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Effect of Public Financial Management Practices on Budget Absorption among Lake Region Economic Block Counties in Kenya

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Abstract
Effective budget absorption is crucial for counties as it ensures optimal utilization of allocated funds for development projects and public services. However, there is evidence that the Lake Region Economic Block (LREB) counties in Kenya face a significant challenge with budget absorption. This study therefore assessed the effects of public financial management practices on budget absorption among the Lake Region Economic Block counties in Kenya. Descriptive and inferential statistics particularly correlation and multiple linear regression were used to analyze data. The regression results showed that budgeting had the strongest influence ($\beta = 0.270$, $p = 0.007$), followed by debt management ($\beta = 0.257$, $p = 0.034$), financial reporting ($\beta = 0.248$, $p = 0.000$) and revenue management ($\beta = 0.117$, $p = 0.001$). Based on the findings, it is recommended that county governments enhance budget absorption through structured budgeting, sustainable debt management, efficient revenue collection and transparent financial reporting.

Keywords: *Budgeting, Revenue management, Financial Reporting, Debt management, County Government, Budget Absorption*

1. Introduction

The importance of assessing the performance of county governments has been highlighted. Turley et al. (2020) assert that evaluating governmental performance aids in differentiating between those that excel and those encountering significant financial challenges. This distinction is essential for implementing effective methods from prosperous nations in economically disadvantaged places. Greasley et al. (2019) emphasize that diverse economic factors confer unique benefits to specific nations. Nonetheless, county governments employ several measures to address this disparity. Adler et al. (2012) note that the success of county governments in Indonesia is contingent upon regulatory norms such as internal controls and budgeting, which improve governance efficacy. Regionally, nations including Nigeria, Uganda, South Sudan, and South Africa have adopted local governance to improve the provision of social services. According to Agba et al. (2019), local governments in Nigeria must improve service performance despite significant financial resources. Nigerian local governments must substantiate their current term by enhancing socio-economic

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conditions and demonstrable progress. Tumushabe et al. (2010) underscore the necessity of consistently assessing and evaluating the performance of county governments using instruments such as the balanced scorecard. This method guarantees the ongoing monitoring of socio-economic advancement indicators. Municipalities in Tanzania have been instituted as local governments to enhance service delivery excellence.

Lerno (2016) suggests that despite robust public financial management practices, county governments in Kenya still need to improve their performance. Additionally, according to Kibunja (2017), citizens in Kenya hold county governments accountable for how resources are allocated, used, and managed. The absorption of budgets is central to this attempt to hold the governments accountable (Mong'are & Atheru, 2023). Even though several attempts have been made to determine the correlation between the performances of counties, the effect of the practices of the public financial management on the budget absorption of counties especially those in the LREB of Kenya is not evident. Good PFM results in transparency and accountability in the financial matters of a nation and this assists in building trust in the minds of the citizens, investors and development partners (Mutungi, 2019). As it was noted by Ahmed and Nganga (2019), following international accounting standards, issuing timely and accurate financial reports, and regular auditing are the key practices that increase transparency and eliminate corruption, misuse of public money, and illicit financial flows. Good governance and ethical behavior in the administration of the state is also encouraged by transparent financial management practices that create a favorable environment to economic growth and development. According to Biwott (2017), although many practices in financial management of the government are in existence, the most notable ones are budgeting, revenue management, debt management and financial reporting.

1.2 Research problem

Kenya has been implementing the devolved system of governance outlined in the Constitution of Kenya (CoK) 2010 for the past ten years. This transition introduced 47 County governments with fiscal responsibilities. The CoK 2010 also established new public financial management (PFM) institutions such as the Commission on Revenue Allocation (CRA), Salaries and Remuneration Commission (CRC), Office of the Controller of Budget (COB), and expanded the Auditor General's mandate. The PFM Act 2012 further defined the roles of the National Treasury and

Parliament regarding public financial management practices. This restructuring aimed to enhance efficiency and effectiveness in utilizing limited public resources to meet the increased financial demands of both national and county governments.

Lake Region Economic Block (LREB) counties in Kenya have a major problem of budget absorption as shown by the statistics that show that there is a lot of unspent money in the public financial management system in the region. As per the recent reports, an average of 30 percent of the budgetary allocations go unspent in the LREB counties every year (Controller of Budget, 2023). As an example, Kisii County reported 35 percent of the budget unabsorbed in the fiscal year 2022/2023, Nyamira County had 28 percent unspent and Migori County had 31 percent unutilized funds. These statistics represent a persistent tendency of the last several years, which means that there are system-related problems with budget absorption processes. Although several causes of this issue have been outlined as delays in procurement procedures, poor capacity building of county officials and bureaucracy in the approval of expenditure, there is no clear understanding of how the public financial management practices influence budget absorption.

