East African Journal of Business and Economics
eajbe.eanso.org
Volume 6, Issue 1, 2023
Print ISSN: 2707-4250 | Online ISSN: 2707-4269
Title DOI: https://doi.org/10.37284/2707-4269

EAST AFRICAN NATURE & SCIENCE ORGANIZATION

Original Article

The Role of Financial Planning and Budgeting Reforms on the Performance of Kisii County Government

Philip Rogers Odhiambo Achieng[1] & Dr. Kennedy Okemwa Nyariki, PhD[1]*

[1] Mount Kenya University, P. O. Box 4441-40200, Kisii, Kenya
* Correspondence ORCID ID: https://orcid.org/0009-0008-8963-9121; email: philipachieng39@yahoo.com

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

Date Published:

03 July 2023

Keywords:

Budgeting, Financial Planning & Performance

ABSTRACT

Based on the analysis of previously published works, it was determined that there had been a dearth of research into the topic at hand; hence, this study set out to contribute to the existing body of knowledge by filling this void. Controller of Budget and Auditor General Offices state that County Governments continue to face governance, integrity, accountability, and transparency difficulties in the administration of public resources despite better legal and institutional frameworks on public financial management. The research targeted 100 staff at the County Treasury, comprising the Assistant Directors, Finance Officers, Internal Auditors, Accountants and Procurement Officers. Primary data was collected using structured questionnaires, while secondary data was collected through document analysis from the financial reports compiled by the offices of the Controller of Budget (COB), Auditor General (OAG) and County Treasury. Participants were selected using a census-style technique. The questionnaires and research questions were pilot tested to guarantee their accuracy. Frequencies and percentages were utilised for descriptive statistics, whereas Pearson Correlation Coefficients were used for inferential purposes. Figures and tables were used to display the data. The data were analysed using the Statistical Package for the Social Sciences (SPSS) and Microsoft Excel. The study revealed that financial planning and budgeting reforms (r=0.705), revenue mobilisation reforms (r=0.655), internal control reforms (r=0.722), and public procurement reforms (r=0.535) positively influenced the performance of the Kisii County Government. The research finds that Public Procurement reforms' performance is impacted by how well they are implemented. The study therefore recommends that Kisii County Government should embrace the implementation of the reforms in order to address the accountability, governance, integrity, and transparency challenges experienced in the management of public resources.

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

APA CITATION

Achieng, P. R. O. & Nyariki, K. O. (2023). The Role of Financial Planning and Budgeting Reforms on the Performance of Kisii County Government. *East African Journal of Business and Economics*, *6*(1), 143-151. https://doi.org/10.37284/eajbe.6.1.1283

CHICAGO CITATION

Achieng, Philip Rogers Odhiambo and Kennedy Okemwa Nyariki. 2023. "The Role of Financial Planning and Budgeting Reforms on the Performance of Kisii County Government". *East African Journal of Business and Economics* 6 (1), 143-151. https://doi.org/10.37284/eajbe.6.1.1283.

HARVARD CITATION

Achieng, P. R. O. & Nyariki, K. O. (2023) "The Role of Financial Planning and Budgeting Reforms on the Performance of Kisii County Government", *East African Journal of Business and Economics*, 6(1), pp. 143-151. doi: 10.37284/eajbe.6.1.1283.

IEEE CITATION

P. R. O. Achieng & K. O. Nyariki "The Role of Financial Planning and Budgeting Reforms on the Performance of Kisii County Government", *EAJBE*, vol. 6, no. 1, pp. 143-151, Jul. 2023.

MLA CITATION

Achieng, Philip Rogers Odhiambo & Kennedy Okemwa Nyariki. "The Role of Financial Planning and Budgeting Reforms on the Performance of Kisii County Government". *East African Journal of Business and Economics*, Vol. 6, no. 1, Jul. 2023, pp. 143-151, doi:10.37284/eajbe.6.1.1283.

INTRODUCTION

Public finance management (PFM) refers to the ways in which the government handles its taxation, expenditure, and debt in order to affect resource allocation and distribution. Budget planning, accounting, audits (both internal and external), purchasing, and reporting all fall within the purview of these costs (Rosen, 2002).

PFM is another definition of a system of laws, regulations, methods, and processes used by independent countries to collect tax dollars, distribute resources, make expenditures, keep track of money, and examine the outcomes. It extends beyond the realm of financial management and is often seen as a six-stage cycle, starting with policy drafting and concluding with external audit and review (see *Figure 1* for a visual representation of this process) (Lawson, 2015).

