Public Financial Management Practices Effect on Budgetary Absorption in Mandera County, Kenya

Said Maalim Hassan[1] and Eddie Simiyu[2]

[1]*Correspondent Author, School of Business, Kenyatta University, Kenya*

[2]*Lecturer, Department of Accounting and Finance, Kenyatta University*

ABSTRACT

*In order for the government of Kenya to meet its fiscal objectives, it is necessary that county government effectively be able to spend budgeted provisions to the highest levels. Government officers need to understand the importance of being able to fully utilize funds as budgeted and as efficiently as possible so as to have an impact to the highest population. The broad objective of this study was to establish the effects of public financial management practices on budgetary absorption in Mandera County, Kenya. The specific objectives of this study were to determine the effect of financial administration on budgetary absorption in Mandera County, to find out if financial controls has an effect on budgetary absorption in Mandera County, t*o determine the effect of budget management on *budgetary absorption in Mandera County and* to *find out the effectiveness of fiscal accountability on budgetary absorption in Mandera County. The theories reviewed were new public management theory, peacock and Wiseman's theory of expenditure, theory of financial control and differential association theory. This study adopted a descriptive research design. The target population for this study was all employees of Mandera County in the finance department totaling to 105. Primary data was derived from questionnaires. Content analysis was used on qualitative data collected. On the other hand the researcher used inferential statistics that includes multiple linear regression model and correlation models to analyse the quantitative data. This study used descriptive statistics in the form of the mean, median and frequency distribution table as the measure of central tendency and standardard deviation as the measure of spread. The findings revealed that there was a significant association between financial administration reports and budgetary absorption. The findings revealed a significant relationship between financial control processes and budgetary absorption. The findings revealed that there was a significant association between* budget management *and budgetary absorption. The findings revealed that there was a significant association between fiscal accountability reviews and budgetary absorption. Based on the findings the study concluded that financial administration reports,financial controll proceses, budget management and fiscal accountability reviews have a positive and a significant effect on budgetary absorption. The study recommended that financial administration employees should also be engaged in the county projects that involve government funding. The study also recommended that the organizations should hire professionally trained personnel in the finance department to ensure that they are conversant with the financial reporting standards for improved financial performance. The study recommended that organizations should undertake effective financial control processes to ensure that funds are utilized optimally and for the intended purposes. This in turn leads to improved financial performance. It is recommended that organizations should undertake regular financial audits in order to identify discrepancies in the expenditures. The study also recommended that organizations should adopt fiscal accountability measures which may include segregation of accounting activities eventually leading to improved performance.*

Key Words: *Public Financial Management Practices, Budgetary Absorption, Mandera County, Kenya*

1. INTRODUCTION

The relationship that exists between government spending and govenment revenues is casual in nature which has led to economists and policy analysts debating globally (Saxena, Thapa, Adhikari and Tiwari, 2011). In order to formulate a fiscal policy that is excellent and sound there needs to be an understanding of the relationship so as to reduce or prevent fiscal deficits that is unsustainable and budgetary absorption (expenditure) among governments (Eita and Mbazima, 2008). According to Hondroyiannis and Papapetrou (1996) understanding the relationship that exists between public revenue and public spending is of crucial importance in that it leads to the appreciation of results of fiscal deficits that are unsustainable and ways of addressing such consequences. Chang (2009) is of the opinion that in evaluating the government`s role in regards to distributing resources it is highly consequential to understand spending and revenue relationship. In Uganda for example the budget absorption rate in the close of the past financial year was 99 per cent where Ush5.11 trillion ($2.21 billion) went into use out of a total allocation of Ush5.17 trillion ($2.24 billion) (Government Annual Performance Report FY 2012/13). On the other hand the government of Kenya had failed to spend over 101 billion shillings in fiscal year 2011-12 and nothing has been done to indicate that any improvement will be noted (Controller of the Budget Report, 2012).

Over the last several decades government spending patterns have changed dramatically in developing countries. Therefore, it is necessary and important to watch the trends in composition and levels of government spending so as to assess what causes the changes over time. This is necessary because countries are always facing challenges of budgetary absorption (expenditure) (CABRI, 2011). In equal measure is government expenditure composition which shows the priorities of government spending. Total expenditure composition across departments shows the differences that exist (Wolf, 2004). Any increase in public provision of services occassioned by severed linkage between public expenditure and development results could lead to a situation of crowding out of provisions of the private sector. Factors that lead to the public expenditure ineffectiveness include institutional inefficiencies and/or poor targeting in the form of leakage in the spending of public funds as well as institutional capacity which is weak. More often than not when budget management is poor has given as one of the major reasons relating to hardships witnissed by developing countries in translating public expenditure into service delviery to citizens which is effective (World Bank, 2003). Therefore, a reasonable proposition that can be made is that to manage public resources effectively and to promote development there is need for skillful, a well trained personnel, performing their duties in an organizational setting having an incentive system that promotes cost efficiency and reduces fraud.

