BUDGETING AND FINANCIAL STABILITY IN COUNTY GOVERNMENTS IN KENYA

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A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration (Accounting Option) of Murang'a University of Technology

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DECLARATION

Student's Declaration

I hereby declare that this thesis is my original work and, to the best of my knowledge, has not been presented for a degree awarded in this or any university. I understand what plagiarism is and I am aware of the University policy in this regard. I understand that any false claim in respect of this work shall result in disciplinary action in accordance with the University Anti-Plagiarism Policy.

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DEDICATION

I dedicate my research thesis to my family-my parents, siblings and children for their moral support, constant motivation and prayers. Through the entire journey, my family's love has been my guiding force. Their encouragement has fortified me, and their prayers have bolstered me. I did not achieve this success by myself. This is because of my family members, who are with me in every endeavor and through whom I achieved this success.

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ABSTRACT

This study examined the link between budgeting and financial stability in Kenyan county governments. Budgeting guides resource allocation, expenditure control, and accountability in public financial management. Financial stability in county governments is essential for the uninterrupted delivery of public services, effective implementation of development projects, and the achievement of fiscal sustainability. Since the introduction of devolution in Kenya, county governments have assumed greater responsibility for managing public resources, making effective budgeting practices increasingly important for sound financial governance. Delayed budgets hinder timely fund allocation, causing late payments to suppliers and negatively impacting the private sector and economy. The specific objectives of the study were to determine the relationship between budget planning, budget implementation, budget monitoring, and budget evaluation; and financial stability of County governments in Kenya. These budgeting components represent key stages of the budget cycle and collectively influence fiscal discipline, efficient resource utilization, and accountability in county governments. The study was guided by Fiscal Federalism theory and theory of Public Choice. Fiscal Federalism Theory provided the basis for understanding the allocation of financial responsibilities between national and county governments, while Public Choice Theory explained how institutional and individual decision-making processes influence budgeting outcomes and financial management practices. Together, the theories provided a suitable framework for examining the relationship between budgeting practices and financial stability. Two counties from Mt. Kenya region were selected, that is Murang'a and Kiambu counties ensuring a diverse representation for focused research. Secondary data was collected for nine years from 2013/2014 to 2021/2022. The use of longitudinal secondary data enabled the study to examine trends in budgeting practices and financial stability over time while providing a basis for comparing the performance of the two counties. Descriptive statistics and inferential statistics were used to analyze data. Inferential statistics included time series analysis of the ARIMAX model. Findings were represented using time series graphs. The combination of statistical techniques allowed for both descriptive interpretation of the data and empirical testing of the relationships among the study variables. Positive trends were observed where strong budget planning correlated with improved financial stability, reflected by consistent adherence to planned budgets and fewer overspending incidents. The study highlights that Kiambu's effective monitoring and feedback systems improved budgeting and fiscal discipline, leading to greater financial stability. In contrast, Murang'a's weaker planning and monitoring resulted in irregularities and lower stability, worsened by limited evaluation activities. Overall, counties with integrated planning, monitoring, and evaluation systems tend to achieve better financial stability, emphasizing the need for comprehensive, strategic approaches to budget management for sustainable local government finance. The findings contribute to the growing body of knowledge on public financial management by highlighting the importance of strengthening budgeting systems across the entire budget cycle. They also provide valuable practical insights for policymakers, county executives, and other stakeholders seeking to enhance fiscal performance, promote accountability, and ensure the long-term financial sustainability of county governments in Kenya.

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ACRONYMS AND ABBREVIATIONS

AG	Attorney General
CBROPS	County Budget Review and Outlook Papers
CBTS	County Budget Transparency Survey
CIDPs	County Integrated Development Plans
CoB	Controller of Budget
CQBIRS	County Quarterly Budget Implementation Reports
CSOs	Civil Society Organizations
GDP	Gross Domestic Product
IBP	International Budget Partnership
IMF	International Monetary Fund
IPFD	Financial Stability of Counties
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
KPIs	Key Performance Indicators
MDAs	Ministries, Departments and Agencies
MTEF	Medium Term Expenditure
OBS	Open Budget Survey
PBB	Programme-Based Budgeting
SPSS	Statistical Package for the Social Sciences

OPERATIONAL DEFINITION OF TERMS

The study adopted the following definitions:

AR Model (AutoRegressive Model): An AR model predicts future values of a time series based on a linear combination of its past values. It assumes that the current value depends on its previous observations and a stochastic error term. The order of the AR model AR(p) indicates how many past values are used to make the forecast. (Adhikari & Agrawal, 2013).

ARIMA Model (AutoRegressive Integrated Moving Average): ARIMA combines autoregression (AR), differencing to make the series stationary (Integrated, I), and moving averages (MA) into a single model. It is used for modeling and forecasting non-stationary time series data by applying suitable differencing followed by AR and MA components. The model is specified by three parameters: (p, d, q), representing AR order, degree of differencing, and MA order, respectively. (Jenkins, Reinsel, & Ljung, 2015).

Autocorrelation Function (ACF) and Partial Autocorrelation Function (PACF): ACF measures the overall relationship between current and past values. PACF measures the direct relationship between current and past values after removing effects of intermediate lags. (Yakubu & Saputra, 2022).

Budgeting: The process of creating a detailed plan that outlines the county's financial goals and the means by which they plan to achieve them. It involves estimating income, allocating funds to various expenses and categories, and establishing savings and investment goals. Indicators of budgeting were; budget Planning, budget Implementation, budget monitoring and budget Evaluation. (Musiega, Nyawira, Njuguna, 2023).

Financial Stability: In this study meant the ability to facilitate and enhance economic processes and manage risks. This was indicated by the level

of facilitating payment of bills in a Financial Year as indicated to the increased pending bills. (Schinasi, 2004)..

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Financial stability is an important element of public financial management. The county governments are required to deliver essential services to the citizens. County governments are below the Central or National government (World Bank, 2015). Many county governments around the world face destabilization of their finances due to delayed and/or inadequate transfer of funds from the central government, insolvency and accumulation of pending bills. Bills and unpaid invoices possessed by county governments may threaten financial stability by creating unsustainable liabilities and eroding trust with contractors and suppliers. County governments' budgets and finances can potentially be undermined by pending bills. That is, suppliers can experience liquidity crunch and operational difficulties because of how pending bills affect them. Further, pending bills can lead to fiscal risk and liabilities for county governments. Finally, pending bills can undermine the credibility and transparency of the budget process. As per the International Monetary Fund (IMF), due to the Covid-19 Pandemic, the global debt had risen by $19.5 trillion, and it reached a record level of 33% of the global GDP by the end of 2020 (Bloomberg, 2021).

The pandemic added to the problem of pending bills in many countries when county governments fell short on revenues and had to spend more to cover health and economic crisis. According to the IMF, the average stock of arrears in governments in the European Union was about 0.8% of GDP in 2019. Furthermore, an increase in arrears by one percentage point of GDP would reduce economic growth by 0.6 to 0.9 percentage points (IMF, 2019). Arrears refer to a set of pending bills that are overdue for a specified period. Japan also had a similar scenario, where the COVID pandemic increased government debt. Moreover, the USA was also affected, which led to the economic fallout and increased the dependence on government spending, thereby increasing debts (Financial Times, 2021). Likewise, there was an increase in government finances in Australia due to the pandemic and robustness of the economy. Due to the pandemic, there was a lot of debt accumulation and strain on the budget of county governments (Australian Financial Review, 2021).

In Africa, where decentralization reforms had been pursued to improve governance and service delivery, were facing budgeting and financial challenges. The decentralization process was intended to empower county governments, but led to resource constraints, capacity gaps, and accountability gaps. Because of this context, pending bills' issue was aggravated as the county governments' capacity to manage the budget effectively is low (World Bank, 2023). Countries that underwent systemic decentralization possess an identifiable local government. While county governments in many countries had roles similar to municipalities, the main difference was that they may contain more than one agency, such as health or education, as well as development budgets (World Bank, 2023).

In addition, Ghana had similar problems with decentralization, since the district assemblies lack the leakages in their budgets and capacities, and had not pay suppliers and contractors on time, which is affecting, service delivery and the economy (Horvey, 2021) Also in South Africa, despite attempts to decentralize provincial municipalities, county municipalities could not manage their budgets carefully but also fail to make payments, run dry and insufficient cash, which puts service delivery and economic development at risk (Muller & Stoker, 2019).