A multitude of studies has been undertaken regarding the impact of public budgeting on organizational performance. Kathungu (2016) analyzed the influence of budgeting on the financial performance of county governments, highlighting budgeting and income generation. The study demonstrated that budgeting elements, including county income and expenditures, positively influenced financial success. It solely ascribed performance to budgeting, disregarding other determinants. Kibunja (2017) investigated the impact of the budgetary process on the financial performance of Murang’a County, emphasizing planning, implementation, monitoring, and assessment. The research identified the influence of budgeting on financial success and promoted more participation in budgeting activities. In contrast, Mutungi (2019) examined the effects of budgeting and budgetary regulations on the financial performance of all Kenyan county governments. The descriptive research technique revealed the issues faced by counties lacking adequate budgetary processes. Despite studies indicating an increase in research within public financial management, there is fewer formal data demonstrating the effect of budgeting on budget absorption among counties in the LREB.

Numerous studies have examined the challenges, methodologies, and recommendations regarding revenue mobilization across diverse locations, providing significant advantages to policymakers, practitioners, and scholars. Adu-Gyamfi's (2014) study focused on successful revenue mobilization in the Upper Denkyira East Municipal Assembly of Ghana, identifying problems such as insufficient information on income sources and weak enforcement of revenue mobilization by-laws. Mutua and Wamalwa (2017) examined the challenges and opportunities of local income mobilization in Nairobi City County, emphasizing its significance as a vital financing source for county administrations. Torome (2018) investigated the correlation between revenue mobilization and the efficacy of local authorities in Kenya, concluding that a positive association exists between revenue levels and performance. Kinoti and Kagiri (2016) examined the challenges impacting income collection in Nairobi City County, identifying the necessity to align tax policies between central and local governments as a significant determinant. These studies underscore the significance of revenue mobilization for public entities; yet, there exists a limited corpus of work that investigates the impact of revenue management on budget absorption in the counties of Kenya's LREB.

Debt management is a crucial component in the administration of the public affairs of every public organization. Numerous studies have examined the impact of debt management on organizational performance. Machoka (2017) analyzed debt management in Kenya's public sector, emphasizing CDF initiatives and advocating for capacity enhancement and improvements in ICT infrastructure. Orobo and Muturi (2015) underscored the need of education and comprehensive strategies for adherence to debt management in Nyamira County. Hassan (2012) emphasized budgeting and supplier variety to improve NSSF's debt management. Kahiri et al. (2014) emphasized the importance of regulatory compliance and stakeholder engagement in the debt management of tertiary institutions. Mokogi et al. (2015) proposed efficient strategies for debt management in state-owned firms within Nairobi County. Davis (2014) advocated for adaptable measures to improve debt management at Kenya Power. Nyambura and Mwangi (2015) emphasized the significance of training and technology in enhancing the efficacy of debt management inside public institutions. None of these studies examined the impact of debt management on budget absorption within the counties of the LREB in Kenya.

The financial reporting practice may enhance the performance of a public organization. Previous studies have investigated the effect of financial reporting on performance of public organizations with few studies focusing on budget absorption. Njiru and Bunyasi (2016) explored financial reporting's impact on water service providers' (WSPs) financial outcomes within Kenya's Tana Water Services Board (TWSB), noting significant improvements in efficiency due to effective financial reporting practices. Nwaobia et al. (2016) emphasized the necessity of an autonomous and well-resourced internal audit unit in Rwanda and Nigeria to enhance transparency and adherence to financial reporting standards. Onyango (2014) highlighted gaps in financial reporting practices among Kenyan county governments, proposing the establishment of a national oversight body for annual performance audits. Lerno (2016) observed limited performance improvements despite internal control implementation in Kenyan county governments, indicating a need for enhanced strategies. Ngahu et al. (2014) recognized efficient internal control structures in Mirangine County but advocated for better financial control application. Babatunde and Dandago (2014) stressed strict adherence to internal control mechanisms for effective management of public sector capital projects in Nigeria. The studies show that the effect of financial reporting on budget absorption among the LREB counties in Kenya is unknown.

1.3 Research Objectives

1.3.1 General Objective

The study sought to assess the effect of public financial management practices on budget absorption among the Lake Region Economic Block (LREB) counties in Kenya.

1.3.2 Specific Objectives

Specifically, the study sought to:

(i) Establish the effect of budgeting on budget absorption among the LREB counties, Kenya

(ii) Determine the effect of revenue management on budget absorption among the LREB counties, Kenya

(iii) Analyse the effect of debt management on budget absorption among the LREB counties, Kenya

(iv) Evaluate the effect of financial reporting on budget absorption among the LREB counties, Kenya

1.4 Research Questions

(i) What is the effect of budgeting on budget absorption among the LREB counties, Kenya?

(ii) How does revenue management affect budget absorption among the LREB counties, Kenya?

(iii) How does debt management affect budget absorption among the LREB counties, Kenya?

(iv) What is the effect of financial reporting on budget absorption among the LREB counties, Kenya?