The Budget Implementation Review Report Fourth Quarter of 2012/2013 shows that various departments and ministries in Kenya were not able to spend a massive Kshs. 339.6 billion provided to them in the financial year ending June 30, 2013. According to the figures this was more than Kshs.75 billion that was not spent in the previos financial year. In the 2014/2015 financial year, out of Kshs.1.15 trillion set aside for spending, relevant ministries spent only Kshs. 814.7 billion. This is despite the fact that development was awarded more resources to fuel the economic conditions. The report noted that of the Ksh. 437.1 billion set aside for development purposes, the departments and ministries spent Ksh.193.9 billion the absorption rate being 44.4 per cent (Controller of the Budget Report, 2013). For the country to meet its targeted economic growth rate envisioned in Vision 2030 this performance is really low.

It is important for government departments to meet their budgetary objectives of spending all the budgeted funds on the intended programmes. One of the performance contracting requirements of the government is maximum budgetary absorption by the various government ministries and departments (Diamond, 2006). In 2011, the regulations concerning the rewards and punishment are regulated through finance minister regulation number 38 of 2011, about the procedure for the results of the optimization of the 2010 budget by the ministries/institutions for 2011 fiscal year, and the deduction of the 2011 expenditures which was not fully implemented in 2010 fiscal year. The slowness of absorption of the budget is caused by, one of them, lack of planning government activities on the ministries/institutions (Budget Implementation Review Report Fourth Quarter, 2011). The lack of planning has made the ministries not use the budget rapidly. The awareness of the apparatus of government bureaucrats to effectively and optimally use the budget determines the success of the government to achieve its purpose which is to improve the welfare of the people (Budget Implementation Review Report Fourth Quarter, 2013/14).

Public financial management practice is defined as the institutional and legal framework responsible for supervising the budget cycle phases, which include formulating and preparing of the budget, executing the budget and managing expenditure. This is in addition to internal controls and audit put in place, monitoring and reporting systems, procurement and external audit present. The main objectives of public financial management include allocation of resources to needs on priority basis, achievement of overall fiscal discipline and effective and efficient public services delivery. A strong and solid public financial management should, therefore, be a tool to enhance fiscal efficiency and guarantee taxpayers` finances are used wisely. This covers revenue mobilization, allocation of these finances to activities on priority basis, expenditure and account on how the funds were spent (Tommasi, 2009). Andrews (2008) is of the opinion that in practice there is no big distinction between the two concepts. According to him this is so because the various PFM processes are structured around the budget cycle and complete participatory resulting in decentralized budget leading to effective public financial management.

In Kenya the county level in particular the situation of budget absorption bottleneck gets more serious due to the range of goals and types of intervention associated with the policies, which can undermine the quality of policy-making on the grounds of inconsistent and unclear target–setting and currently stands at 44 percent which is way far below the standard of 80 percent (McMaster & Bachtler, 2005). The factors which give rise to irregularities within the absorption capacity relate to how the economy structure, administration capabilities and financial system of County governments. County government budgeting has a great role to play in ensuring that quality of public services are improved since they can act enhancers to national economy. It is clear that the county governments' expenditure absorption rates are still very low. This is attributed to delays in the formulation of county government budgets, slow and unfinished process of bidding or the problems in technical aspects of preparing the budget which affects revision (Government Annual Performance Report, 2015).

Mandera County is an administrative County in the former North Eastern Province of Kenya. Its capital and largest town is Mandera. The aggregate expenditure for the first nine months of the financial year 2016/17 was KSh 207.82 billion. The amount comprised of KSh145.07 billion for recurrent expenditure (61.8% of the annual recurrent budget); and KSh62.74 billion for development expenditure (37.9% of the annual development budget). The expenditure of KSh 207.82 billion was 51.9% of the annual County Governments budgets and an increase of 13.1% from KSh183.76 incurred in a similar period of financial year 2015/16 (Government Annual Performance Report, 2016). Counties that recorded the highest aggregate budget absorption rates were Isiolo at 68.4 per cent; Tana River at 65.8 per cent; and Bomet at 65.2 per cent. Similarly, Kirinyaga, Kwale, and Lamu Counties recorded the lowest overall absorption rates at 42.1 per cent, 41.4 per cent, and 27.2 per cent respectively. Mandera County was also among those who recorded the lowest overall absorption rates at 44.3% (Government Annual Performance Report, 2017). From this statistics it is clear that the county way below the acceptable rate of 80% and above. This therefore justifies the current study which seeks to establish the effects of public financial management practices on budgetary absorption in Mandera County.