In Kenya, budgetary and fiscal issues in the county governments were acute. This was due to the radical devolution that started in 2013. Forty seven county governments are required to perform critical service delivery functions like health and infrastructure. Still, the growing number of overdue bills, delayed transfers from the national government, and low own-source revenue collection are major problems (Kemei, 2022). As per the National Treasury's Quarterly Economic and Budgetary Review for the first quarter of the 2024/25 fiscal year, pending bills of Kenya's national government amounted to KSh 528.4 billion as at September 30, 2024 (National Treasury, 2024). This total comprises KSh 410.7 billion (77.7%) owed by state corporations and KSh 117.7 billion (22.3%) by ministries, state departments, and other government entities. The pending bills included payments due to contractors, suppliers, unremitted statutory deductions, and pension arrears. Notably, 53.3% of these bills are related to development projects, while 46.7% pertain to recurrent expenditures (National Treasury, 2024). Additionally, county governments reported outstanding pending bills totaling KSh 176.8 billion during in September

2025 (CoB, 2025). Budgeting and financial stability are key features of proper public financial management, especially in the counties and local governments.

A good budget is a government strategic plan that enables the government to spend in accordance with priorities with a clear picture of expenditure and encourages accountability. It entails a number of steps, which are planning, allocation, implementation, and evaluation, all of which are essential in facilitating fiscal discipline and flexibility in response to any changing economic conditions. Fiscal deficits, wastes, and poor delivery of services can be avoided through proper budgeting practices (Mishi et al., 2022).

The dynamics that exist between budgeting and financial stability are quite deep within the field of financial management. Research shows that healthy fiscal health is enhanced by proper financial practice management. Kiplangat (2020) emphasize that, proper budget planning and monitoring as a key strategy to the establishment of fiscal discipline in the county governments and consequently maintenance of financial stability. Likewise, Baya (2023) emphasizes that clear and well- structured budgeting procedures helps reduce risks associated with budget overruns, and fund misuse, thereby to strengthening the overall economy.

1.2 Statement of the Problem

The Constitution of Kenya 2010 had created county governments with the aim of creating devolved governments to improve service delivery, promote equitable sharing of resources and advance socio-economic development at the grassroots. Many County governments are still operating in financial stress, even after receiving significant amounts of funding from the national Government and generating own-source revenue, and still face chronic financial insecurity that impairs their capacity to provide essential public services (Mishi et al., 2022).

Since devolution in 2013, counties have been experiencing recurrent financial problems of delayed payment of funds from the national government, weak revenue collection mechanisms, low budget absorption rates, a growing number of pending bills, and unsustainable expenditure patterns. These challenges have seriously weakened the fiscal position of county governments and have delayed implementation of development projects. The controller of budget reports that the financial troubles in devolved units are serious and persistent with counties holding

an outstanding debt of KSh 176.8 billion by September 2025. The failure of financial management rules and policy to address the issue of arrears over time suggests that there are fundamental flaws in the county budgeting systems.

The Auditor General's reports consistently reveal the county governments are plagued by widespread irregularities in the preparation of budgets, implementation, control of expenditures and financial accountability (Auditor-General, 2024). It is common for counties to regularly overrun approved recurrent expenditure limits and underfund development projects. Poor budget planning, ineffective expenditure controls, and weak monitoring mechanisms are among the many factors that have been observed to lead to misuse of public funds and financial inefficiencies in county governments (Musiega et al., 2023). As such, counties have stalled projects, delayed payments to suppliers and contractors, delivery of poor services, growing debt loads, and diminishing confidence in devolved governance.

Evidence shows that only between one and a half of county governments implement their budgets as approved with considerable budget compliance and fiscal discipline problems (Cheruiyot, 2018). This is a concern because of the weaknesses that exist in the budgeting process and how well it contributes to financial stability in County governments. A financial instability at the county level compromises not only service delivery, but sustainable economic development and the devolution process as a whole in Kenya.

While the public financial management (PFM) and financial performance in county governments have been studied earlier (Goyal et al., 2021; Robert et al., 2023), few empirical studies have examined the link between budgeting practices and financial stability in county governments of Kenya. The cited research focused on the general financial management issues and missed to capture the effects of the financial management processes like budget planning, implementation, monitoring and participation in the budgeting processes on financial stability. The study therefore aimed at filling this knowledge gap by investigating the impact of budgeting on financial stability in County Governments in Kenya.

1.3 Research Objectives

1.3.1 General Objective:

To investigate the relationship between budgeting and financial stability in county governments in Kenya.

1.3.2 Specific Objectives:

1) To examine the relationship between budget planning and the financial stability in the County governments of Kenya.
2) To analyze the relationship between budget implementation and the financial stability in County governments of Kenya.
3) To evaluate the relationship between budget monitoring and the financial stability in County governments of Kenya.
4) To assess the relationship between budget evaluation and the financial stability in County governments of Kenya.

1.4 Research Questions

1) What is the relationship between budget planning and the financial stability in County governments of Kenya?

2) What is the relationship between budget implementation and the financial stability in County governments of Kenya?

3) What is the relationship between budget monitoring and the financial stability in County governments of Kenya?

4) What is the relationship between budget evaluation and the financial stability in County governments of Kenya?

1.5 Significance of the Study

This study is important because it informs policy decisions and implementation within the County Government in Kenya. The study explains how budgets are related to financial circumstances. It assists policymakers to improve public service delivery and enhance citizens' confidence in government institutions. The findings of this study are not only relevant to Kenya, but also present a useful reference for other countries with similar public financial management challenges.

1.5.1 County Governments

Findings will be useful to county governments, on their ability to perform their functions in each county by providing a proper budget accordingly as a direct effect

on governance. As thee financial stability improves, it enables the county governments to strategize on long-term plans, better governance and winning the trust of the people.

1.5.2 Local communities

Citizens and local communities will use the findings to benefit in terms of having good service delivery, developing the infrastructure as well as advancement in socioeconomic progress as a result of transparent and effective budget management. Consistent financial positions will mean that funds are utilized ethically and there are fewer cases of corruption and abuse of funds; eventually, it will translate to improved living standards.

1.5.3 National Government

National government and policy makers play a critical role in establishing frameworks, regulations and guidelines that promote sound fiscal management. Effective fiscal policies contribute to economic stability, reduce excessive national debt and foster sustainable development.

1.5.4 Financial Institutions and Auditors

Financial institutions and donor agencies will benefit from study's findings, as counties with well-balanced county finances present in lower investment risk by the investor and more chances of development funds and loans. The study will give insights to auditors on fiscal management that may also be used to inform policy change, capacity building and future studies by researchers that seek to improve financial governance at the counties.

1.5.5 Academicians

The study adds scholarly knowledge on public financial management, specifically in the devolved government context in Kenya. It enriches academic literature with the empirical evidence on budgeting practices and financial stability in county governments, in a focused and integrated way.

Furthermore, the implications of this study provide a basis for further academic research to address current gaps in the literature and explore areas for future investigation, including governance factors, budgeting system automation and revenue generation processes. It also acts as a valuable reference for students and scholars when studying devolved governance systems. Finally, the study contributes

to the academic conversation by connecting theory with practice in the management of public resources at the local (county) level.

1.6 Limitations of the Study

Usage of record-based data brought limitations for the study. One major issue facing the challenge was the accuracy and completeness of records. Records contained inaccuracies or be incomplete which may affect findings. As a de-limitation, the study used multiple sources for verification of data through triangulation of data to see how valid the data is. Also, when data was period limited, it may have missed updated or emerging trends. A longitudinal approach with periodic data updates was suggested for better relevance.

Several steps were taken to reduce bias, in order to improve the validity and reliability of the findings. To eliminate the subjectivity of the respondents, a structured questionnaire with a set of standardized questions were used. Anonymity and confidentiality were ensured to facilitate a free and objective response, especially regarding sensitive issues of budgeting and financial management. These measures aimed to enhance the accuracy and applicability of the study's results for policy-making and implementation in county governments.

1.7 Assumptions of the Study

The study assumed a certain degree of consistency in budgeting practices across the county governments under investigation. Since variations existed, the research operated under the assumption that fundamental budgeting principles are generally applied uniformly. The study also assumed that revenue collection mechanisms within county governments are effective and efficient. It was based on the presumption that revenue mobilization processes were well-managed, contributing to the financial stability of the counties. The study finally assumed the availability of accurate and comprehensive data for analysis. It presupposed that relevant financial and budgetary data necessary for the research objectives are accessible and sufficiently detailed.