2. Literature Review

2.1 Theoretical Framework

The study was anchored on the following theories;

2.1.1 Agency Theory

The agency theory, which is one of the most important financial theories that explain the relationship between the stakeholders in an organization, as described by Wolk et al. (2008), explains the behavior of various groups in an organization. Agency relationship between managers and shareholders in a company is an important aspect of this theory. An agency relationship is formed when managers, who are hired by the owners to manage the interests of the company, are appointed. The shareholders are interested in maximizing returns, whereas the managers have more economic interests like compensation, which may cause conflicts. To control such conflicts, owners design contracts with managers to reduce conflicts at the cost of monitoring and auditing. Financial reporting is important in reducing the conflict between the owner-manager, where the owners can monitor the employment contracts, which are verified by the auditors (John et al., 2014).

2.1.2 Institutional Theory

The institutional theory emphasizes the role of the organizational environments in determining their structure and behavior. Scott (2005) indicates that efficiency goals are also important in managerial decisions and also cultural and social factors. The latter are deeper and more lasting in the determination of institutional economic behavior. This theory has been used in different fields such as budgeting process where scholars examine how the visions of the society and political agendas are balanced in the public organizations as presented by Covaleski et al. (2003) and Atheru

(2023). The theory is based on the concentration of resource negotiation and mobilization to realize goals in institutions with emphasis on regulatory, normative and cultural cognitive pillars. It is imperative to have a balance between these pillars because they are important to the organizations in terms of meeting their service delivery goals.

In this regard, the institutional theory is relevant to such elements as the application of budgeting as the practice of the public financial management. According to Cheruiyot (2018), the national government has spent more than Ksh.1 trillion to support the achievement of the goals by the Kenyan county governments. This has made the practice decisions that concern public financial management to be important in relation to the institutional goals and objectives.

2.1.3 The New Public Management Theory

The new public administration theory, which emerged in the 1980s and 1990s and was suggested by (Hood, 1991), advocates for restructuring the state along more economical and effective lines. The theory's main proponent suggested increasing private sector control to enhance efficiency. Mongkol (2017) highlighted that the aim of these reforms in public governance, as discussed by Balk (1996) and Hughes (2003), is to improve the quality of government services, reduce expenses, enhance operational efficiency, and increase policy effectiveness. This has significantly contributed to the development of new public administration (Andrews, 2012). The theory encompasses a set of principles, values, and practices intended to emulate private sector activities within the public sector, focusing on a series of theories, values, and practices.

The new public administration is often mentioned alongside governance (Tolofari, 2015), where governance pertains to the overall government system and its strategic implementation, whereas the operational aspect is referred to as new public administration. Zungura (2014) also supported this theory, emphasizing that modern government administration trends towards using market policies to boost public sector productivity, including performance management, e-government, contracting and outsourcing, decentralization, and transparency.

However, there are criticisms of the current public administration theory. Mongkol (2017) noted the paradox of centralization through decentralization. Empowering public managers with more authority might inadvertently centralize decision-making rather than decentralize it. Additionally, implementing private sector management techniques in the public sector has raised concerns. Despite the advocacy for these practices by new public administration proponents, some scholars argue that the political, legal, constitutional, and social contexts of public services differ significantly from the private sector (Mongkol, 2017).

The contemporary theory of public management is pertinent to current research as it influences public expenditure, internal control mechanisms, and the efficacy of many county factors. It fosters citizen participation in procurement procedures, along with the contemporary focus on consumer responsiveness. The primary principle of this idea is to improve openness and accountability among managers and operators using market-driven procedures in the public sector.

2.2 Conceptual Framework

Budgeting is a major idea in financial management that plays a major role in planning, controlling and evaluating the financial activities of an organization or a government (Machoka, 2017). It is a method of estimating income and expenditure over a certain period of time, which is normally a fiscal year so as to plan the utilization of resources well and to achieve strategic goals. One of the primary roles of budgeting is to provide a guideline on how to make financial decisions, and how to distribute resources to the areas of priority such as infrastructure development, health, education, and social welfare programs (Orobo & Muturi, 2015). Budgeting helps organizations and governments to manage their money by setting certain financial targets and limits, which makes sure that the level of spending is within the revenue level and the amount of money available (Kahiri, et al.., 2014).

Revenue mobilization is the process of gathering financial contributions from various sources within an economic context. According to Cheruiyot (2017), it is concerned with revenue policy and legislation, revenue structure and design, revenue collection and revenue administration. The National Treasury underscores the need for a clear revenue policy and legislative framework for county governments to effectively generate and sustain Own Source Revenue (OSR). While many counties rely on annual County Finance Acts for revenue collection, this practice deviates from the legal requirement, which mandates that County Finance legislation should allow for adjustments to taxes, charges, and fees.

Debt management refers to the strategic approach taken by individuals, organizations, or governments to effectively handle their borrowing and repayment obligations. It involves various practices aimed at optimizing debt levels, minimizing costs, and ensuring financial stability (Davis, 2014). One key aspect of debt management is prudent borrowing, where entities carefully assess their borrowing needs, negotiate favorable terms, and borrow only what is necessary and sustainable given their financial capacity. Debt management encompasses strategies to manage existing debt, such as debt consolidation, refinancing, and restructuring. These strategies aim to streamline debt obligations, reduce interest costs, and improve cash flow management (Nyambura & Mwangi (2015).