2. STATEMENT OF THE PROBLEM

In order for the government of Kenya to meet its fiscal objectives, it is necessary that government ministries effectively be able to spend budgeted provisions to the highest levels. Government officers need to understand the importance of being able to fully utilize funds as budgeted so as to have an impact to the highest population. Currently, budgetary absorption in Kenya in general and in particular at the county level is wanting. According to the budget implementation review report (2013/2014) the rate is at 44 per cent which is well below the target rate of 80 percent. Despite this being a a major problem affecting most of the county government departments as reported by the auditor general over the years, every year the government goes through a budget process allocating funds to departments in order to meet its fiscal objectives (Budget Implementation Review Report Fourth Quarter, 2014).

For instance, the ministries and departments have failed to accelerate the uptake of budget revenues and state expenditure in order to meet the target of more than 80% in a financial year. In the first quarter of 2013, it was only 32 percent of the budget that was absorbed. It was two percent lower than the same period the previous year. Over time economic impact effectiveness has been given ideas, views and inputs from various stakeholders for the government to be able to accelerate its uptake of the budget but no results have been witnissed. For example, there were efforts to accelerate the absorption of the budget through the simplification of budget disbursement procedures (Kenya, 2007). It is therefore necessary for the present study to be carried out in order to shade light on the effects of public financial management practices on budgetary absorption within government departments in Kenya.

Various studies have been carried out on the effects of public financial management practices on budgetary absorption for example Savoie (2002) argues that for governments to achieve high budgetary absorption then reforming central bureaucracies and enhancing public financial management should be a problem of political will and the capacity of the government to effectively adopt a manipulative and persuasive forms of power. Catao and Terrones (2005) established that the finding the relationship that exists between government revenues and expenditure gives a preview of the differences in government formulated frameworks that could help in growth and control of government spending. On the other hand Correia *et al*, (2003) hold the view that, financial management forms part of the total operation of an organization and as such, it relates to the other functional disciplines in the organization and concluded that piecemeal reforms in public financial management practices as the more typical strategy to be adopted for effective budgetary absorption.

Studies in Kenya include one by Jerono (2009) have established that so far the studies carried out on the effect of public expenditure and economic growth in Kenya have found contradicting results. Some results shows that growth is enhanced while others found out that public spending slows down growth. Equally, other studies established that economic growth cannot be predicted by public expenditure in Kenya. On the other hand Maingi (2010) carried out a study on the effect of public expenditure on growth of the economy in Kenya for a period of time. Despite this, there is no study on effects of public financial management practices on budgetary absorption Mandera County. Therefore, this arouses a critical thinking on this topic which is the research gap that the current study sought to fill. On the other hand the above studies were done mainly before year 2015. From 2015, a lot of the fundamental changes have occurred in the operating environment and governance in Kenya more especially at the county level. It has been noted that researches done including the above discussed have not specifically dealt with effects of public financial management practices on budgetary absorption within county government departments leave along covering variables such as financial controls/administration, fiscal accountability and government revenues and how they affect budgetary absorption. Consequently, this leaves a knowledge gap that was addressed by the current study. This study poses the question, what are the effects of public financial management practices on budgetary absorption in Mandera County, Kenya?

3. OBJECTIVES OF THE STUDY

The general objective of this study was to establish the effects of public financial management practices on budgetary absorption in Mandera County, Kenya.

The study was guided by the following specific objectives:

i. To determine the effect of financial administration reports on budgetary absorption in Mandera County, Kenya.

ii. To find out if financial control processes has an effect on budgetary absorption in Mandera County, Kenya.

iii. To determine the effect of budget process on budgetary absorption in Mandera County, Kenya.

iv. To find out how fiscal accountability reviews affect budgetary absorption in Mandera County, Kenya.

4. THEORETICAL REVIEW

The theories of focus in this study were four in number thus, theory of public expenditure, peacock and wiseman's theory of expenditure, theory of financial control and differential association theory.