1.8 Contributions of the Thesis

This study contributes to knowledge by addressing an important empirical gap in the literature on public financial management in Kenya's devolved system of government. While previous studies have primarily examined public financial

management practices and financial performance in county governments, limited attention has been given to the relationship between budgeting practices and financial stability. Specifically, this study provides an integrated analysis of how budget planning, budget implementation, budget monitoring, and budget evaluation influence financial stability in county governments. Academically, this study contributes to the body of knowledge on public financial management by enhancing the understanding of budgeting practices and their relationship with financial stability within devolved systems of government.

1.9 Organization of the Thesis

This research was organized as follows: The first chapter introduces the study, presenting the background, problem statement, objectives, research questions, significance, limitations and definition of terms. Chapter Two reviews relevant literature on budgeting and financial stability, including theoretical and empirical studies, and outlines the conceptual framework. Chapter Three describes the research methodology, detailing the research design, target population, sample size, sampling procedures, diagnostic tests, data analysis, data presentation and ethical considerations. Chapter Four presents and interprets the results of the data analysis highlighting the relationship between the four budgeting practices and financial stability. Chapter Five provides a summary of findings, conclusions, and recommendations for practice and policy, and suggestions for further research

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of related literature that focuses on budgeting and financial stability of county governments. The first stage of the process involved reviewing conceptual and empirical literature on public financial management, budgeting practices, and fiscal sustainability, including evidence from global and local contexts affecting financial stability in devolved systems. A critical assessment of existing studies was then conducted to identify their strengths and weaknesses in terms of methods and concepts. Finally, the chapter identified the literature gap that the study seeks to address by examining the influence of budgeting practices on the financial stability of counties in Kenya.

2.2 Theoretical Framework

2.2.1 Fiscal Federalism Theory

Fiscal federalism theory was pioneered and founded by Richard Musgrave (Musgrave & Musgrave, 1959) in his book the theory of public finance. The theory was later expanded by Wallace Oates in 1972 (Oates, 1972) through his work Fiscal Federalism, which further explained the allocation of functions and financial responsibilities between different levels of government.

The theory of fiscal federalism applied in the case of Kenya where the 2010 Constitution devolved certain functions and resources to the 47 county governments. According to the Constitution of Kenya (2010), it was expected that the counties will provide services related to health, agriculture, water, sanitation, and infrastructure. The county governments faced numerous challenges in implementing their budgets. Key challenges included delays in the disbursement of funds from the national treasury and inadequate revenue collection. Other hindrances are weak financial management systems and corruption. These factor adversely affecting the budget absorption rate of the county governments, which refers to the actual expenditure to budgeted one. Low level of expenditure leads to accumulation of pending bills. Pending bills are payments by the county governments to their suppliers or contractors for goods and services delivered.

Pending bills affect suppliers and contractors' cash flow and liquidity causing loss/default (Peters et al., 2019). Pending bills can affect the credibility and reputation of county governments that face legal lawsuits and lose countless suppliers and contractors. Unsettled bills lessen the fiscal space and flexibility of the county governments, who have to divert funds from other priority areas to settle their obligations (Odhiambo, 2022).

Based on the fiscal federalism theory, there is a negative relation between budget absorption and backlog (Bury & Feld, 2023). When the local county governments use less than their budget outlay, it does not spend efficiently on the full amount that has been allocated to them. So they are not spending the full amount. Bills quickly add up and cause a huge number of pending bills. A high absorption rate of the budget indicates that the county governments are spending their allocated funds fully and efficiently thus reducing pending bills (Kipkirui, 2020). This implies that, county governments should enhance their fiscal autonomy and accountability in order to improve the budget absorption rate and minimize pending bills.

The theory of fiscal federalism as it applies to the counties of Kenya concerns the allocation of money and responsibilities between the national government and the 47 county governments set up via the 2010 Constitution. According to the theory of fiscal federalism, an ideal fiscal decentralization system enhances efficiency, accountability, and responsiveness in public service delivery (Thu, 2024). Its impact on the stability of money in Kenya's counties is nonetheless a complex issue that may cause benefit or risk. One of the significant ways fiscal federalism is meant to enhance financial stability is through equitable revenue sharing. In Kenya, the Commission on Revenue Allocation (CRA) was responsible for the formula for sharing nationally collected revenue between the national and the county governments (Kipkirui, 2020).

The purpose was to ensure counties have adequate funds to fulfill their devolved functions like health care, agriculture and county roads. When counties have reliable and stable revenue sources it allows them to plan their budgets, invest in development projects and service their debt which enables greater stability. In addition, fiscal federalism motivates countries to raise their own money which includes property taxes, business licenses and other countries' levies (Odhiambo, 2022). Being able to earn revenue from different sources reduces dependence on

national appropriation. Despite the adoption of fiscal federalism in Kenya, county governments continue to face challenges such as delayed transfer of funds, weak budget implementation, limited revenue mobilization, and inadequate financial management practices, which undermine their financial stability (Irungu et al., 2020).

Across the counties, many face challenges of weak financial management systems, poor accounting practices and scanty skilled manpower. When public officials embezzle public funds or award tender bids based on favoritism rather than merit, it drains the county's coffers, slows down development and hurts public confidence in the government (Mbaye, 2024). Additionally overreliance on the revenue allocation formula can make a county financially vulnerable (Padovani et al., 2021). When national governments have economic troubles or run short on cash, they will cut down on what they give counties. This will impact their budgets and development plans. When the national government provides conditional grants for particular projects, this interferes with the spending priorities of the county government. These grants aim to pursue the country's goals; however, there are instances where such funds aim to achieve less urgent targets at the county level. Kenyan counties require taking various measures in fiscal federalism to enhance financial stability (Kiplangat, 2020). There was need for ongoing capacity building of county staff in financial management, procurement, and auditing. Next, it is essential to strengthen corruption oversight and accountability mechanisms, such as use of robust internal controls, independent audit functions, and active citizen engagement. By streamlining tax collection systems and expanding the tax net, the county generates its own revenue rather than solely depending on the national allocation.

Bringing the national government closer to counties through the equitable allocation of financial resources aligns national and county priorities and budgets while cushioning counties against the effects of external economic shocks. If Kenya addresses the challenges associated with implementing fiscal federalism, it can leverage the system to enhance financial stability and promote inclusive development. The various levels of government should be separated in terms of the management of money to help in the efficient, timely and ethical delivery of services, which will make the people accountable (Obisanya & Hassan, 2022). County governments of Kenya set their own revenue, budget and expenditure to suit

them if fiscal choices become decentralized. This study uses the theory of fiscal federalism and demonstrates why counties in Kenya with greater budget authority shape. Proponents of fiscal federalism argue that granting local governments the autonomy to prepare budgets based on their own priorities improves the quality and accuracy of budgeting at the local level (Berman, 2019). When counties gain control over their budgets, they effectively serve citizens, responsibly use their funds and improve services.

The theory also illustrates the importance of relying on decentralized procedures for monitoring. Because fiscal decisions take place near the zone of services, local authorities are able to identify problems right away and spot cases of misuse of money. Awareness of government activities and expenditure promotes accountability and responsible use of public resources, thereby reducing the risk of overspending. It also contributes to maintaining a stable and sustainable budget. When results are monitored as the budget is executed, the organization is able to improve its budgeting system, deploy resources wisely and ensure continued financial success. Fiscal federalism allows local power centers to make their budgets independently and develop their competencies (Uhoda, 2020). Decentralized provision of services helps avoid too many delays from bottlenecks in the bureaucracy and allows communities to choose their own way ahead.

2.2.2 The Theory of Public Choice

The Public Choice Theory was primarily developed by James M. Buchanan and Gordon Tullock in 1962 and was first articulated in their book The Calculus of Consent: Logical Foundations of Constitutional Democracy (Buchanan & Tullock, 1962). The Theory of Public Choice offers valuable insights into the behavior of political actors and the decision-making process; it is often seen as complementary to Fiscal Federalism Theory rather than the primary focus of analysis in discussions of intergovernmental finance and governance.

The origins and development of public choice theory can be traced back to the works of several scholars in the 18th and 19th centuries, such as Thomas Hobbes, David Hume, Adam Smith, Jeremy Bentham, James Madison, and John Stuart Mill, who applied economic reasoning to political and social issues. The theory was finally authored by James Buchana (1986). However, the modern public choice theory emerged in the mid-20th century with the contributions of economists such as

Duncan Black, Anthony Downs, James Buchanan, Gordon Tullock, Mancur Olson, William Niskanen, and others. These pioneers of public choice theory applied mathematical models, game theory and empirical methods to analyze various topics such as voting behavior, electoral systems, political parties, interest groups, bureaucracy, rent-seeking, constitutional design, and public goods provision.