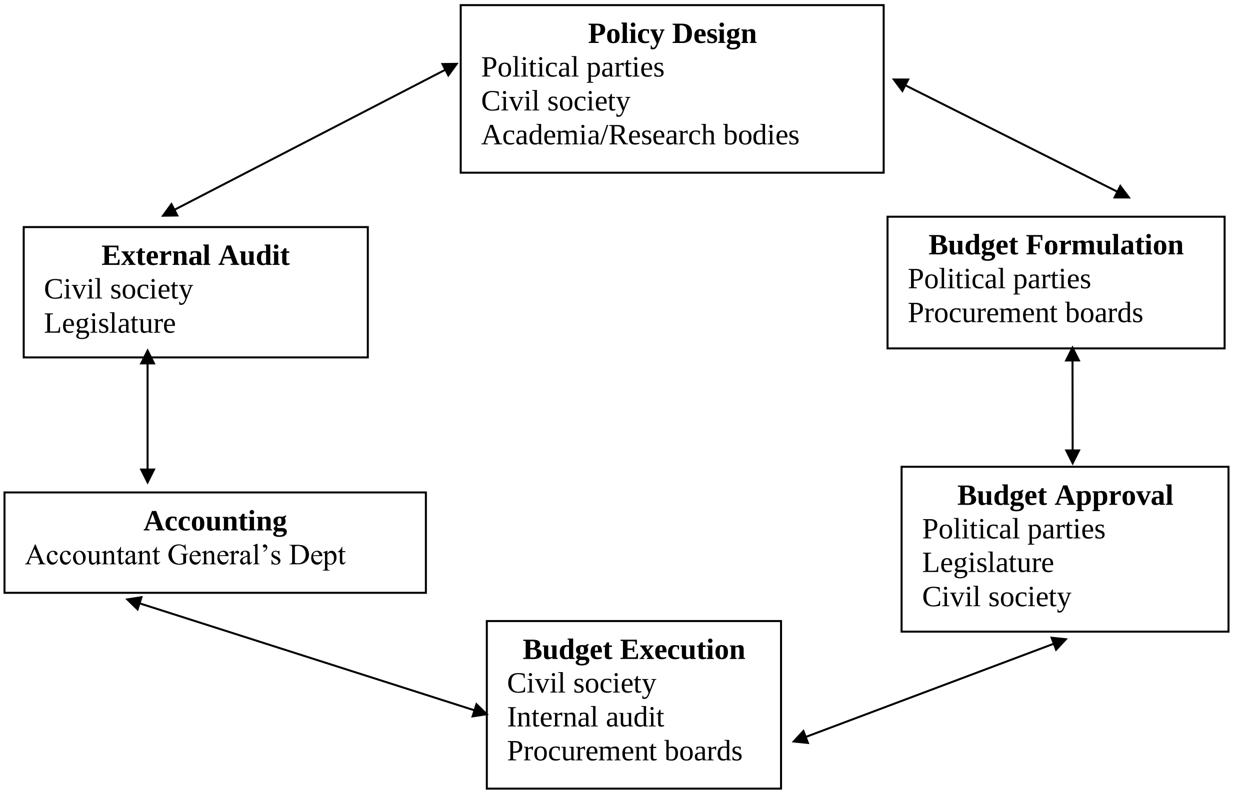
If a state is going to be successful, it needs a solid PFM system as part of its institutional architecture. More effective and equitable service delivery and more efficient and equitable market regulation are two factors that contribute to poverty reduction and economic progress in countries with strong, transparent, accountable PFM systems. Therefore, effective PFM is a precondition for almost all development results. as cited by Lawson (2015).

Initial steps in evaluating a PFM system include articulating the system's goals—the results against which the system will be evaluated. It is generally accepted that a PFM system should achieve four objectives:

- Ensuring that tax revenue and government expenditure as a whole do not lead to unsustainable increases in the national debt.
- Allocative efficiency, the degree to which public funds are used to advance mutually agreed-upon strategic goals, is one measure of the effectiveness of a public financial management system.
- It is the responsibility of a PFM system to guarantee operational efficiency, defined as the provision of services at the lowest possible cost.
- A PFM system that applies democratic checks and balances to promote accountability should be open, with information available to the public, and follow the due process (Lawson, 2015).

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

Figure 1: The PFM cycle and the key actors involved



Source: Lawson, (2015).