4.1 New Public Management Theory

This theory was applied in this study to link effective practices of revenue collection, allocation and oversight in the effective delivery of services in the public sector. The new public management (NPM) theory by Kaboolian (1998) focuses specifically on issues of making governments efficient. Savoie (2003) notes that the theory recommends changes to make governments more efficient and responsive by employing private sector techniques and creating market conditions for the delivery of services. Additionally, Osborne (2006) indicates that the NPM theory asserts the superiority of private managerial techniques over those of public administration and has the assumption that the adoption of private sector practices would lead to improvements in the efficiency and effectiveness of public services. In effect, NPM theory relies heavily on the theory of the private sector and on business philosophy (Osborne, 2006). The assumptions of NPM easily apply to issues of public financial management and its influence on service delivery. NPM perspectives emphasize compliance with ethics, transparency, equality, fairness, responsibility, accountability, prudence, participation, responsiveness to the necessities of the people and efficiency in the administration of public resources. Public financial management is the coordination of public financial resources for efficiency in public service delivery. It involves revenue collection, planning and budgeting, internal controls, audit and external oversight, among others with a view to promoting availability of benefits to the greatest number of citizens (Broback & Sjolander, 2002). Bartle and Ma (2004) posit that PFM involves effectively organizing, directing and managing financial transactions in the public sector. There is therefore a need for effective management and institutional designs, both of which are aimed at making the public sector more efficient like the private sector. This is expected to invigorate performance and decrease corruption. Other assumptions include citizen-centred services, value for tax payers' money, and a responsive public service work force. Osborne (2006) describes some other elements of NPM which have strong relevance to public financial management. NPM theory was applied in this study to link best practices in budgeting, revenue collection, auditing and governance to public service delivery.

4.2 Peacock and Wiseman's Theory of Expenditure

This theory was proposed by Peacock and Wiseman (1979) fcousing on an analysis best known in relation to the time pattern of public spending. They based their analysis on a political theory of public determination which argues that citizen do not like to taxed whereas governments have a preference to spending thus it necessary for government to be keen on what the citizens` wishes are. According to them taxation is a form of a constraint on government spending. They futher argued that as income grows so does the economy and that taxes on revenue at a constant taxation rate would rise, thus enabling a gradual upward trend in public expenditure even though within the economy there is divergence on what people regard as being desirable public expenditure level and the level of taxation that is desirable (Peacock and Wiseman, 1979). However, if there are periods of social upheaval, the upward gradual trend in public expenditure is affected. In most case such periods would come into play wherever there is war, famine or some unexpected large-scale social disasters which lead to rapid increases in public spending forcing the government to raise taxation rates. In such circumstances the rise in the levels of taxation are acceptable to people. This is referred as the displacement effect. Dispacement effect is upwards in the period of crisis and does not fall to its original level on public spending. Wars can not be paid for from taxation since there is no nation that has taxation capacity that is that large (Peacock and Wiseman, 1961).

Nations thus borrow and charge debt but not after the occurance of such an event. To achieve this the government must expand their scope of services offered so that they can improve social conditions. Since peoples` perception to levels of taxation is tolerable but does not return to its original form the government must seek to finance the high levels of spending through a wider scope of debt and government charges. This theory was important to the current study since it assisted the researcher to have an insight into time patterns in regards to public spending and the best wat to use financial management practices among county governments so as to enhance budgetary absorption. This theory was based on the premise that governments like spending money whereas its citizens hate paying taxes as argued in the political theory of public determination. With this in mind therefore the theory helped in determining the role political influences can have on variables such as financial administration, financial controls, budget management and fiscal accountability and their relationship with budgetary absorption.

4.3 Theory of Financial Control

In relation to the objective relating to the effect of financial controls on budgetary absorption this study focused on the financial control theory by Laughlin (1980). The personal functions of human being both the present and future are thought to constitute the most important part of reference in the financial control theory. According to this theory the possible and the existing functions of financial tools for institutions are the most crucial. On the same note it is argued that financial instruments, accounting, payments, control models, economic calculations and other the related considerations both outside and with the institution discussions ought to carried out in regards to inner features as well as possible effects. From a financial control point of view it important to establish the relationships between financial processes and various activities which are seen to be the basic and general issue (Ostman, 2009). The financial controls theory for institutions puts much focus on the firms such that they can be looked at from several latitudinal areas. The first aspect is on human beings` functions, thus the accomplishments through firms, the activities they carried out and the output. The second aspect is on structure of the firm and the processes, and the activities that parties might be having with each other. The third regards to control systems in the form of procedures recurring and the methods employed relating to present and future resource functions both internally and externally. The fourth area which is the last focuses on the processes that are specific to individual firms for issues that are certain. This theory further point out that the structure and the financial control systems work depend on another (Ostman, 2009). The theory of financial control was relevant in this study owing to the fact that it gave an insight on the intricacies that might surround financial management in an institution.

