODUCTION

A budget is a summary of items with set estimations of incomes and expenditures for a specified period of time and is a vital expenditure and planning tool for any institution and (Mitchell, 2005). The budget line utilizations provide a lead on the target and expected output's evaluation. Effective application of budgeting methodologies and execution of the same has been attributed to bear positive impact on the listed budget lines (Lubale, 2012). Further, given counties like other local administrative zones collect levies that with relevant tax system may have an enterprise pay tax in some point, the levies are billed upfront and do not match the size and category of business making it a bias system (Misc et al., 2011).

Further, the collections of revenues facilitate budget gaps and with addition onto the financing of major budget lines as structured before execution and Spiro (2005) for instance noted that over 40% of the American were not tax compliant as they offered their enterprises in the informal sector. The poor tax collections and revenue misappropriation contributed to budget deficit and financial mismanagement in institutions both public and private due to poor public expenditures. Franzen (2007) also asserted that without proper professionalism and capacity towards the collection of revenues adds into the series of inefficiencies that cause the utilization of budgets to be more complex and not possible for implementation of public expenditures.

In Kenya, County Governments place budgets on the revenue collections inclusive of not exceeding 5% deficit financing from other external partners. The budget utilization in Kenya is of no limit to challenges as most of the budgeted funds are not utilized and so returned to the National treasury of and the constraints by the legal frameworks makes the procurement processes slow thus exceeding the set time limits for managing the budget timelines set. The expenditure inclusion is subject to the medium term expenditure framework that provides a compatibility of National plans and policies into

public expenditure projects within a certain coherent medium term macroeconomic and fiscal set frameworks (ICPAK, 2015).

Further, ICPAK (2015) noted that the set budgets require progressive consultations for properly made decisions and inclusion of necessary budget items. The multiple of costing and impropriety observed in the budgeting execution provides poor outcomes and none use of funds set aside for expenditures.

Approved budgets take one financial year that is 1<sup>st</sup> July to 31<sup>st</sup> June of the duo running years within twelve month duration. The appropriations are done in such manner to balance all requirements within the economic for proper services delivery. The review by the Parliamentary Finance Committees and National Treasury fiscal teams who work in tandem for delivery of the reallocations if some sectors need more finances for use is essential for success of any approved budgets. The allocated appropriations are adhered to carefully as any misappropriations that may arise will impose some indirect sanctions by ensuring the call for accountability is inclusive (Adkins and Obadiah, 2015).

Further, in the budget process, the public participation and social economic groups inclusion is unavoidable as the Constitution of Kenya provides so and mandatorily to be a practice for national and County Governments to comply to. This increases awareness and improves good government and private and public relationships. Further, it creates more awareness and understanding on the usability or key priorities considered by the relevant arms of the Government (Njonde and Kimanzi, 2014).

The extra inclusion of social working groups provides more external insights into the process of budgeting and overseeing the utilization while ensuring the key sectorial areas are covered for funding to boost growth or facilitate global indicators. This also provides support for getting the deficit financing through the aid support or donor funding to some sectors like health and education

however, the utilization is checked more keenly than the internal Government checks and audits as it can be stopped at any period of detection of impropriety in the expenditures (Njonde and Kimanzi, 2014).

### **Statement of the problem**

From the Auditor General report (2018), the value for money has been raised constantly from all county governments casting doubts on the effective and efficient use of these public funds. The citizens are either denied delivery of services and sometimes lead to flagrant non compliance with relevant tax or revenue generation laws since the actual expenditures are way below the approved budgets. It is also observed constantly that recurrent expenditure and actual expenditure are on average above 75% while for development spending the actual expenditures are on average below 50% which raises the issue of absorption capacities (Parliamentary Budget Office, 2019). Further, actual development expenditure for most of the Counties is below 30 percent and records shows that counties are overstating their forecasts in an effort to balance their respective budget estimates, which could also be as a result of setting unrealistic assumptions thus underperformance in key revenue streams which has a negative bearing on county expenditures.

Empirically some researchers assert that interestingly, the phenomena of excess expenditure also critically affect budget allocation (Premchand, 2004), which may occur as a result of cost increase or as a consequence of poor management. Schick (2009) observes that a country can have a sound budget and financial system and still fail to achieve its intended targets due to expenditure related problems.