INDEPENDENT VARIABLES **DEPENDENT VARIABLE**

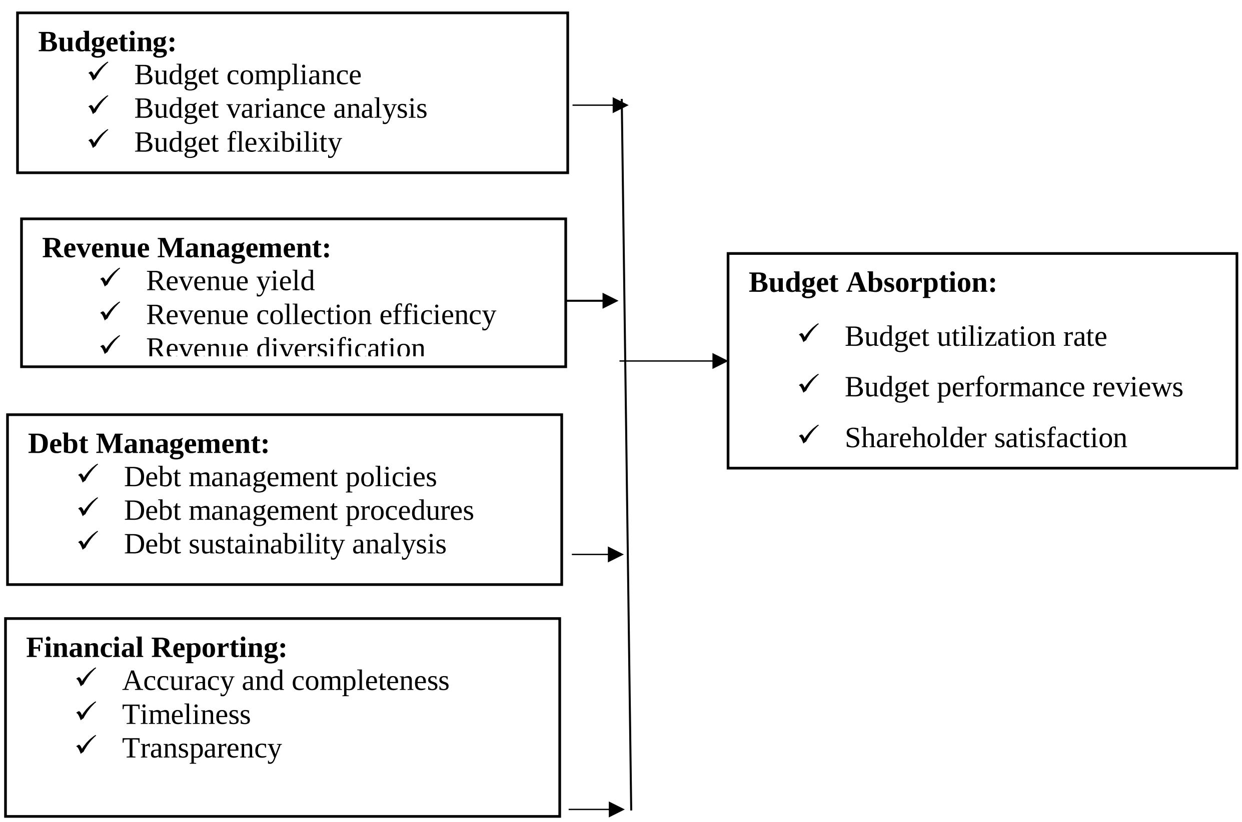

Fig. 1: Conceptual Framework

Financial reporting is essential in enabling accountability, transparency and trust among the stakeholders and the management of the entity (Nyambura & Mwangi, 2015). It allows the investors and the creditors to determine the financial performance of the entity, to invest, determine the risk exposure as well as check the compliance with the regulations. Good financial reporting practices will help in boosting investor confidence, access to capital market and financial stability and sustainability.

Budget absorption is the degree to which an organization, initiative, or institution employs the given resources to implement its intended activities. The budget absorption challenge faced by NGOs in Kenya is substantial, as these organizations predominantly depend on foreign aid, donations, and grants to fund their projects (Dewata et al., 2022). Efficient allocation of these resources will guarantee that the projects and initiatives are implemented within the specified budget and schedule. Budget absorptions are evaluated concerning the time frame, expenditure rate, unexpected costs, resource availability, and eventually, inflation and currency changes (Marinas & Prioteasa, 2019).

3. Methodology

3.1 Study Area

The research was carried out in the Lake Region Economic Bloc in Kenya. The Lake Region Economic Bloc is among the most densely inhabited areas in Kenya, housing about 10 million individuals, which represents around 25% of the nation's population. It has an area of 68,800 km^2, extending 400 km from north to south and 240 km from east to west. The counties comprising the Lake Region in this plan are Kericho, Bomet, Transzoia, Nandi, Bungoma, Busia, Homa-Bay, Kakamega, Kisii, Kisumu, Migori, Nyamira, Siaya, and Vihiga. The region was chosen due to its biggest number of counties exhibiting the lowest budget absorption rates in Kenya, as indicated by the Controller of Budget reports.