Public choice theory is a branch of economics that applies the tools and methods of economic analysis to the study of political behavior and decision-making (Mengiste, 2020). It assumes that individuals, whether they are voters, politicians, bureaucrats, or interest groups, are rational and self-interested actors who seek to maximize their own benefits in the political arena. Public choice theory challenges the conventional view that democratic governments act in the public interest and reveals the potential sources of inefficiency, corruption and failure in collective action.

One of the main themes of public choice theory is the analysis of voting behavior and electoral outcomes. Public choice theorists have developed several models to explain how voters make choices based on their preferences, beliefs, information and strategic considerations. Mengiste (2020) explains that, public choice theory which studies government actions by applying economic principles and pointing out that members of the government prefer actions that benefit them more than those that benefit everyone together. It shows how the quest for personal and political success among authorities may cause inefficiencies, rent seeking and bad resource decisions.

Public choice theory is an important analytical tool for understanding how budgeting relates to the financial security of Kenyan counties. Public officials have private motivations that affect their work with budgets and aspects of the financial system, allowing them to match private sector employees. (Mengiste, 2020) Through this lens, organizations can understand the effect of political factors and rent-seeking behavior and principal-agent problems on the inefficiency of budgeting processes, which affect county government financial stability. In order to identify the flaws of a budgetary system, it is important to understand the dynamism. Public choice theory applies economic theories to political decision-making. Thus, it offers useful insight into the financial solvency of the counties of Kenya.

According to this theory, politicians, bureaucrats, and voters are rational, self-interested, economic actors. Understanding how self-interests interact within a fiscal

decentralization framework can help explain differing financial performance and stability of different counties. It may be argued that in Kenyan Counties, public choice theory argues that county officials who are driven by their desire to maximize political power, political influence and personal gain may make decisions that prioritize short term benefit at the expense of financial stability in the long term. Politicians may favor the populist route and shave taxes or ramp up spending on visible projects to look good for the elections, even if this harms the county's finances. This habit may result in excessive debts, inadequate funding of crucial services, and exposure to economic shocks (Gorie & Nicola, 2023). It produces inefficiencies and waste in the county administration. Kiambu and Murang'a are two counties in Kenya that are appropriate for case study for the application of public choice theory to public finances.

Compared to Murang'a, Kiambu County generates more revenue because it is closer to Nairobi; Nairobi is the capital city of Kenya. Also, it has a more diversified economy; Kiambu County has some qualifications of Nairobi County, and Murang'a County is more agricultural. Nonetheless, both counties need to manage competing demands and limited resources. Kiambu County faced a challenge of ensuring that they can adequately satisfy the needs of many people in different interest groups as their population grows very fast. Public choice theory would indicate that officials from the county would be tempted to overspend on projects that are favored by politically influential groups and engage in rent-seeking behavior such as awarding contracts to firms in return for kickbacks (World Bank, 2020).

Kiambu County benefits from a relatively broader revenue base, which provides greater fiscal resilience and reduces vulnerability to financial instability arising from resource misallocation. However, inadequate financial management, corruption, or weak accountability mechanisms may still undermine its fiscal position by contributing to project delays, declining service delivery, and rising debt levels. Murang'a County faces greater fiscal constraints due to its limited revenue-generating capacity, which restricts its ability to adequately finance devolved functions.

According to public choice theory, competition over scarce public resources among different constituencies and interest groups may intensify political contestation and

influence resource allocation decisions. County officials may prioritize projects that serve specific ethnic, regional, or politically influential groups while neglecting broader public interests. Furthermore, patronage-based practices, including the allocation of employment opportunities and financial benefits based on political loyalty rather than merit, can weaken fiscal discipline and distort public expenditure priorities. Consequently, internally generated revenue and local investments may remain insufficient to support the full implementation of devolved functions, increasing counties' dependence on equitable transfers from the national government.

Further, Counties are vulnerable to the economic effects of the national government (Muigua, 2021). Voters play an important role in shaping the financial choices of counties. Voters can suboptimal choice on politicians who favor short-term benefits over long-term sustainability if they are poorly informed, or incentivized through votes for cash. When people fail to be vigilant, county officials are able to do whatever they feel like. Citizens need to demand accountability from their elected officials, transparency in decision-making, and the right to participate in the budget process to strengthen financial accountability. For reducing the harmful effects of self-interested behavior, several mechanisms are possible. By enhancing independent audit committees and oversight authorities, they can detect and deter corrupt practices and financial mismanagement. To enhance accountability and reduce rent-seeking, ensure transparency in procurement and budget processes. Encouraging citizen participation in decision-making will ensure that the county's decisions align with the public's wish and want. (Mengiste, 2020) Also, civic education and freedom of the media may enable voters to make more informed choices or to hold elected officials accountable. Kenya can bolster the financial stability of counties and encourage sustainable and equitable development by understanding the incentives and constraints governing the behavior of the counties' officials.

2.3 Empirical Review

The empirical study review is based on previous studies conducted by other scholars. Its main focus is on the relationship between budget planning and financial stability, the relationship between budget implementation and financial stability, the relationship between budget monitoring and financial stability, as well as the

relationship between budget evaluation and financial stability in county governments in Kenya.

2.3.1 Budgeting and Financial Stability

Having a well-planned budget is hands down the most important part of public financial management. Therefore, budgeting together with financial stability has a relationship. Further, it affects the County governments' operation and functioning in Kenya. In particular, it reviews past and present scholarly works and research exercises regarding budgeting and financial stability. According to Muriithi and Kang'ethe (2018), budgeting is a county government resource allocation and planning tool. It sets out how to turn policy priorities into action and affects the allocation of public money. County governments in Kenya face various issues in budgeting and this affects the stability of finances. According to (Kimemia and Mathooko 2017), the national government transferring money late and difficulties in the implementation of budget may have implication on fiscal stability.

A county government's financial viability is determined by revenue generation. According to Kiringai et al., (2019), own-source revenue is important. The challenges county governments face in collecting tax also impacted county finances. The timely transfer of funds from the national government to county government is essential for smooth operations (Ayodi & Osoro, 2020). When intergovernmental transfers do not happen at the right time or at all, it can disrupt the budgets of counties. According to Ombaba and Kipyegon (2018), effective execution of the budget ensures financial stability. Smart money management practices during implementation phase can save you from pending bills and other issues. The buildup of unpaid bills can threaten your financial health significantly (Ndung'u & Ondiek, 2019). Failure to pay invoices and claims reduces liquidity, affects operations, and limits the ability to budget transparently. Policy interventions are essential in the attainment of the county government's challenges and financial stability. Mwabu and Kimalu (2018) advise stronger revenue mobilization; more stringent budget execution processes; and better intergovernmental relations.

(Nyamweya and Chepkwony, 2021) examined connection between budgeting and financial stability of the county governments in Kenya. The study findings assert that, a good budgeting framework should be in line with the features of county governments. Good budgeting system helps to allocate resources and manage risks

to avoid financial problems in the future. Waweru and Ndirangu (2019) examined the effects of political causes on budgeting and financial stability in Kenya's county governments. The findings pointed that political interference creates disturbances in the budgeting process that leads to uncertain finances and resources. An appropriate budgetary decision will guarantee non-disruption to finance during public service delivery according to the study. Mwangi and Nyabuti in 2020; explored technology to improve budgeting processes in county governments. According to their study findings, utilizing modern tools for budget preparation, execution and monitoring can be beneficial. The study concludes that technology help make budgets more transparent, accountable and efficient for a more stable financial sector. Njoroge and Kamau (2018) studied the capacity building of county government officials engaged in budgeting process. The study indicated that failing to grant budget makers powers over policy decisions affects financial stability negatively. The study shows that government officials should undergo training for better budgeting ownership by county governments. Furthermore, this should improve budgeting effectiveness.

Karimi and Gathogo (2022) studied how budgetary reforms impacted financial stability in Kenyan county governments. The study examined recent changes in budgeting policies and practices and assesses their implications for stability. The results showed that the processes for reforming the county government finances should be modified for continued adaptation. Studies show that budgeting is related to financial stability. Counties with strong budgeting systems generally exhibit better fiscal control, resource allocation and service delivery (Asomba et al., 2024). Additionally, Lakin and Kinuthia (2019) noted that adherence to realistic and a transparent budgeting process enhance accountability and minimizes fiscal risks, thereby promoting sustainable financial management at the county level. Evidence suggests that sound budgeting serves as an early warning mechanism for fiscal distress. By accurately forecasting revenues and expenditures, county governments are better positioned to anticipate budget shortfalls and implement timely corrective measures.