Most local researchers on budgeting and public expenditures relationship have been focused on national government; Biwott (2008), Kirimi (2012), Mwangi (2013), Nkanata (2012), with little regard to county governments where public expenditures has raised many issues by both the public and the office of the Auditor General. Therefore this study filled

this gap by investigating the influence of budget utilization on public financial expenditures by county governments in Kenya, a case of the county government of Trans Nzoia, Kenya

### **Objectives of the study**

The objective of this study was to investigate the influence budgeting utilization on effective public expenditures in the county government of Trans Nzoia, Kenya. The research hypothesis was;

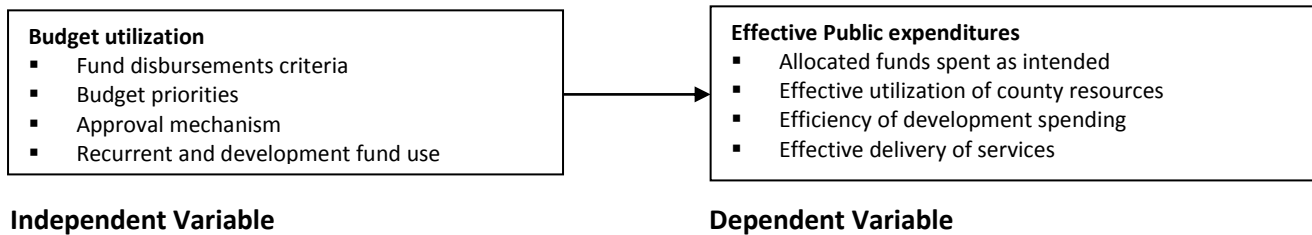
- **H<sub>0</sub>:** There is no significant influence of budget utilization on effective public expenditures in the county government of Trans Nzoia, Kenya.

### **LITERATURE REVIEW**

#### **Theory of Budgeting**

The theory of budgeting was proposed by Hirst in 1987 and explains that an effective budgetary control solves an organization's need to plan and consider how to confront future potential risks and opportunities by establishing an efficient system of control. Hence the theory of budgeting is a detector of variances between organizational objectives and performance. Budgets are considered to be the core component of an efficient control process and subsequently a vital part to the umbrella concept of an effective budgetary control (Nyambura, 2014).

Further, budget theorists describe trends, sequences of events, and infer causes, paying attention to local variations as well as uniformities across cases. Normative theory advice may be based on a much narrower range of observations than descriptive theory and its proposed solutions may be based on values rather than observations. If the explanatory power of the descriptive theory is too weak, or if the advice of normative theory is not adopted by public officials or is adopted and abandoned because it does not work, the gap between theory and practice may become unacceptably (Siyambola, 2013). This theory therefore connects this study in the sense that budgeting process involves budget allocations depending on financial expenditures.



**Figure 1: Conceptual Framework**

**Empirical Review**

The Institute of Economic Affairs budget analysis report 2017 indicates that county budgets targets were not achieved. Against a performance benchmark of at least 80%, absorption of development budget for the period 2013/14 to 2015/16 has consistently been below 66%. As a result of this, the IEA note the importance of government enforcing austerity measures so as to focus spending to priority areas.

Further, the Fiscal Strategy Paper 2014 reported that Murang’a County Government accepted that there was lack of integration in the implementation of most programmes and projects in the county. Currently most sector programmes are planned and implemented independently leading to uncoordinated project implementation and wastage of scarce resource. The report further noted the late disbursement of funds by the National Treasury making funds absorption targets levels not to be realized. Under- funding of some of the development projects/programmes leading to non-completion within the planned time frames.

Rotich (2015) through a descriptive research study sought to investigate budget utilization in Kericho government by collecting analyzing primary data collected from 33 accounts, finance and county executives in the County. The findings indicated that there existed a positive and statistically significant relationship between tax compliance and budget utilization and a weak negative correlation was observed between Value Added Tax (VAT) policy and budget utilization and County public expenditures. Government policy and inflation were also found to affect budget utilization negatively. The study however did not single out the role

played by the county treasury in local revenue collection and administration neither did it recognize the role of the County Assembly in the budgeting process among other stakeholders’ roles.

Ndunda, Ngahu, and Wanyoike (2015) in their descriptive study on the factors influencing optimal revenue collection by Nakuru County investigated how tax compliance influenced optimal revenue collection in Nakuru County. The study was conducted amongst account/financial employees, revenue clerks, and administrative staff of Nakuru county government and established that tax compliance only marginally affected optimal revenue collection and this in turn affected the overall budget execution and utilization by the county.