3.2 Research Design

According to (Pilot & Hungler, 1995) assert that research designs differ in the extent of structure imposed by the researcher on the research context and the degree of freedom permitted during the study's execution. Most quantitative studies employ highly organized research methods, whereas qualitative studies utilize more flexible research designs. This investigation employed a cross-sectional survey methodology alongside a correlational research framework. The central aim of the research was to assess the influence of public financial management techniques on budget absorption within the counties of the LREB in Kenya.

3.4 Target Population

(Mugenda, 2003) define population as a complete set of persons, events, or things sharing common observable traits. The target population comprised budget managers from the twelve counties. Statistics indicate that each county employs an average of seven budget managers. The target population consisted of 84 County Budget Managers from the 12 counties within the LREB of Kenya.

3.5 Sample Size and Sampling Technique

A sample denotes a segment of a larger population chosen for examination to derive conclusions or inferences regarding the whole population. It denotes the attributes or traits of the population under examination. (Mugenda, 2008) assert that a census is preferable when the population is under 100. Due to the limited size of the research population, a census of the entire target population was performed. Consequently, all 84 responders were utilized for the investigation.

3.6 Data Collection Instruments and Procedures

This research employed a closed-ended questionnaire utilizing a five-point Likert scale for the primary data collection process. The questions in the questionnaire were meant to elicit responses aligned with the aims. Due to the extensive scope of the research subject, the questionnaire was distributed to respondents via Google Forms. Google Forms offers an intuitive interface for form creation, eliminating the need for significant technical expertise. Users may incorporate many question formats, such as multiple-choice, text entry, checkboxes, and others. Prior to disseminating the Google Forms, authorization was obtained from the University and the National Commission for Science, Technology and Innovation (NACOSTI).

3.7 Data Analysis

To enable quantitative analysis, raw data on respondents' feedback on working capital management and financial performance was transformed into numerical codes. The encoded data reflecting response frequencies was examined utilizing the Likert-scale weighted average frequency analysis technique. The means and weighted average replies were subsequently entered into the statistical analysis program, SPSS (Version 24), for evaluation. The study goals were evaluated utilizing the multiple regression approach according to the subsequent regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where the variables are defined as: Y – Budget Absorption,

β_0 - The constant term,

$\beta_1, \beta_2, \beta_3$ and β_4 are the coefficients to be estimated,

X_1 – Budgeting,

X_2 – Revenue Management

X_3 – Debt Management,

X_4 – Financial Reporting and

ε - Error term.

4. Results and Discussions

4.1.1 Highest Level of Education

The initial objective of the study was to ascertain the highest educational attainment of the respondents. The allocation of participants according to their highest attained educational qualifications reveals that a noteworthy segment possesses a master's degree (43.4%, N=34), succeeded by individuals with undergraduate degrees (27.0%, N=21) and diploma credentials (27.0%, N=21). A limited percentage of participants hold a certification qualification (2.6%, N=2). This scholarly work suggests that a significant proportion of the respondents possess advanced educational qualifications, which is essential for understanding and implementing financial management practices within county governments. In the ongoing research endeavour aimed at elucidating the influence of financial management practices on budget absorption within counties, the elevated educational attainment of the respondents' positions them advantageously to provide insightful responses, given their possession of both theoretical and practical knowledge essential for such analysis. Their scholarly qualifications suggest a familiarity with budget planning, implementation, and control systems, which are crucial for effective budget absorption.

4.1.2 Period Worked in the County

The distribution of respondents in regard to the duration of stay in the county indicates that majority of the respondents have a long experience in their job. Specifically, 66.7 percent (N=52) possess the experience of over seven years in the county, 25.6 percent (N=20) have four to six years' experience in their jobs, and 7.7 percent (N=6) have one to three years' experience. Such distribution shows that most of the respondents have an in-depth understanding of the county financial activities, policies and issues related to the budget absorption. They have served long and thus are familiar with the financial management practices, the budget implementation cycles as well as the factors influencing budget absorption in county governments. Additionally, the large proportion of long-term experience of the respondents also makes the research more valid as their responses are more likely to be based on the experience in the working with the financial management systems and decision-making processes in the county administrations.

4.1.3 Experience in the Current Role

The respondent distribution according to the experience in the current job shows that most of the respondents have served in their jobs over a long duration. Table 4.1 indicates that 66.7 percent (N=52) have more than seven years of experience in their current positions, 25.6 percent (N=20) have between four and six years of experience and 7.7 percent (N=6) have between one and three years of experience. This allocation indicates that the majority of the respondents are well versed with institutional knowledge and expertise related to their positions. Their long serving nature means that they are well conversant with the financial management practices in their respective counties such as budget formulation, implementation as well as absorption issues. The large number of long-serving respondents also increases the reliability of the study because they are probably basing their answers on the experience and exposure to county financial processes in various budget cycles.