Counties that do proactive budget reviews and adjustments weather financial shocks better than those with rigid or unrealistic budgets, according to Goyal and Kumar (2021) According to the Auditor General's reports (2023), counties with poor budget execution practices incur pending bills and financial misappropriation. Thus the view

reinforces. Improved fiscal outcomes have also been linked to budgeting transparency and accountability empirically.

Participatory and Open Budgeting are an effective tool for corruption and mismanagement of resources (Robert et al, 2023) asserts that participatory and open budgeting processes engender trust and reduce the scope for corruption and misappropriation. According to the International Monetary Fund (IMF, 2018), transparency in the public management of finances could contribute to macroeconomic stability and sustainable growth. When budgets are not properly drawn, this misallocates funds, raises debts and undermines public confidence in devolution. Additionally, budget monitoring is an essential process which need more than a once per year engagement. Due to economic circumstances, policy priorities, and unforeseen events, a county's finances may be affected, requiring a budget adjustment. By having a flexible and responsive budgeting system, policymakers are able to navigate these changes and manage their finances without going bankrupt. A study published by the International Monetary Fund (IMF) in 2018 showed that realistic budgeting facilitates macroeconomic stability and sustainable development, thereby promoting sound public financial management.

2.3.2 Budget Planning and the Financial Stability

Budget planning in public financial management has significant repercussions on the county government's finance in Kenya. Creating a suitable budget in the county governments helps the county governments to achieve their goals (Muriithi & Kang'ethe, 2018). It is a process that changes continuously which affects the efficiency of financial operations. County governments in Kenya face many problems in the budget planning phase which affect their finances. According to Kimemia and Mathooko (2017), a delay in the budgeting process and implementation affect the financial stability. The reliability and accuracy of revenue forecasts have a significant impact on the financial health of county government (Kiringai et al., 2019). Creating a successful budget plan may be affected by issues in predicting revenues, such as county tax collection. Researchers find effective budget planning to enhance financial stability and mitigate monetary crisis. Strengthening revenue mobilization, improving the accuracy of expenditure estimates and aligning budget plans with strategic goals are some of the recommendations by Mwabu and Kimalu (2018).

A study was conducted by Githinji and Nyangena (2021) on the significance of stakeholder involvement in budget planning on financial stability of county governments in Kenya. The research recommends budget planning to involve various stakeholders and citizens in the budget planning process. Taking county governments' budget planning, inclusive and participative budget planning contributes transparency and accountability, thus enhancing public support that would ultimately lead towards improving county government's financial stability. Wambua and Mutiso (2020) examined how external forces affect budget planning as well as financial stability of counties' governments, economic and global issues. Counties need to foresee external variables when budgeting so they can manage their budgets better in changing circumstances. The study highlights the importance of budgeting as well as flexibility for maintaining stability in a fluctuating environment.

Njenga and Gitau (2019) studied the effect of budgetary constraints on development projects in Kenya's county governments. The study documents that budget planning that involves unrealistic projections or shortage of resources can delay a project or cancel them. Inadequate budget planning can threaten the financial capacity of the county. The study recommends better planning and prioritization of funds for taking up projects. A budget plan of county government must integrate environmental sustainability considerations (Korir & Rotich, 2022). The study emphasizes that having environmental concerns within the budgeting will eventually help in attaining financial stability in the long run. Planning budgets for sustainability means taking into account the environmental impact of proposed projects. This approach helps reduce the risk of future financial challenges arising from environmental degradation and the overexploitation of natural resources. Muthoni and Mwangi (2018) investigated how performance-based budgeting can improve the financial stability of county governments in Kenya. The research highlighted linking budgets to achieve specific outcomes and results. The study found that budgeting based on performance improves the efficiency and effectiveness of resource utilization and contribute to the overall financial stability of county governments.

According to Ombaba and Kipyegon (2018), budget plan execution should be carried out in accordance with the planned framework. This helps avoid discrepancies that could destabilize county governments. Having a back-up plan is necessary for financial stability. The article (Ndung'u, and Ondiek, 2019) discussed how it is

necessary for unforeseen events to incorporate contingency measures in the budget. Budgeting trends include your types of forecasts and analyzing the financial and other reports of the companies. According to

The findings of Kiringai et al. (2019) indicate that integrating technology into the budgeting process enhances the accuracy of revenue forecasting and improves the effectiveness of budget planning. Consequently, technology supports informed decision-making, efficient resource allocation, and stronger public financial management within county governments. Budget planning has been empirically identified as a critical determinant of financial stability within public sector institutions, including county governments.

Jimenez (2019) asserts that counties with structured budgetary planning processes undergo on fewer shocks and are better able to manage their resources. Likewise, Asomba et al. (2024) averts that detailed planning based on accurate revenue projections and expenditure prioritization promotes fiscal discipline and reduces inefficiencies in public expenditure. Studies further validate that through the budget, the fiscal discipline is enforced in order to avoid excess expenditure. Lakin and Kinuthia (2019) noted that the counties with defined budget framework were less likely to create pending bills and debt load since their expenditure remained in line with their revenue realities. The Auditor General's Reports (2023) further substantiate this. In several counties, weak or ad hoc budget planning practices have led to financial instability. This results from the ineffective control of actual expenditures and unrealistic forecasts. Also, research emphasizes the importance of risk assessment and contingency planning in the preparation of budgets.

According to a study by Goyal and Kumar (2021) that the counties that adopted risk forecasting and mitigation measures, such as reserves and revenue diversification, were more resistant to fiscal shocks. Through this proactive approach, financial vulnerability is reduced while the overall fiscal health and service delivery efficiency are enhanced. Budget planning that is transparent and involves stakeholders has been associated with greater fiscal accountability. Open and inclusive planning processes build trust among citizens and stakeholders while strengthening accountability and minimizing opportunities for financial mismanagement. Robert et al. (2023) Effective budget planning that integrates transparency, discipline and flexibility remains a key pillar of sustainable financial stability in devolved governance systems

as noted by IMF (2018). Budgeting essentially refers to planning opportune spending on, and savings for, expenses in future. Fiscal discipline, risk management and transparency engagement – All these contribute to achieving and maintaining financial stability. The study notes that a county that cautiously prepares a budget stands a better chance of remaining financially resilient. The county would be in a better position to invest and render services.

2.3.3 Budget Implementation and the Financial Stability

The implementation of budgets is an important aspect of public financial management which has a bearing on the financial stability and viability of county governments in Kenya. For an effective budget, planned expenditures should manifest into actual achievements through proper utilization of resources (Muriithi & Kang'ethe, 2018). The county government budget plans are fundamental to their financial stability if effectively executed. Kenya's county governments face challenges during the implementation phase affecting their financial viability. Kimemia and Mathooko (2017) identify concerns like slow fund releases, procurement delays, and contract management difficulties, which can have serious financial implications and threaten stability. Timely intergovernmental transfers and adequate transfers are driving forces in budget implementation process (Ayodi & Osoro 2020).

Delays in disbursements by the national government adversely affect the cash flows of county governments, limiting their ability to implement planned activities as scheduled. Careful purchasing is necessary for successful implementation of budget and stability of finances. Kipchumba and Nyambane (2021) undertook the study dealing with the impact of capacity building on budget implementation and financial stability of county governments in Kenya. The study indicates that the skills and abilities of the task force for budget preparedness need to be made investment-ready to overcome constraints and enhance success. The study shows that training programs improve the efficiency and effectiveness of budget implementation processes which will financially stabilize county government. The study by Wanjiku and Kariuki (2020) evaluated the extent to which public-private partnerships (PPPs) enhance budget implementation and financial stability in Kenyan county governments. The study argues that use of the PPPs enhances the capability of county governments to undertake projects and deliver services. The study shows how

PPPs can help counties deal with budget constraints, avoid delays in implementation and contribute to their financial viability. Njoroge and Gitonga (2019) researched the influence of political factors on the implementation of budgets and the financial stability of county governments in Kenya.

Political interference hampers budget implementation by causing delays, inefficiencies and misallocation of public resources as evidenced by a study of inter-ministerial negotiations, Mukami and Mutua (2018). The study highlights that budget execution should be free from political interference to ensure effective implementation, efficient resource utilization, and economic stability. Kariuki and Chege (2022) looked into the impact of digital financial technologies on the budget implementation and financial stability of county governments. The research recommends that utilizing digital solutions for monetary transactions and reporting might improve transparency, reduce corruption, and enhance budget implementation efficiency. Digital technologies could help county governments to attain overall financial stability. Mukami and Mutua (2018) study effects of social accountability mechanisms on financial accountability in the execution of budgets in Kenyan county governments Through effective citizen engagement and public oversight, counties have better chances of realizing accountability, reducing corruption and implementing budget plans successfully.