LITERATURE REVIEW

What a government claims it will accomplish should be reflected in its budget (authorised expenditure) (government policies). A vision of the medium term is required in order to link policy, planning, and budgeting. (Holmes & Evans, 2003; World Bank, 1998). According to Holmes and Evans, "the appeal of Medium-Term Expenditure Frameworks lie in their potential to link the often-competing short-term imperatives of macroeconomic stabilisation with the medium and long-term demands on the budget to contribute to improved policy-making and planning, and to the efficiency and effectiveness of service delivery." "The appeal of MTEFs lies in their potential to link the often-competing short-term imperatives of macroeconomic stabilisation with the medium and long-term demands on the budget," says Holmes (2003:5). An MTEF is described by the World Bank (1998:48) as "a top-down resource envelope, a bottom-up calculation of the present and medium-term costs of existing policies, and finally, the matching of these costs with available resources." All of these components are crucial components of the process of developing the annual budget.

According to Brumby (2008), a functional MTEF necessitates the following steps to be taken in order to ensure success: i) create macroeconomic and fiscal envelopes; ii) decide on and express high-level policies (reallocation between sectors); iii) conduct departmental bidding within the parameters of predetermined amounts (reallocation within sectors); iv) carry out iterative bidding processes; and v) achieve a credible budget reconciling policy and available resources. He implies that a lot of capacity is required, including the ability to set priorities, the recognition of the MoF's coordination role and the need for a coordinating ministry at the sector level, as well as the discipline and control

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

required for managing bids and carrying out the budget.

The shift in budgeting methodology away from a primary emphasis on inputs and toward an emphasis on performance, outputs, or results is a significant change. Performance budgeting is defined as "budgeting in which resources are allocated with a clear relation to outcomes that can be measured," according to the OECD (2008c). There are three main categories, including direct performance budgeting, performance-informed budgeting, and presentations. The history of the performance budgeting idea is extensive. The United States was the birthplace of the concepts of performance budgeting, programs budgeting, and planning, programming, and budgeting systems in the 1950s and 1960s. It is crucial to effective NPFM, yet there is no universally accepted paradigm (Pretorius, C & Pretorius, N, 2008).

The member states of the OECD have each implemented performance budgeting at their own pace and for their own reasons. The OECD (2008c) states that increasing public sector performance and increasing accountability are the primary goals of bettering the allocation and utilisation of money. OECD (2008c) adds that, based on research and national experience, there is a need to tailor the approach to the country's environment, design reforms with the end user in mind, include key stakeholders in the design process, and build suitable incentive structures for public employees and politicians. They also note the following as crucial to the implementation process: i) choosing a method that fits in with the broader governance and institutional structures; ii) winning over political and administrative leaders; iii) establishing interoperable information systems; iv) thinking about how changes to budget rules affect behaviour (for better or worse); and v) understanding the limitations of performance data.

RESEARCH METHODOLOGY

The research was conducted at the County Treasury in Kisii. The location is ideal for research since it is where much of the county's public financial administration occurs. In Kenya, there are 47 counties, and one of them is called Kisii. Its neighbours to the north and east are part of Nyamira County, while its neighbours to the south and west are Homabay and Migori Counties. The County may be found between the coordinates of 0°30′100′ South and 340°38′350′ East. According to the most recent census (2009), its population is 1,152,282. Its total area is 1,302 km2.

Descriptive survey research was used for this study because it provides a more direct way to see the problems as they now stand. It is a collection of methods and processes for characterising variables, as described by Burns and Bush (2010). The research aimed to survey the 100 people who work in the Kisii County Treasury. This includes the Assistant Directors, Finance Officers, Internal Auditors, Accountants, and Procurement Officers. Since the study's target population was manageable in size, the researcher devised a census-based sampling strategy to determine the sample's composition. In order to get primary data, the researcher employed questionnaires, and to get secondary data, the researcher looked at documents such as books of accounts. With the use of both descriptive and inferential statistics, a qualitative approach to the data was taken. In descriptive statistics, huge amounts of raw data were summarised and reorganised. As a result, we used Pearson's correlation analysis for inferential statistics and descriptive statistical methods such as frequency distributions and percentages. In this investigation, the presentation of quantitative data was accomplished via the use of descriptive statistics such as frequency distributions and percentages, while the communication of qualitative data was accomplished through the use of inferential statistics such as Pearson's correlation coefficient.