July Vol 8 No.6, 2025 PP 45-71 ISSN 2522-3186

Age		N	%
Highest education level	Masters	34	43.4
	Undergraduate	21	27.0
	Diploma	21	27.0
	Certificate	2	2.6
	Total	**78**	**100.0**
Work Experience	Between 1 and 3 years	5	6.4
	Between 4 and 6 years	23	29.5
	Over 7 years	50	64.1
	Total	**78**	**100.0**
Work Experience in Current Role	Between 1 and 3 years	6	7.7
	Between 4 and 6 years	20	25.6
	Over 7 years	52	66.7
	Total	**78**	**100**
Professional Qualification	Yes	58	74.4
	No	20	25.6
	Total	**78**	100

4.1.4 Work Experience in the Current Role

The participants were additionally requested to specify the duration of their tenure in their present roles within the Counties or in other locations. This aimed to facilitate comprehension of how alterations in circumstances influence financial planning methodologies and the execution of budgets. Table 4.1 indicates that 6.4% (N = 5) of the respondents have been employed in their current roles for a duration of less than 2 years. The cohort comprising individuals with two to six years of experience constituted 16.7% (N = 13), whereas the segment with seven to twelve years of service accounted for the largest proportion at 53.8% (N = 42). The participants with over twelve years of service constituted 23.1% (N = 18). This indicates that a significant portion of the respondents possessed adequate experience acquired both within and outside their organizations, which was essential for comprehending financial planning practices and the execution of budgets.

4.1.5 Professional Qualification

Table 4.1 on the distribution of respondents based on professional qualifications indicates that a majority hold relevant certifications, with 74.4% (N=58) possessing a professional qualification, while 25.6% (N=20) do not. This distribution suggests that most respondents have undergone specialized training in their respective fields, equipping them with advanced knowledge and technical expertise in financial management. The high proportion of professionally qualified individuals enhances the credibility of the study, as they are likely to be well-versed in best practices, regulatory requirements, and strategic approaches to financial management. Their qualifications may also indicate a higher level of proficiency in budget planning, execution, and absorption within county governments, which is critical for evaluating the effectiveness of financial management practices.

4.2 Correlation Analysis

A correlation analysis was performed to determine the link between the variables. The correlation analysis elucidates the direction, strength, and importance of the relationships among the study's variables. A positive correlation signifies that an increase in one variable is associated with an increase in another variable. A negative correlation signifies that an increase in one measure is associated with a decrease in another (Sekaran, 2003).

Table 4.2: Correlation between Study Variables

	Y	X_1	X_2	X_3	X_4
Y	1				
X_1	0.769^{***}	1			
X_2	0.612^{***}	0.451	1		
X_3	0.786^{***}	.321	.417	1	
X_4	0.564^{***}	.178	.341	.411	1

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Where the variables are defined as: Y – Budget absorption, X_1 – Budgeting X_2 – Revenue management, X_3 –Debt management, X_4 –Financial reporting and ε - Error term

Based on the results as shown in Table 4.2, a number of conclusions can be made in Table. Correlation results show that budgeting (X1) is strongly and positively correlated to budget absorption (Y) at r = 0.769. This close relationship implies that proper budgeting activities play a crucial role in the performance of counties in the utilization of the allocated funds. The strong correlation means that the counties that have well-organized the budgeting procedures, such as the variance analysis and compliance with the budgeting laws, will be more inclined to reach a higher budget absorption rate. This observation is an indication that counties should improve their budgeting systems so that funds are spent and allocated efficiently during the financial year. The results coincide with the previous studies, including (Pratiwi, 2021) that emphasized the importance of budget planning and assessment as the key factors to improve the financial performance of the organization in the public sector.

The revenue management (X2) also indicates a positive relationship with budget absorption with r = 0.612 albeit lower than budgeting. This relationship implies that the counties that have well diversified revenue and are financially healthy can absorb their budgets more efficiently. The moderately significant relationship means that although the better revenue collection and sustainability initiatives are related to budget absorption, other measures, e.g., expenditure controls and financial planning, can be of significance. The counties ought to thus aim at increasing revenue base and financial resilience in order to optimize budget use. As evidenced by previous literature, including Mutua and Wamalwa (2017), an effective revenue collection increases the government service delivery and financial stability.

The correlation between debt management (X3) and budget absorption is quite high at 0.786, which implies that properly managed debt policies have a strong influence on the efficiency in the utilization of budgets in the counties. This close correlation means that counties that have well-organized debt management practices such as clarity in the debt limits, as well as the consistency with the economic environment, have higher chances of absorbing their budgets better. The result reveals the necessity of keeping reasonable debt levels and making sure that borrowing matches the requirements of the budget implementation to increase the financial sustainability and spending efficiency. This is in line with other findings like those of (Nyambura & Mwangi, 2015) who have stated that well-designed debt management policies enhance financial planning, thus having adequate liquidity in implementing the projects.

Finally, the weakest, yet positive correlation of financial reporting (X4) is with budget absorption with r = 0.564, which implies that proper, timely and transparent financial reporting contributes to better budget absorption, although not as strongly as the rest of the factors. The moderate intensity of this relationship suggests that even though financial reporting is a factor that leads to budget utilization, it is probably more of an enabling factor that helps increase accountability than a main driver of absorption. This means that the counties ought to have high quality financial reporting so as to make informed decisions, financial discipline and effective utilization of funds allocated. In past research, researchers have established that good financial reporting improves financial accountability and effectiveness within public organizations (Njiru & Bunyasi, 2016).