A responsible budget implementation process with social accountability can ensure proper use of resources and promote financial stability of counties. Efficient procurement processes ensure the timely acquisition of goods and services, preventing disruptions to the financial operations of county governments. When budgets are implemented, monitoring and reporting mechanism makes budget more effective (Kiringai et al 2019). Real-time monitoring highlights budget deviations allowing for speedy corrections to keep things on track. Pending bills can affect the financial stability in the course of implementation of the budget (Ndung'u & Ondiek, 2019) Issues arising from the build-up of unpaid invoices and dues could cause a liquidity crisis for the county governments.

According to Mwabu and Kimalu (2018), counties could enhance financial stability by strengthening revenue mobilization, improving budget execution processes and enhancing intergovernmental relations. Government policies help address problems that come up during the implementation of budget. Effective internal control and

audit systems are critical for ensuring proper implementation and maintaining financial stability. Strong internal checks, continuous, expenditure monitoring, and compliance with procurement regulations enhanced transparency promote accountability and minimize financial leakages (Ogunsola et al., 2021). Developing the capacity of financial officers and adopting digital financial management systems can improve the accuracy, efficiency, and compliance of budget execution processes (Quiñones, 2025). By strengthening institutional controls and leveraging appropriate technologies, county governments can improve resource utilization, reduce the accumulation of pending bills and enhance financial resilience.

2.3.4 Budget Monitoring and Financial Stability

Budget monitoring ensures that resources in county governments are allocated and used efficiently, which enhances their sustainability. Operating within the budget is important for county governments' finances. Budget monitoring is the supervision of the implementation of budget plans (Muriithi & Kang'ethe, 2018). Monitoring ensures the utilization of financial resources efficiently and according to strategic priorities. Counties in Kenya have difficulties with monitoring process which may affect financial viability. Kimemia and Mathooko (2017) asserts that delays in monitoring activities and weak mechanisms for tracking expenditures that can affect financial viability.

According to Ombaba and Kipyegon (2018), the use of performance measurements is critical to the surveillance of budget and economic stability. County governments need key performance indicators (KPIs) to assess whether the spending of the budget is having the desired effect, and discerns what decisions are likely to ensure stability. Using technology for automated monitoring systems is one of the key items in the literature (Kiringai et al. 2019). Automation helps county governments track things in real-time. This allows discrepancies to be detected quickly, which contributes to financial stability.

Variance analysis is part of budget monitoring enabling the assessment of whether or not the plan has not been followed (Ndung'u & Ondiek, 2019). Effective variance analysis, coupled with timely corrective action plans, helps maintain financial stability by identifying and addressing financial discrepancies before they escalate into more significant challenges. Mwangi and Chege (2021) examined the internal audit's role in monitoring budgets and financial performance of Kenyan county

governments to ensure budgetary controls. As the usefulness of budget implementation is important to be evaluated and any risks related to it, a decent internal audit function can help. Having an internal audit system helps a county government to have accountability and stability financially. Kamau and Kibet carried out a research on the effect of corruption on budget monitoring and financial management in county governments.

Corruption affects monitoring activity as well as the distribution of resources negatively. The study points out that monitoring the budget is one of the key components of an effective anti-corruption plan. Njeri and Mutuku (2019) studied citizen participation in budget monitoring and its implications for financial stability in the county governments of Kenya. The study found that encouraging citizen participation in the monitoring process increases accountability and transparency which helps maintain financial stability. The study proposes establishing mechanisms for citizen engagement in surveillance activities. Wairimu and Kariuki (2022) argued that practices of risk management may be integrated in the monitoring of budgets. According to this research, identifying and minimizing risks while monitoring are extremely important for financial stability. County governments must anticipate and address potential threats to budget implementation and stability, Mwenda and Njoroge (2018) examined how fiscal decentralization affected the accountability of budgets by county governments in Kenya. The study identifies the influence of the devolution of financial powers to the county level on monitoring and fiscal stability. The study gives a better understanding of what it means to be a fiscally decentralized country and how it monitors its budgets.

To effectively monitor budgets, communication and stakeholder engagement are important (Mwabu & Kimalu, 2018). Involving stakeholders assures accountability which contributes to the financial stability of county governments. According to Kiringai et al. (2019), there is a need for continuous improvement and benchmarking against industry standards. County governments' financial resilience is supported by learning from best practice and continuous improvement of monitoring. The process of budgeting and monitoring is crucial in understanding the financial health of Murang'a and Kiambu counties. The comparative study on the budget planning phase indicates that, Kiambu, having a more diversified economy may utilize its

resources for trade and industry. On the other hand, Murang'a being mainly an agricultural county may use its budget for agricultural subsidies and irrigation.

According to Okeke et al. (2024), revenue forecasting accuracy in their budget plans is crucial. It will examine property taxes, national allocations and other sources. It will also check against historical trends. In addition, risk assessment should be an integral part of budget planning; this is especially relevant for Murang'a with its reliance on agriculture. The monitoring reports are delivered regularly and with great accuracy, which indicate whether actual revenues and expenditures are consistent with budgeted revenues and expenditures (Nguyen, 2024). Analyzing deviations from the budget clarifies how different counties respond by adjusting on budget lines with notable variances. They will make changes if they identify that they are overspending on a building project or a shortfall in revenue.

Robust accountability mechanisms, including independent audits, provide further strength to financial stability (Ayogu, 2023). The impact of budget monitoring can be measured by its reflection in the service delivery: whether essential services are delivered and whether there is a positive change in the health and education sector (Ahwera, 2021). An evaluation of the budget planning and monitoring practices in Murang'a and Kiambu counties provides insights into best practices while identifying areas requiring improvement. Strong budgeting processes enable county governments to effectively manage their resources, withstand economic shocks, and continue delivering essential services to residents. This provides valuable insights for developing policy recommendations aimed at strengthening financial management practices in Kenyan counties.

2.3.5 Budget Evaluation and Financial Stability

Budget evaluation is an essential process in the public finance management (PFM), since it allows the government to monitor and improve the efficiency and effectiveness of its spending and revenue collection (Nurfadila, 2024). Budget Evaluation ensures that the budget attempts to obtain the government's strategic priorities, goals and fiscal objectives, as well as citizens' needs and wants. The parameters the counties are to follow are as per the Public Finance Management (PFM) Act, 2012 which was put in place to provide a legal framework for budgeting, accounting, auditing, as well as oversight. The PFM Act makes it compulsory for the

public and other stakeholders to participate in the budget process. It also ensures that budget information and decisions are transparent and accountable.

Implementation of the PFM Act and practice of budget evaluation in the counties faces various constraints and gaps according to several studies. Kenya County Budget Transparency Survey 2021 (CBTS, 2021) is an assessment of the availability and comprehensiveness of budget documents and information in the 47 counties. The survey was conducted by the International Budget Partnership Kenya (IBP Kenya) in partnership with county civil society organizations (CSOs) and researchers. The survey is based on the OBS (Open Budget Survey) Questionnaire asserts transparency, openness and oversight of the budget in more than 100 countries. The focus of CBTS 2021 is fiscal year 2020/21 with a comparative analysis on the counties performance across the 4 budget stages, formulation, approval, execution and audit.

The CBTS 2021 study reveals that the county budget transparency score has improved slightly from 33 points in 2019 to 35 points in 2021. However, this does not indicate that the citizens have adequate access to the budget. The survey revealed not all counties make their budget documents public and that the documents that they do make public often do not contain all the budget information required. The paper highlights common challenges and gaps regarding budget transparency at the regional economic blocs as well as recommendations to improve the quality and timeliness of budget disclosure and dissemination. CBTS 2021 Results analyze the budget evaluation and budget execution process.

The performance is poor for the counties (Wampler et al., 2024). Only 17 county governments released their County Budget Review and Outlook Papers, CBROPs, which are supposed to contain mid-year review of the budget performance and the macroeconomic outlook, proposal to budget estimates for the current and the next fiscal years. The survey also revealed that twelve counties published their County Quarterly Budget Implementation Reports (CQBIRs). It is intended to provide a quarterly update on budget execution and service delivery progress. The survey found that the CBROPs and the CQBIRs did not have adequate information on their budget priorities, revenues, public participation, fiscal service responsibility, capital projects and non-financial indicators. The CBTS (2021) documented that during the fiscal year, the counties made significant and frequent to their budgets but with no

proper justification or explanation (Wampler et al., 2024) The statistics reveal that the average supplementary budget by the counties in 2020/21 was 13.5per cent of the original budget which is above the 10per cent threshold recommended by the PFM Act.