Adkins and Obadiah (2015) also found out that well utilization of public funds was bound to positively impact the overall budget execution of an organization if well implemented. This they pointed out was due to some positive attributes associated with the public funds that include:- resources cannot be redirected or diverted to non-targeted purposes; a better approach/option in political systems undergoing leadership changes; ability of public funds to take advantage of existing frameworks, and administrative skill-sets in the government and thus attain high legitimacy among governments and further help stimulate reforms and strengthen institutions; and, synergies through reliance on existing budgetary channels used to deliver funds or benefits to the local people.

**METHODOLOGY**

This study adopted descriptive survey design. The target population or those cases that contain the

desired information consists of internal auditors, accountants, economists, Directors of departments, Economists Chief officers and finance officers. The sampling frame in this study consisted of officers in the county government of Trans Nzoia who directly or indirectly dealt with budgeting and expenditures. The sample size of 88 for this study was determined by Taro Yamane's proportional sampling technique formula. Primary data was collected from respondents directly using self-administered structured questionnaires (closed ended questions). Data collected was edited, cleaned, and coded; and then SPSS version 24 was used to analyze the data.

## FINDINGS

The descriptive statistics presented in this section were summated responses on the statements

measuring the study's independent variables (budget execution, budget allocation, budget external scrutiny, budget utilization) using Likert scale with values ranging from 5 to 1; that is; 5=Strongly Agree, 4=Agree, 3= Uncertain, 2=Disagree and 1= Strongly Disagree. The results were presented in the table form showing frequencies of responses as per each statement and its corresponding percentage score in brackets.

### Budget utilization

This summarized responses on whether budget utilization influences public expenditures in the County government of Trans Nzoia. The results were presented in table 1.

**Table 1: Descriptive statistics; Budget utilization**

Statement	Frequency and percentages (%)					mean	Std.dev
	5	4	3	2	1		
Fund disbursements criteria affects effective public expenditures	10(12.2)	34(41.4)	18(22.0)	11(13.4)	9(11.0)	3.41	0.883
Mode of funding /financing deficits affect public expenditures	9(11.0)	37(45.2)	16(19.5)	13(15.8)	7(8.5)	3.53	0.836
Budget priorities influence public expenditures	7(8.5)	38(46.4)	17(20.7)	12(14.6)	8(9.8)	3.59	0.828
Budget approval mechanisms affect public expenditures	6(7.3)	33(40.3)	19(23.2)	13(15.8)	11(13.4)	3.32	0.880
Recurrent and development fund use affects public expenditures	10(12.2)	35(42.7)	15(18.3)	12(14.6)	10(12.2)	3.47	0.820
Generally, budget utilization influences public expenditures	6(7.3)	55(67.1)	10(12.2)	6(7.3)	5(6.1)	3.62	0.951
<b>Valid listwise 82</b>							
<b>Grand mean = 3.49</b>							

From table 1, most respondents agreed (41.4%), while 22.0% were uncertain, and 13.4% disagreed that fund disbursements criteria affects effective public expenditures, implying that may the mode of fund disbursements could have a bearing on public expenditures in counties. This is reinforced by most respondents who agreed ( ) 45.2% and strongly

agreed (11.0%) that mode of funding or financing deficits affect public expenditures. Thirdly, a good percentage of respondents agreed (46.4%) and strongly agreed (8.5%) that budget priorities influence public expenditures, thus implying that poor public expenditures could emanate from poor budget priorities.

More so, 40.3% and 7.3% of respondents agreed and strongly agreed respectively that budget approval mechanisms affect public expenditures, while 42.7% and 12.2% of respondents agreed and strongly agreed respectively that recurrent and development fund use affects public expenditures, implying that budget approval mechanisms and recurrent or development fund use could be having an effect on county public expenditures.

Lastly, most respondents agreed (67.1%) and strongly agreed (7.3%) that generally, budget utilization influences effective public expenditures, which is supported by Lubale (2012) assertion that success of efficient financial expenditures is dependent on the allocations set, utilization and the capital availability in the counties and revenues collections per a given period of time provides support to management of the estimation expenditures in the budgets.