4.3 Regression Analysis

The following subsections offer an overview of the regression findings derived from the supplied data. Regression analysis looks at how the variables relate to one another. To assess the degree and intensity of the link between variables, regression analysis is used. According to (Young, 2014), regression analysis elucidates the statistical relationship between variables, hence augmenting the study's capacity to yield meaningful results and provide recommendations. The outcomes of the regression analysis are displayed in Tables 4.3, 4.4 and 4.5 below;

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Sig
1	0.821[a]	.674	.650	.000

The model summary in Table 4.3 above The R value of 0.821 demonstrates a strong positive correlation between PFM practices and budget absorption, indicating that counties with well-structured financial management frameworks are more likely to effectively utilize their allocated budgets. This finding suggests that improvements in financial management directly contribute to enhanced budget absorption rates. The R Square value of 0.674 implies that 67.4% of the variation in budget absorption is explained by budgeting, revenue management, debt management, and financial reporting. This result signifies that PFM practices play a crucial role in determining how effectively counties utilize their budgets. However, the remaining 32.6% of the variation is influenced by other external factors not included in the model, such as political interference, procurement inefficiencies, capacity constraints, and economic fluctuations. The p-value (Sig = 0.000) confirms that the overall model is statistically significant. The significance value is far much below the 0.05 mark and this means that the effect of PFM practices on budget absorption is not as a result of random chance. This observation supports the claim that improved financial management practices can result in improved budget utilization and absorption rates in county governments.

Table 4.4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.425	4	15.106	162.81	.000[a]
	Residual	6.773	73	.093		
	Total	67.198	77			

a. Predictors: (Constant), $\boldsymbol{X_1, X_2, X_3, X_4}$

b. Dependent Variable: $\boldsymbol{Y}$

Where the variables are defined as: $\boldsymbol{Y}$ – Budget absorption, $\boldsymbol{X_1}$ – Budgeting $\boldsymbol{X_2}$ – Revenue management, $\boldsymbol{X_3}$ –Debt management, $\boldsymbol{X_4}$ –Financial reporting and $\boldsymbol{\varepsilon}$ - Error term

Table 4.4 ANOVA results show that the ANOVA results indicate that the effect of public financial management (PFM) practices on budget absorption among the LREB (LREB) counties in Kenya is significant. The large value of F-statistic (162.81) and p-value of 0.000 indicate that the overall regression model is statistically significant, i.e. at least one of the independent variables has a significant effect on budget absorption. The regression sum of squares (60.425) shows that a large proportion of the variation in budget absorption is explained by PFM practices, while the residual sum of squares (6.773) suggests that only a small portion remains unexplained. This finding implies that counties that strengthen financial management practices, particularly in budget execution, revenue collection, debt sustainability, and financial reporting, are more likely to enhance budget absorption. However, the presence of some unexplained variation suggests that other factors, such as procurement inefficiencies, political influences, and administrative delays, may also impact budget absorption and should be investigated further.

Table 4.5: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t-stat	Sig.
		Beta	Std. Error	Beta		
1	(Constant)	0.320	0.146		2.192	.000
	X_1	0.270	0.061	0.264	4.426	.007
	X_2	0.117	0.041	0.113	2.853	.001
	X_3	0.257	0.098	0.204	2.622	.034
	X_4	0.248	0.134	0.233	2.597	.000

Dependent Variable: *Y*

Generally, the fitted model based on the study findings is as follows:

$$Y = 0.376 + 0.270X_1 + 0.117X_2 + 0.257X_3 + 0.248X_4$$

Where the variables are defined as: Y – Budget absorption, X_1 – Budgeting X_2 – Revenue management, X_3 –Debt management, X_4 –Financial reporting and ε - Error term.

The findings regression coefficient results in Table 4.12 indicate that budgeting (X_1) has a significant positive effect on budget absorption ($\beta = 0.270$, $p = 0.007$), suggesting that counties that improve their budgeting practices experience better budget utilization. This is consistent with (Pratiwi, 2021), who determined that budget planning and evaluation have a major impact on financial performance in the public institutions. Also, (Mutungi, 2019) discovered that budgetary controls are effective in enhancing financial efficiency of Kenyan county governments. These results indicate that counties need to pay attention to the improvement of budget variance analysis, the effectiveness of their execution, and compliance with financial regulations to increase budget absorption rates.

The research confirms that revenue management (X2) has a positive effect on budget absorption (beta = 0.117, p = 0.001), which means that the counties that diversify revenue sources and enhance financial resilience have higher chances to absorb their budgets. This finding supports the findings of (Mutua & Wamalwa (2017), who stressed that effective revenue mobilization increases financial sustainability in county governments. On the same note, (Torome, 2018) pointed out that effective revenue collection strategies lead to better financial performance. The relatively low coefficient of revenue management however indicates that though it is a significant factor in determining the absorption of the budget, it has less influence as compared to budgeting and debt management. This implies that the counties need to diversify their revenue base and enhance collection to enhance budget usage.