The research indicated that the supplementary budgets mostly increased the recurrent expenditure while reducing the development expenditure, which undermines the counties' fiscal discipline and their strategic objectives. The survey also revealed that the supplementary budgets have not been sufficiently subject to public participation and oversight and has not been aligned with the CBROPs and the CQBIRs. A World Bank (2020) study of fiscal performance and sustainability of the counties in Kenya relied on data from the Controller of Budget (CoB) and National Treasury. The study showed that the counties suffer from persistent fiscal deficits and arrears and low revenue mobilization and expenditure efficiency. According to the report, the counties have quickly and repeatedly revised their budgets upward, resulting in a loss of credibility and predictability of the budget, and increasing the fiscal risks and uncertainties. Moreover, the studies depicts that the budget alterations have either not been predicated on realistic projections and reliable information, or they have not been synchronized with the fiscal strategy or the budget calendar.

A study by the Public Sector Accounting Standards Board (PSASB) (2019) on implementation of the Programme-Based Budgeting (PBB) in the counties, based on the data from the CoB and the Auditor General, shows that the counties have had a difficulty in adopting and applying the PBB framework which is aimed at enhancing a results-oriented and performance-based budgeting. Based on the findings, the counties have also not integrated the PBB with the Medium-Term Expenditure Framework (MTEF) or the County Integrated Development Plans (CIDPs) and that the counties did not link the budget programs and sub-programs with the strategic objectives and the performance indicators. The counties did not share enough information on the results of their budget and the effects of their budget outcome. The counties also did not have regular and systematic monitoring and evaluation of their budget performance and impact.

The previous literature has depicted that effective budget evaluation mechanisms in counties are those which provide timely, comprehensive, relevant as well as accurate information regarding the budget performance and outcomes. In addition, there were

budget evaluation mechanisms in counties which did not reflect change in circumstances as well as new information. This implies that the way budgets are evaluated and processed in the counties is not participatory, transparent or accountable. This is because the public and other stakeholders were not involved. In 2021, the International Budget Partnership Kenya (IBP Kenya) and Civil Society Organizations (CSOs) collaborated on a study to understand the role of civil society in the evaluation and processes of budgets in the counties of Kenya. The study sought to determine the level of engagement and advocacy by CSOs in promoting transparency, participation and accountability in county budgeting. Most noteworthy were UCs where CSOs were able to raise awareness on budget issues; mobilize citizen participation and demand for accountability.

The study concluded that there should be enhanced cooperation between CSOs and county governments for effective budget evaluation and monitoring mechanisms. In 2020 the Kenya Institute for Public Policy Research and Analysis (KIPPRA) examined the impact of budget evaluation on the socio-economic development of counts in Kenya KIPPRA. (2020).The study examined the effects that changes to the budget in poor countries have on social indicators like poverty, employment and access to services. The results showed to have some positive and negative results, showing that the budget needs to evaluation. Formulation of a Budget. The study emphasized the need for a global understanding of budget changes' socioeconomic impacts.

Tthe study emphasizes that this type of study is a necessity if counties are to implement more effective changes that improve financial stability. In 2019, the IPFD report was released in 2020 conducted the evaluation to assess the extent to which budget evaluation mechanisms aligned with the county development plans in Kenya. The study examined how much changes in the budget complied with the long-term development goals set out in County Integrated Development Plans (CIDPs). The study suggested ways to better link budget changes with CIDPs in order to improve the alignment of short-term budget changes and long-term development objectives. ADG (2018) conducted a comparative analysis of budget evaluation in Kenyan counties.

ADG (2018) performed a comparative study on budget evaluation in several counties in Kenya. The study wanted to assess best practices and issues different counties

encounter in budget implementation. The goal of the comparative study was to identify opportunities for improvement which would allow counties to learn from each other and improve their budget practices to enhance financial viability. CBPS (2017) carried out an analysis in 2017 which focused of the sectoral impact of budget changes in Kenyan counties. The study considered the impact of changes in the budget on various sectors like education, health, and infrastructure due to changes in budget. The study recommended that a sectoral analysis be included in the budget proposal as this would assist in future budget improvements.

2.4 Gap in Literature

The cited literature suggests that budget evaluation processes and outcomes in county governments are affected by many factors. The legal and institutional framework strength and capacity and technical skills of budget officers quality and accessibility of financial data Political and economic environment External shocks or fiscal pressures Kinyua, (2020) Ochieng & Mutua, (2021) The study showed that to enhance budget evaluation, institutional structures, quality of data, skills development, and political and economic stability are critical for maintaining credible fiscal management (World Bank, 2022; Mwangi, 2023). The different systems of assessment used lead to different fiscal outcomes. A county that gives a structure to its evaluation of infrastructure investment might attain a higher efficiency of development. One that assesses social equity might attain a better distributive justice. This shows that benchmarking best practices is vital for improving fiscal accountability and performance. On the processes and mechanisms through which institutional capacity, data integrity and leadership commitment translated into budget evaluation outcomes at the county level. No evidence on how empirical evidence on counties use evaluation findings in decision-making was not found. This study, therefore, seeks to assess the effectiveness of budget evaluation mechanisms in Murang'a and Kiambu counties, providing evidence to strengthen fiscal accountability, transparency, and sustainable financial management within devolved systems.

2.5 Conceptual Framework

This conceptual framework links budgeting practices and financial stability in the County governments in Kenya. It highlights the independent variables to be Budget

Planning, Budget Implementation, Budget Monitoring, and Budget Evaluation. These factors are conceptualized as important determinants of the effectiveness of county government public finance management. Financial stability is the dependent variable and it is measured by indicators, budget absorption rate pending bills ratio and own source revenue performance.