4.4 Differential Association Theory

Differential association theory was proposed by Sutherland in 1947. According to differential association theory fiscal accountability affects all the classes in society, all government departments, republics and monarchies, be it in times peace and war, no matter the age groups, both sexes and at all times, old, modem and mediaeval.The challenges of fraud are that it is trans-systemic in that it exists in all the systems from capitalism, communism, socialism and feudalism (Alatas, 1990). In most instances the pressure or motivation is a creation of demands with higher earnings at times it results from the company position thus from the top level. The need to post financial results or improved stock price may force individuals and firms to cut corners thinking they are acceptable (Ernst & Young 2009). Justification which is more of a psychological factor arises mostly from within a person. By validation the behaviour which is fraudulent makes a person to commit fraud and assure him or herself that this behaviour is acceptable to done that. For example an employee may rationalize stealing funds in that he thinks that having worked so hard it is justified for him to steal since he deserves it (Harrison et al. 2011). Ernst and Young (2009) established that the most common types of corporate fraud include fraudulent financial reporting, misappropriation of assets and corruption. The most common of this is misappropriation of assets. According to their findings 88.7% of the incidents reported are in the asset misappropriation category which 27.4% account for corruption case while 10.3% of the incidents are that of fraudulent financial reporting which is not frequent form of occupational fraud. According to Adeoti (1996) approaching the issue in regards to prevention of fraud found out that the best approach and that is also cheaper is taking precaution. He concluded that there are two common types of fraud that impact on the financial statements of an organization namely misappropriation of assets which sees employing stealing money from the firm and covering that up through making entries that are wrong in the books of account and managers reflecting false and misleading entries on financial statements showing the firm performing better than in reality. Harrison et al. (2011) was of the opinion that fraudulent reporting of financial statements is the least frequent among the forms of fraud but it is the most expensive both in terms of long-term damage and money lost.

Examples of schemes that relate to fraudulent financial reporting are revenues smoothing, storing funds away for future uses, liabilities overestimation during perfect times, not reporting information properly for example in regards to loans management and transactions involving parties, or the execution of transactions that are highly complex (Ernst & Young 2009). Financial management needs to analyze what factors lead to fraud so that they can come up with appropriate measures and policies to prevent or control such occurrences. Example of such measures include relationships, attitudes, awareness and regulations that must be in place to reduce the opportunities for fraud and at the same time aid people to resist engaging in such acts of crime. According to Okafor (1986) fraud is individualistic in nature in that one may choose to cash in as at when there is an opportunity. Alashi (1994) on the other hand is of the opinion that fraud occurs whenever opportunity exists and there is intent from an individual. The theory that guided this study in regards to fiscal accountability was differential association theory. This theory gives an explanation on the circumstances and the motivations that influence an individual to commit fraud thus highlighting the mechanisms to prevent any fraud.

5. RESEARCH METHODOLOGY

The design strategy adopted by this study was that of using a descriptive research design. In this design subjects are normally observed in their natural setups and it covers describing and observing how the subjects behave without having an influence on them in any way. This study targeted all members of finance section in the County of Mandera. Focus was on all the employees in the finance department in the county government and there were 105 of such employees (Mandera County HR, 2017). The sampling frame was 105 employees in the department of finance Mandera County. The study purposively sought information from employees in department of finance. Owing to the fact that the number of the target population was small thus 105 employees, this study therefore was a census of all employees within the finance department of Mandera County, Kenya. In this study both primary and secondary data collection methods were used. Questionnaires distributed to employees of the country targeted facilitate collection of primary data. The questions covered the effects of public financial management practices on budgetary absorption within county government departments. The questionnaire sought to gather information on the impact of financial administration reports on budgetary absorption, if financial control processes have an effect on budgetary absorption within, the effect of budget management on budgetary absorption and the effectiveness of fiscal accountability reviews on budgetary absorption. The researcher personally administered the questionnaires. The use of questionnaires in this study was for purposes of keeping the respondents confidentiality. Secondary data for this study was gathered from sources such as media publications, journal articles and books covering public financial management practices on budgetary absorption.