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

RESULTS AND DISCUSSION

Response Rate

The term "response rate" refers to the proportion of people who actually fill out a survey. According to Orodho (2003), the response rate is the proportion of respondents in whose interviews were completed relative to the total number of respondents in the sample (including those who did not answer). In all, 100 questionnaires were sent to the respondents. A total of 74 of these surveys were returned, for a return rate of 74%. According to Mugenda & Mugenda (1999), a response rate of 70% or more is sufficient for statistical analysis. The percentage of those who answered the survey is shown in *Table 1*.

Table 1: Response rate

Category	Frequency	Percentage (%)
Administered	100	100.00
Returned	74	74.00

Source: Field Data (2023)

Financial Planning and Budgeting Reforms (FPBR) on Performance

Descriptive analysis of financial planning and budgeting reforms (FPBR) on the performance of Kisii county government. The frequency and percentages of responses to each question were determined and summarised in *Table 2*.

Table 2: Responses to financial planning and budgeting reforms

Statement		SD	D	U	A	SA
The county government utilises the CIDP and ADP during the planning	f	8	13	5	38	10
	%	10.8	17.5	6.8	51.4	13.5
The process of preparing the planning documents (CIDP and ADP) is consultative	f	12	11	6	35	10
	%	16.2	14.9	8.1	47.3	13.5
The county budget is linked to the CIDP and ADP	f	10	12	4	36	12
	%	13.5	16.2	5.4	48.7	16.2
The county government's departmental allocations are based on priorities in the CIDP and ADP	f	5	9	5	40	15
	%	6.8	12.1	6.8	54.1	20.2
There is timely disbursement of funds to the county government's departments	f	10	33	6	15	10
	%	13.5	44.6	8.1	20.3	13.5
The county budget is implemented as approved by the County Assembly	f	7	15	6	40	6
	%	9.4	20.3	8.1	54.1	8.1
Financial planning can be used as a tool to prevent financial challenges	f	8	15	5	38	8
	%	10.8	20.3	6.8	51.3	10.8

Source: Field Data (2023)

Table 2 shows that 38(51.4%) respondents agreed that the county government utilises County Integrated Development Plan (CIDP) and Annual Development Plan (ADP) during planning. 10(13.5%) respondents strongly agreed, 5(6.8%) respondents were undecided, 8(10.8%) respondents strongly disagreed while 13(17.5%) respondents were in disagreement with the statement. The results of the study show that 48(64.9%) respondents believe that the county government utilises the CIDP and ADP in planning. CIDP and ADP are critical documents in the public financial management reforms implementation (COB, 2021).

Similarly, 35(47.3%) respondents agreed that the process of preparing the planning documents (the CIDP and ADP) is consultative. 10(13.5%)

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

respondents strongly agreed, 6(8.1%) respondents were undecided, 11(14.9%) respondents strongly disagreed while 12(16.2%) respondents were in disagreement with the statement. This therefore means that 45(60.8%) respondents opined that the planning process was consultative. Consultation in the preparation of the public financial management reforms yields positive results during their implementation due to less resistance.

In addition, 36(48.7%) respondents agreed that the county budget is linked to the CIDP and ADP. 12(16.2%) respondents strongly agreed, 4(5.4%) respondents were undecided, 10(13.5%) respondents strongly disagreed while 12(16.2%) respondents were in disagreement with the statement. Therefore, the study shows that 48(64.9%) respondents believed that the county budget is linked to the CIDP and ADP, which promotes efficiency in resource utilisation.

Furthermore, 40(54.1%) respondents agreed that the departmental allocations are based on priorities in the CIDP and ADP. 15(20.2%) respondents strongly agreed, 5(6.8%) respondents were undecided, 5(6.8%) respondents strongly disagreed while 9(12.1%) respondents were in disagreement with the statement. Therefore, the study shows that 55(74.3%) respondents noted that the departmental allocations are based on priorities in the CIDP and ADP, thus facilitating the achievement of departmental targets, goals, and objectives. On the other hand, 33(44.6%) disagreed with the statement that there was timely disbursement of funds to the departments. 10(13.5%) respondents strongly disagreed while 6(8.1%) respondents were undecided. However, 15(20.3%) respondents thought otherwise. They believed that the disbursement of funds to the departments was timely. 10(13.5%) respondents strongly agreed, maintaining that disbursement of funds to the departments was done on a timely basis. The results of the study show that 43(58.1%) respondents believed that the county government should ensure timely disbursement of funds to the departments to facilitate proper planning and meeting of departmental objectives.