A strong and significant impact is on budget absorption (X3) (0.257, p = 0.034), which means that counties with well-developed strategies of debt management use their budgets more effectively. This concurs with (Nyambura & Mwangi, 2015) who concluded that well-designed debt management policies enhance financial stability within the government institutions. In addition to that (Machoka, 2017) suggested increasing debt transparency and monitoring to facilitate better project implementation and budget execution. These results indicate that counties ought to emphasize on sustainable levels of debts, borrowing in line with the economic realities, and strengthening debt tracking mechanisms in order to increase budget absorption.

Financial reporting (X4) positively and significantly influences budget absorption (beta = 0.248, p = 0.000), which means that the counties that enhance transparency and timeliness of financial reporting increase their capacity to absorb budgets. This concurs with (Njiru & Bunyasi, 2016) who discovered that good financial reporting enhances financial accountability and operational efficiency among the water service providers in Kenya. Also, (Onyango, 2014) identified weaknesses in financial reporting of Kenyan county governments and suggested that there should be more oversight mechanisms. The results suggest that counties ought to focus on the accuracy, completeness, and consistency in financial reporting to enhance budget implementation and accountability.

5. Conclusion

The study concludes that budgeting plays a critical role in determining budget absorption in county governments. Counties with well-structured budgeting practices, including effective planning, variance analysis, and execution efficiency, achieve higher budget utilization. This finding underscores the need for county governments to strengthen their budgeting frameworks to enhance financial discipline and ensure that allocated funds are efficiently utilized. Proper budgeting practices help in aligning financial resources with expenditure needs, ultimately improving overall budget absorption rates.

Revenue management also significantly affects budget absorption, though its influence is relatively weaker compared to other financial management practices. The study concludes that counties with effective revenue mobilization strategies, diversified revenue sources, and efficient collection mechanisms are better positioned to utilize their budgets effectively. However, to maximize the impact of revenue management on budget absorption, counties must improve their revenue collection processes, minimize financial leakages, and explore alternative revenue streams to enhance financial sustainability.

Debt management is a key determinant of budget absorption, as counties with structured debt management policies demonstrate better budget utilization. The study concludes that sustainable borrowing, effective debt monitoring, and prudent financial planning are essential for ensuring that county governments do not accumulate unsustainable debt levels that may hinder their financial performance. Counties must align their debt management strategies with economic conditions and enhance transparency in borrowing to strengthen budget execution.

Financial reporting has a significant impact on budget absorption, as counties that ensure timely, accurate, and transparent financial reporting are more likely to utilize their budgets efficiently. The study concludes that financial accountability and comprehensive reporting frameworks enhance decision-making, improve oversight, and minimize financial mismanagement. To strengthen budget absorption, counties should invest in robust financial reporting systems, enhance compliance with financial regulations, and promote transparency in financial disclosures.

5.1 Recommendations

According to the results of the first objective, which demonstrated that budgeting significantly improves budget absorption, and the conclusion that budgeting plays a key role in raising budget absorption in organizations, the study suggests that county governments improve their budgeting procedures in order to increase budget absorption. This can be achieved by enhancing budget planning, variance analysis, and execution efficiency. Counties should adopt modern budgeting tools, enforce budget discipline, and ensure that expenditure aligns with revenue forecasts. Additionally, finance officers should receive training on best budgeting practices, and real-time monitoring mechanisms should be established to prevent inefficiencies and wastage.

Based on the analysis from the second objective that revenue management affects budget absorption positively and significantly and the conclusion that revenue management is a significant contributor to improved budget absorption in organizations, it is recommended that counties enhance revenue management by diversifying their revenue sources and improving collection efficiency. This can be done through the automation of revenue collection systems, minimizing financial leakages, and enforcing strict compliance with revenue collection policies. Additionally, counties should explore alternative sources of revenue, such as public-private partnerships (PPPs) and innovative financing models, to reduce overreliance on traditional revenue streams and enhance financial sustainability.

In light of the study's findings regarding the third objective—that debt management hinders budget implementation—and the importance of debt management in enhancing organizations' ability to absorb funds, the authors suggest that counties take steps to better manage their debt by instituting transparent and long-term plans. This includes aligning borrowing with economic conditions, strengthening debt monitoring systems, and ensuring transparency in debt acquisition. Counties should prioritize repaying existing debts before taking on new financial obligations and develop long-term strategies for sustainable debt management. Training financial officers in debt management best practices will further enhance budget utilization and financial stability.

The analysis of data pertaining to the fourth objective, which aimed to assess the impact of financial reporting on budget absorption, revealed that financial reporting significantly positively influences budget implementation. Consequently, the study recommends that county governments fortify financial reporting to improve budget absorption. This can be achieved by improving the accuracy, timeliness, and transparency of financial reports. Counties should implement robust financial management information systems (FMIS), enforce strict compliance with financial disclosure regulations, and enhance oversight mechanisms. Additionally, investing in continuous training for financial officers and establishing independent audit committees will help ensure accountability and prevent financial mismanagement.

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