The researcher was given a data collection letter from the university. The questionnaire was pilot tested to determine their suitability. A drop and pick method where the questionnaires were dropped and picked after one week was used. Prior information was passed to all research participants. Every effort was made to ensure research participants are not inconvenienced and time lines adhered to. The researcher obtained consent from all relevant institutions such as the county government of Mandera and individual participants. This study collected both quantitative and qualitative data. The data collected was edited and coded before analysis is carried out by the researcher. Content analysis was used on qualitative data collected. This study collected both qualitative and quantitative data. Content analysis was used on qualitative data collected. On the other hand the researcher used inferential statistics that includes multiple linear regression model and correlation models to analyse the quantitative data. This study used descriptive statistics in the form of the mean, median and frequency distribution table as the measure of central tendency and standarda deviation as the measure of spread. The researcher performed correlation and regression analysis on collected data using SPSS software.

6. DATA ANALYSIS RESULTS

Table 1 below presents the results of the correlation analysis.

Table 1: Correlation Analysis

		Budgetary absorption	Finacial administration reports	Financial controll processess	Budget management	Fiscal accountability reviews
Budgetary absorption	Pearson Correlation	1				
	Sig. (2-tailed)					
Financial administration reports	Pearson Correlation	.370*	1			
	Sig. (2-tailed)	0.013				
Financial controll processess	Pearson Correlation	.421**	0.198	1		
	Sig. (2-tailed)	0.001	0.177			
Budget management	Pearson Correlation	.67**	0.21	-0.186	1	
	Sig. (2-tailed)	0.003	0.153	0.206		
Fiscal accountability reviews	Pearson Correlation	.356**	.381**	0.253	-0.205	1
	Sig. (2-tailed)	0.01	0.008	0.083	0.163	

** Correlation is significant at the 0.01 level (2-tailed)
* Correlation is significant at the 0.05 level (2-tailed).

The results in Table 4.7 revealed that financial administration reports and budgetary adoption are positively and significantly related (r=0.370, p=0.013). The results further indicated that financial controll processes and budgetary adoption are positively and significantly related (r=0.421, p=0.001). In addition,the results showed that budget management and budgetary adoption are positively and significantly related (r=0.67, p=0.003). Similarly, the results showed that fiscal accountability reviews and budgetary adoption have a positive and significant relationship (r=0.356, p=0.001).

The results in table 2 presented the fitness of model of regression model used in explaining the study phenomena.

Table 2: Model Fitness

variables	**co-efficient**
R	0.782
R2	0.613
Adjusted R2	0.567
Std. error of the estimate	0.48046

As shown Table 2 financial administration reports, financial controll processess, budget management and fiscal accountability reviews were found to be satisfactory variables in budgetary absorption. This was supported by coefficient of determination also known as the R square of 56.7%. This meant that financial administration reports, financial controll processes, budget management and fiscal accountability reviews explain 56.7% of the variations in the dependent variable which was budgetary absorption. The results further meant that the model applied to link the relationship of the variables was satisfactory.

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant. Table 3 provided the results on the analysis of the variance (ANOVA).

Table 3: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.698	4	1.674	7.253	.000
Residual	9.926	43	0.231		
Total	16.624	47			

Regression indicated that the model was statistically significant. Further, the results imply that the independent variables were a good predictor of budgetary absorption. This was supported by an F statistic of 7.253 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Table 4: Regression of Coefficients

	B	**Std. Error**	**t**	**Sig.**
(Constant)	1.103	1.028	-1.073	**0.289**
Financial administration reports	0.66	0.119	5.546	**0.000**

	B	Std. Error	t	Sig.
Financial controll processes	0.67	0.148	4.527	**0.000**
Budget management	0.733	0.188	3.894	**0.000**
Fiscal accountability reviews	0.424	0.133	3.174	**0.003**

Regression analysis showed that there is a positive and significant relationship between financial administration reports and budgetary absorption($r=0.66,p=0.000$). The results also indicated that that there is a positive and significant relationship between financial controll processes and budgetary absorption($r=0.67,p=0.000$). Further, the regression results revealed that there is a positive and significant relationship between budget management and budgetary absorption($r=0.733,p=0.000$). The results also showed that there is a positive and significant relationship between fiscal accountability and budgetary absorption($r=0.424,p=0.003$).

Thus, the optimal model for the study is;

Budgetary Absorption= 1.103 + 0.66 Financial Administration Reports+ 0.67 Financial Controll Processes+ 0.733 Budget Management + 0.424 Fiscal Accountability Reviews

7. CONCLUSION

The study concludes that financial administration reports have an impact on budgetary absorption. Releasing fund late is the reason for not implementing or delaying ongoing projects and planned activities which mostly require continuous and cash flow that is predictable. Responsibility of financial administration officers has a great effect on budgetary absorption. The study concludes that financial control processes have an impact on budgetary absorption. Financial management and control practices may lead to a marked influence on the financial wellbeing of an organization. Identifying the casual relationship that exists between government spending and revenue gives an insight on the different policy frameworks that can help control government spending and budgeting rules and regulations.