Further, budget utilization in Kenya has never had systematic progress as bureaucratic procedures are

involved and slows the execution and utilization with much set for utilization is refunded to the National Treasury for next period of year funding. This slows the growth and implementation of projects and facilitates more impropriations by governments that may need to spend without following the relevant stages set in the law thus creating a window for poor financial expenditures. This is common with the procurement of itemized contents for project implementation in the budget. It too creates loopholes for budget reallocations that may not have been approved due to excessive exploitation in one budget line than the other, thus further creating financial expenditure problem (Lubale, 2012).

#### Inferential statistics

This assessed the direct influence of budget utilization on effective public expenditures in the county government of Trans Nzoia. The results were shown in table 2.

**Table 2: Direct influence of Budget utilization on efficient public expenditures**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.842 <sup>a</sup>	.709	.705	.58820	.709	194.916	1	80	.000
ANOVA <sup>b</sup>									
Model		Sum of Squares	Df	Mean Square	F				Sig.
1	Regression	67.436	1	67.436	194.916				.000 <sup>a</sup>
	Residual	27.678	80	.346					
	Total	95.114	81						
Coefficients <sup>a</sup>									
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.		
		B	Std. Error	Beta					
1	(Constant)	.769	.198			3.890	.000		
	Budget utilization	.808	.058		.842	13.961	.000		

a. Dependent Variable: Effective Public Expenditures

The model summary in table 2 indicated  $R^2 = 0.709$  implying that 70.9% variation in the public expenditures in the county government of Trans

Nzoia, was explained by budget utilization while other factors not in the conceptualized study model accounted for 29.1% variation in the public

expenditures in the county government of Trans Nzoia. Further, coefficient analysis indicates that there exists a positive and significant effect of budget utilization on effective public expenditures in the county government of Trans Nzoia ( $\beta=0.808(0.058)$ ; at  $p<.01$ ). This implied that a single improvement in efficient county budget utilization will yield 0.808 unit improvement in effective public expenditures in the county government of Trans Nzoia. Therefore, the linear regression equation was;

$$y = 0.769 + 0.808X_4$$

Where;

$y$  = public expenditures in the county government of Trans Nzoia.

$X_4$  = budget utilization

**H<sub>0</sub>:** There is no significant influence of budget utilization on effective public expenditures in the county government of Trans Nzoia, Kenya.

**H<sub>A</sub>:** There exists significant influence of budget utilization on effective public expenditures in the county government of Trans Nzoia, Kenya

**T-test statistics results:** ( $t = 8.913$ ;  $p=0.000 < 0.01$ )

**Verdict:** The null hypothesis **H<sub>0</sub>** was rejected.

**Results interpretation:** **H<sub>A</sub>:** There exists significant influence of budget utilization on effective public expenditures in the county government of Trans Nzoia, Kenya.

## CONCLUSIONS AND RECOMMENDATIONS

The hypothesis stated that there is no significant influence of budget utilization on effective public expenditures in the county government of Trans Nzoia, Kenya. Summarized responses from descriptive statistics showed that most respondents agreed (67.1%) and strongly agreed (7.3%) that generally, budget utilization influences public expenditures, which was supported by Lubale (2012) assertion that success of effective financial

expenditures is dependent on the allocations set, utilization and the capital availability in the counties and revenues collections per a given period of time provides support to management of the estimation expenditures in the budgets.

Further, budget utilization in Kenya has never had systematic progress as bureaucratic procedures are involved and slows the execution and utilization with much set for utilization is refunded to the National Treasury for next period of year funding. This slows the growth and implementation of projects and facilitates more impropriations by governments that may need to spend without following the relevant stages set in the law thus creating a window for poor financial expenditures. This is common with the procurement of itemized contents for project implementation in the budget. It too creates loopholes for budget reallocations that may not have been approved due to excessive exploitation in one budget line than the other, thus further creating financial expenditure problem (Lubale, 2012).

Effective utilization of county funds as stipulated by county budgets significantly influences effective public expenditures in county governments.

The study recommended that there must be effective county budget utilization to ensure county financial resources are not redirected or diverted to non-targeted purposes, thus ensure effective public expenditures in county governments.

## Areas for further research

A similar research can be done in national government ministries and state corporations where there is public outcry over poor public expenditures by accounting authorities. A comparative study can be done on both private and public organizations in Kenya so as to compare in results

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