40(54.1%) respondents agreed that the county budget is implemented as approved by the County Assembly. 6(8.1%) respondents strongly agreed, 6(8.1%) respondents were undecided, 7(9.4%) respondents strongly disagreed, while 15(20.3%) respondents were in disagreement with the statement. Therefore, the study shows that 46(62.2%) opined that the budget is implemented as approved by the County Assembly, an indication that both arms of the county government (the County Assembly and the Executive) complement the work of each other. Similarly, 38(51.3%) respondents agreed that financial planning can be used as a tool to prevent financial challenges. 8(10.8%) respondents strongly agreed, while 5(6.8%) respondents were undecided. 8(10.8%) respondents strongly disagreed. 15(20.3%) respondents were in disagreement with the statement. This, therefore, means that 46(62.2%) respondents believed that financial planning could be used as a tool to prevent financial challenges, thus ensuring the successful implementation of public financial management reforms.

The Pearson Correlation test for the relationship between financial planning and budgeting and the performance of the Kisii County Government is summarised in *Table 3*.

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

Table 3: Correlation results of financial planning and budgeting reforms (FPBR) on performance

		Performance	**Financial Planning and Budgeting Reforms**
Performance	Pearson Correlation	1	.705**
	Sig. (2-tailed)		.000
	N	74	74
Financial Planning and Budgeting Reforms	Pearson Correlation	.705**	1
	Sig. (2-tailed)	.000	
	N	74	74

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

Source: Field Data (2023)

Table 3 shows a positive correlation (r=0.705) between financial planning and budgeting reforms (FPBR) and the performance of the county government. Hence, an increase in the financial planning and budgeting reforms results in an increase in the performance of the Kisii County Government.

Financial Planning and Budgeting Reforms on Performance

The findings of this study demonstrate that financial planning and budgeting reforms play a significant role in improving the performance of the Kisii County Government. These findings are supported by previous research that highlights the importance of financial management in achieving organisational goals (Benzies & Mackenzie, 2016; Waweru & Ouma, 2018).

Firstly, the study revealed that financial planning reforms had a positive impact on the performance of the Kisii County Government. This is because the reforms helped to align financial resources with the strategic objectives of the county, resulting in better utilisation of resources and improved service delivery. These findings are consistent with those of Waweru and Ouma (2018), who found that financial planning was a critical factor in enhancing the performance of public sector organisations.

Secondly, the study found that budgeting reforms also had a significant impact on the performance of the Kisii County Government. The reforms facilitated the adoption of performance-based budgeting, which enabled the county to prioritise its expenditure based on its strategic objectives. This approach to budgeting also enhanced accountability and transparency in the use of public resources, resulting in improved service delivery. These findings are supported by Benzies and Mackenzie (2016), who found that performance-based budgeting can enhance the efficiency and effectiveness of public sector organisations.

Furthermore, the study revealed that financial planning and budgeting reforms had a positive impact on revenue generation in Kisii County. This is because the reforms facilitated the identification of new revenue sources and improved revenue collection mechanisms, resulting in increased revenue for the county. These findings are consistent with those of Sitienei and Kilika (2016), who found that financial reforms can enhance revenue generation in public sector organisations.

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary

The first specific objective was to investigate the role of financial planning and budgeting reforms on the performance of the Kisii County Government. The study findings suggested that 55(74.3%) respondents believed that Kisii County Government has regularly been attaining the annual revenue targets for the past four years. This implies that the county government is performing well in revenue collection. Therefore, implementation of revenue

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

mobilisation reforms will result in better results (the county exceeding revenue targets), thus making sufficient resources available to meet the county government's expenditure needs. Similarly, 48(64.9%) respondents believed that the county government had sufficient staff to collect and administer its own revenue sources. This is an indication that the county government is well-resourced in terms of human capital to drive the implementation of the public financial management reform agenda. Furthermore, 54(3%) respondents believed that revenue from their own sources was cost-effective and adequately covered by the legal framework. The existence of a legal framework in the performance of a public sector entity is an important aspect of public financial management reforms (Lawson, 2015). On the other hand, 46(62.1%) respondents believed that outsourcing revenue collection was not a good idea. They were comfortable having it done by county government officials. The researcher further observed that 50(67.6%) respondents therefore believed that automation of revenue collection was a good public financial management reform (Sigey, 2010). With regard to nonfinancial performance, service delivery was used. The study found that 52(70.3%) respondents believed that the county government had enhanced food security, an indication that the county government is headed in the right direction in terms of performance. However, 39(52.7%) respondents had reservations towards the health care services provided by the county government. They were of the opinion that a lot more needed to be done in the sector. Additionally, 35(47.3%) respondents believed that the county government provides an affordable education system. A lot more needs to be done in this sector to spur economic growth. Finally, 43(58.1%) respondents believed that the county government performed better in the provision of better, quality, and affordable water, sewerage services and a good road network. For correlation analysis, the findings show a positive correlation *(r=0.705)* between financial planning and budgeting reforms (FPBR) and the performance of the county government. Hence, an increase in the financial planning and budgeting reforms results in an increase in the performance of the Kisii County Government.