It was concluded that budget management has an impact on budgetary absorption. If a work plan given has lumpy and large investments with less that required finances approved and released for use there is likelihood that the project cannot start since nothing is there to be spent and that large differences noted between approved budget and the actual result released arise as a result of weaknesses in the fiscal mechanisms and most important the arbitrary rationing of cash. The study concludes that fiscal accountability reviews have an impact on budgetary absorption. Public finance field suggests that more emphasis must be given to institutional changes for example reforms in revenue administration. This is in addition to management style, administrative structure, organizational culture and staff retraining should be given equally priority to technical processes and system reforms.

8. RECOMMENDATIONS

Financial administration employees should be engaged in the county projects that involve government funding. This may improve the financial accountability in the county and hence improve the absorption capacity. Based on the research findings, the study recommended that organizations should undertake effective financial control processes to ensure that funds are utilized optimally and for the intended purposes. This in turn leads to improved financial performance. The study recommended that organizations should manage their budgets to eradicate extravagance and use funds for stipulated purposes. Organizations more specifically county governments should undertake regular financial audits in order to identify discrepancies in the expenditures. This may help in identifying the relevant controls that may be put in place to boost financial performance. The study also recommended that organizations should adopt fiscal accountability measures which may include segregation of accounting activities eventually leading to improved performance.

REFERENCES

Adeoti, A., (1996).*Nature, Causes and Control of Fraud*: University of Ilorin, Nigeria. Pp 1-6

Alata, S., (1990).*Corruption: Its Nature. Causes and Functions.* Gower Publishing Company Ltd*:* UK pp.4

Alashi, S., (1994). Fraud Prevention and Control; Role of Government and Its Agents. *Journal of the Institute of Bankers of Nigeria* pp.ll-15

Andrews, M. (2008) 'PFM in Africa: Where are we, how did we get here, where should we go? – Lessons from recent PEFA data and World Bank Public Financial Management Performance Reports'. *Research study for Brookings Institution and World Bank*.

Boekhout, Sjaak, Luc Boot, Menno Hollanders, Klaas J. Reincke, and Jan M. de Vet. (2002). Key indicators for Candidate Countries to Effectively Manage the Structural Funds, Principal report. Rotterdam: NEI Regional and Urban Development.

Boot L, de Vet J-M, & Feekes F, (2002). Absorption capacity for Structural Funds in the regions of Slovenia", *Final Report*, NEI, Rotterdam

CABRI,(2011). Good Financial Governance in Africa: *Status Report*, March 2011

Catao, L. & Terrones, M. (2005), 'Fiscal deficit and inflation,' *Journal of Monetary Economics, 52*(3), 529–54.

Chang, T. (2009), „Revisiting the Government Revenue-Expenditure Nexus: Evidence from 15 OECD Countries based on the Panel Data Approach`. *Czech Journal of Economics and Finance*, 59(2), 165-172.

Collis, J. & Hussey, R. (2009*). Business Research: A Practical Guide for Undergraduate & Postgraduate Students*. 3rd ed., London: Palgrave Macmillan

Cooper, D.R., & Schindler, P S (2000), *Business research methods*, seventh edition New York: Irwin/ McGraw- Hill

Correia, C., Flynn, D., Uliana, E. & Wormald, M. (2003). *Financial management. 5th edition.* Lansdowne

Diamond, J. (2006) *Budget system reform in emerging economies: the challenges and the reform agenda*. IMF Occasional Paper No. 245. Washington, DC: IMF.

Eita, J. H., & Mbazima, D.(2008), The Causal Relationship between Government Revenue and Expenditure in Namibia, *Munich Personal Repec Archive (MPRA) Paper No. 9154.*

Gros, D. & Steinherr, A. (2004), *Economic Transition in Central and Eastern Europe*, 2nd edition, Cambidge: Cambidge University Press.

Harrison, B., R. Hausmann, and Jurgen von Hagen, (2011). Reforming Budgetary Institutions in Latin America. The Case for a National Fiscal Council. *Open Economic Review*, Vol. 10, 415-42.

Hondroyiannis, G. & Papapetrou, E. (1996). An Examination of the Causal Relationship between Government Spending and Revenue: A Cointegration Analysis. *Public Choice, 89*,(3/4) 363-374.

Horvat, A. (2004). *Absorption Problems in the EU Structural Funds. Some Aspects Regarding Administrative Absorption Capacity in the Czech Republic, Estonia,* *Hungary, Slovakia and Slovenia*. National Agency for Regional Development of Slovenia.