Conclusion

There is a correlation between Kisii County Government's performance and financial planning and budgeting changes. Findings from the research indicate that improving Kisii County Government's budgeting and financial planning processes is crucial to that organisation's future. An important goal of financial planning and budgeting is to estimate how much money will be needed to carry out the county government's programs and activities and thus achieve the objectives outlined in the county integrated development plan (CIDP), to make that money available when it is needed, and to keep tabs on how well it is being put to use. The goals, rules, processes, and programs for managing the county government's finances may be established with the aid of financial planning. According to the report, performance is positively impacted by financial planning and budgeting improvements. This also ensured that policymakers would learn about the dynamics of the financial industry and the proper responses to these dynamics. This research might also help county treasury authorities better control public finance by pointing them in the direction of best practices. According to the results, county governments may benefit from changes in funding decisions, and thus they can use this research as a guide when formulating regulations to oversee the industry. Ultimately, the research showed that county government officials still face challenges when trying to perform tasks like planning, budgeting, forecasting, financial consolidation, reporting, and analysis in real-time using a single system that would synthesise financial and nonfinancial data and performance measurements.

Article DOI: https://doi.org/10.37284/eajbe.6.1.1283

Recommendations to the County Government

In the first place, the report suggests that the county government investigate implementing sound budgeting reforms as envisioned in the applicable statutory framework, especially the Public Finance Management Act, 2012 and related Regulations, 2015. This would enable the administration to develop a thorough knowledge that can be used to persuade stakeholders and improve county government performance. According to the results of the research, county officials should maintain providing funding and evaluate their current financial strategies. This will make it easier to determine if the recently implemented financial forecasting reforms are really improving things. The analysis urges the county administration to implement funding decision reforms as soon as possible. This will assist the institutions in gathering relevant data that will give vital insights into the plan and the input required to create effective actions to enhance the county government's performance.

REFERENCES

Andrew L. (2015). *A packet of readings for public finance professionals*.

Benzies, J., & Mackenzie, L. (2016). The impact of financial management practices and financial characteristics on the performance of Canadian SMEs. *Journal of Small Business Management*, *54*(2), 627-645.

Brumby, D. P., & Howes, A. (2008). Strategies for guiding interactive search: An empirical investigation into the consequences of label relevance for assessment and selection.*Human–Computer Interaction*, *23*(1), 1-46.

Burns, A. C., & Bush, R. F. (2010). Using the Madeline Hunter Direct Instruction Model to improve outcomes assessments in marketing programs. *Journal of Marketing Education*, *32*(2), 128-139.

Government of Kenya (2003). Plan for Restoring Prosperity and Creating Jobs in the Economy.

Holmes, M. Evans, A. (2003:5). Costs associated with PRSP-related medium-term budget planning are analysed. ODI in London.

KPHC. (2019). A Report on the Housing and Population Census in Kenya. Volume II: Population Dispersion by Statistical Area. Kenya National Bureau of Statistics.

OECD. (2008c). A Tutorial on Performance Budgeting.OECD: Paris.

Orodho, J. (2003). Education financing in Kenya.

Pretorius, C. and Pretorius, N. (2008*). Review of Public Financial Management Reforms Literature*. London: DFID.

Prevention, P., & Handbook, A. (1998). World bank group. *Washington, DC.*

Rosen (2002). Reforms to the Way the Public Treasury Is Managed. *Review of public financial management reforms literature.* London: DFID.

Sigey, J. K. (2010). *The impact of automation as a structural change strategy on customs clearing procedures at Kenya Revenue Authority* (Doctoral dissertation, University of Nairobi, Kenya).

Sitienei, E., & Kilika, J. (2016). Effect of financial management practices on revenue generation in public secondary schools in Kenya. *European Journal of Business and Management, 8*(18), 129-139.

Waweru, M., & Ouma, S. (2018). Effect of financial planning on performance of county governments in Kenya. Journal of Economics and Sustainable Development, 9(2), 1-13.

 |