Islam, A. M. (2001) "Wagner's Law Revisited: Cointegration and Exogeneity Tests for the USA" *Applied Economics Letter,* 8(8): 509-15.

Kalman, J. (2010). Possible Structural Funds Absorption Problems. The Political Economy View with Application to the Hungarian Regional Development Institutions and Financial System. OSI/*Local Government and Public Service Reform Initiative,* Budapesthttp://lgi.osi.hu/publications/2002/105/Marcou-Hungary.p

Lienert, I. (2003) A comparison between two public expenditure management systems in Africa. *IMF Working Paper* No. 03/2. Washington, DC: IMF.

McMaster, I. & Bachtler, J. (2005) Implementing Structural Funds in the New Member States: Ten Policy Changes, *European Policies Research Centre*, Open Days Seminar http://www.eprc.strath.ac.uk/eprc/Documents/ pdf_files/12A07_McMaster-Bachtler_paper.pdf

Michas, N.A. (1995) "Wagner's Law of Public Expenditure: What is the Appropriate Measurement for a Valid Test?" *Public Finance* 30(1): 77-85.

Miliasih, R. (2012). Delay Analysis Unit Budget Absorption Ministry / Agency in Pekanbaru KPPN Payment Territory, *Thesis* of Master of Planning and Public Policy, University of Indonesia.

Mrak, M., Richter, S., & Szemler, T. (2015). Cohesion Policy as a Function of the EU Budget: A Perspective from CEE Member States. *WIIW Research Report 400,* May 2015.

North, D, (1990). *Institutions, Institutional Change and Economic Performance*. New York: Cambridge University Press.

Okafor, O.H. (2013). Modeling Fiscal-Monetary Interactions in Nigeria. *International Journal of Economics and Finance*. Vol. 5, No. 1.pp. 86-92.

Oncu, H. (1994). *Measurement and evaluation in education*. Ankara: Matser Basim.

Pavel, J. & Klazar,S. (2004). "EU Funds: Absorption Capacity and Effectiveness of Their Use, with Focus on Regional Level in the Czech Republic." Conference Proceedings of the 12th NISPAcee Conference "Central and Eastern European Countries Inside and Outside the European Union: *Avoiding a New Divide*", Vilnius, Lithuania, 13-15 May 2004

Peacock,A.T., & Wiseman, J (1961). "*Government Expenditure by Economic and Functional Categories," NBER Chapters,* in: The Growth of Public Expenditure in the United Kingdom, pages 62-95 National Bureau of Economic Research, Inc.

Peacock,A.T., & Wiseman, J (1979). *"Possible Future Trends in Government Expenditure," NBER Chapters*, in: The Growth of Public Expenditure in the United

Savoie, D. (2002). Introduction to new public management: An African reform paradigm? *Africa Development, 27*(3), 1 - 16.

Saxena, S; Thapa, M., Adhikari, R., & Tiwari, S (2011). Transaction Accounting and Budget Control System (TABUCS). Kathmandu: *MoHP*, NHSSP.

Sukadi. (2012). Analysis of Factors Affecting Absorption Accumulation Expenditure At End of Fiscal Year KPPN Yogyakarta region, *Thesis*, University of Gadjah Mada.

Sumpikova, M., Jan,P & Stanislav,K. (2004). "Africa Union Funds: Absorption Capacity and Effectiveness of Their Use, with Focus on Regional Level in the Czech Republic." *Conference Proceedings of the 12th NISPAcee Conference* "Central and Eastern European Countries Inside and Outside the Africa Union: Avoiding a New Divide", Vilnius, Lithuania, 13-15 May 2004.

Stevens, M. (2004) *Institutional and Incentive Issues in Public Financial Management in Poor Countries*. Washington, DC: World Bank.

Van Eden, H. (2009) 'Program budgeting without institutional reform – why it doesn't work'. *IMF PFM Blog* posting 28 August. Washington, DC: IMF.

Tommasi, D. (2009). 0 Strengthening Public Expenditure Management in Developing Countries: *Sequencing Issues*

Werlin, H. (1992). "Linking Decentralization and Centralization: a Critique of the New Development Administration", *Public Administration and Development*, 12, October.

World Bank (2003) Public Sector Reform: What Works and Why? *An IEG Evaluation of World Bank Support*. Washington, DC: World Bank.

Zaman, G., & Georgescu, G. (2009). Structural fund absorption: a new challenge for Romania?, *Romanian Journal of Economic Forecasting 7*(1) 45-10.