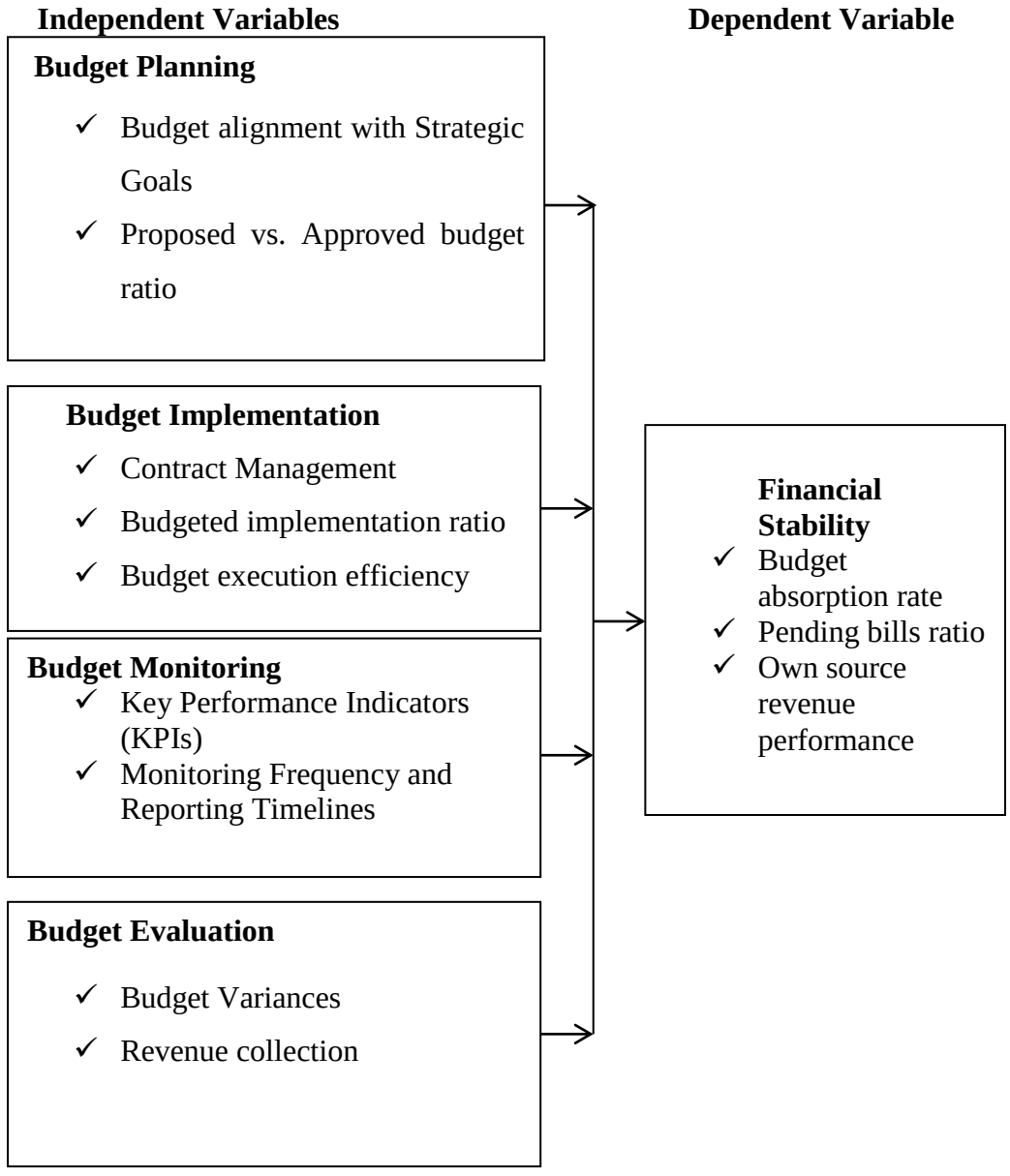


Figure 3.1: Conceptual Framework

2.5.1 Budget Planning

Effective budget planning ensures that financial resources are allocated in line with an organization's strategic priorities while maintaining realistic and achievable

budget proposals. Two key performance indicators support this assessment: Budget Alignment with Strategic Goals, which measures the percentage of the approved budget dedicated to strategic objectives, and Proposed vs. Approved Budget Ratio, which measures the proportion of the proposed budget that is ultimately approved. High performance on these indicators demonstrates that budgeting is both strategically focused and based on realistic financial planning, contributing to efficient resource utilization and improved organizational performance.

2.5.2 Budget Implementation

Budget Implementation measures how effectively an organization executes its approved budget to deliver planned activities, projects, and strategic outcomes. It encompasses contract management to ensure procurement processes are timely, compliant, and well-managed, the budgeted implementation ratio to assess the proportion of planned activities successfully implemented, and budget execution efficiency to evaluate how effectively allocated funds are utilized within the approved budget and implementation timeline. Together, these indicators demonstrate the organization's capacity to convert financial plans into tangible results while ensuring accountability, value for money, and efficient use of resources.

2.5.3 Budget Monitoring

Budget Monitoring is the continuous process of tracking budget performance to ensure that financial resources are utilized effectively and organizational objectives are achieved. It involves the use of Key Performance Indicators (KPIs) to measure budget implementation and financial performance, supported by clearly defined monitoring frequencies and reporting timelines that facilitate regular performance reviews and timely reporting. Effective budget monitoring enables early identification of budget variances, supports informed decision-making, enhances accountability, and promotes corrective actions to improve financial management and the achievement of strategic goals.

2.5.4 Budget Evaluation

Budget Evaluation is the process of assessing the effectiveness of budget implementation by comparing planned financial targets with actual performance. It focuses on analysing budget variances to identify differences between budgeted and actual revenues or expenditures, and evaluating revenue collection to determine how effectively the organization has achieved its projected income targets. Together, these measures provide insights into financial performance, enhance accountability, support evidence-based decision-making, and inform improvements in future budgeting and resource allocation.

2.6 Summary

The reviewed literature demonstrated that budgeting was a fundamental component of public financial management and played a significant role in promoting the financial stability of county governments. Theoretical perspectives, particularly Fiscal Federalism Theory and Public Choice Theory, explained how fiscal decentralization, budgeting autonomy, accountability, and political incentives influenced the management of public resources in devolved governments (Musgrave & Musgrave, 1959; Oates, 1972; Buchanan & Tullock, 1962). The literature further indicated that effective budgeting enhanced resource allocation, service delivery, and fiscal discipline, while weaknesses such as delayed transfers from the national government, poor revenue mobilization, corruption, and weak financial management systems undermined counties' financial stability (Irungu et al., 2020; Odhiambo, 2022).

The empirical review consistently showed that the major dimensions of budgeting—budget planning, budget implementation, budget monitoring, and budget evaluation—were positively associated with financial stability. Previous studies found that realistic budget planning, effective implementation, continuous monitoring, and systematic evaluation improved fiscal discipline, reduced pending bills, enhanced accountability, and strengthened service delivery (Muriithi & Kang’ethe, 2018; Ombaba & Kipyegon, 2018; Kiringai et al., 2019). Conversely,

poor budget execution, political interference, inadequate stakeholder participation, and weak monitoring mechanisms contributed to financial inefficiencies, budget overruns, and financial instability within county governments (Kimemia & Mathooko, 2017; Ndung'u & Ondiek, 2019).

The reviewed literature further revealed that important knowledge gaps remained. Most previous studies examined individual aspects of budgeting or focused on specific counties without comprehensively assessing how planning, implementation, monitoring, and evaluation budget collectively influenced financial stability. In addition, limited comparative research had been conducted on Murang'a and Kiambu counties, and few studies had integrated Fiscal Federalism Theory and Public Choice Theory to explain budgeting practices in devolved governments. The current study therefore sought to address these gaps by examining the influence of budgeting practices on the financial stability of county governments in Kenya, with particular focus on Murang'a and Kiambu counties.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides research design, population size, and sampling procedure. This chapter also highlights the data collection process and the models used for data analysis.

3.2 Research Design

A research design is a logical framework that offers essential guidance on how the research must proceed, by Berman et al., (2020). A comparative study design was well-suited for this research as it allowed for the systematic comparison of the srelationship between budgeting and financial stability across two counties (Murang'a and Kiambu). In this study secondary data was gathered from both counties to ensure in consistency. The study considered two county governments in Kenya (Murang'a and Kiambu) and collect data for nine years (2013/2014 to 2021/2022).

3.3 Target Population

Casteel and Bridier (2021) define the target populations as the set of observable identities in elements, households, persons or events that have been put under investigation or research by the study. The study considered the two county governments in Kenya and collected data for nine years (2013/2014 to 2021/2022).

The study focused on two counties in Mount Kenya region which include, Murang'a and Kiambu counties. The study selected Murang'a and Kiambu counties in Mount Kenya for their diverse economies and varied budget performance, enabling comparative analysis. The regions comprise a mix of urbanized counties with developed infrastructure and dense populations, as well as agricultural counties where farming remains the primary economic activity. Insights into budget monitoring and financial stability of major contributors to Kenya's economy are important. The year 2013 was selected as the baseline when devolution of government started. The focus will be challenges faced by the county governments in the preparation of budgets and financial management.

3.4 Sampling and Sampling Procedure

Lakens (2022) define sample size as representing a population, and a sample is a unit, or a part of the whole. Kenya comprises 47 counties. This study focused on Kiambu and Murang'a counties to facilitate a comparative analysis based on their differing demographic and socioeconomic characteristics. Kiambu County is predominantly urbanized and has experienced significant growth in urban development, infrastructure, and population. In contrast, Murang'a County is largely agricultural, with agriculture serving as a key driver of its economy. These distinct demographic, economic, and agricultural characteristics make the two counties well suited for examining budgeting practices and financial stability in different county contexts.

3.5 Data Collection Procedure

The research utilized secondary data by analyzing documents specifically financial statements and auditor general reports. The study systematically identified relevant sources and secured the necessary access permissions. The study utilized secondary information available in the office of the Controller of the Budget and Kenya National Bureau of Statistics (KNBS).

Data was verified for accuracy, organized systematically and synthesized to gain insights. Proper citation and documentation were maintained, with a focus on quality assessment. Ethical considerations were observed.

3.6 Diagnostic Tests

3.6.1 Autocorrelation Function (ACF) and Partial Autocorrelation Function (PACF)

ACF and PACF plots were done to help detect the dependencies in the time based data using the SPSS software v28. ACF plot shows the correlation coefficients between the series and it's lagged (past values), and assists in identifying autocorrelation at different lags (Yakubu & Saputra, 2022). Time series model analysis using autocorrelation function (ACF) and partial autocorrelation function (PACF). Int. J. Glob. Oper. Res, 3(3), 80-85. A major spike was a possible indication that the expected model adequately captured the dependency structure of the time series through its AutoRegressive (AR) and/or Moving Average (MA) components. PACF on the other hand demonstrated the relationship with the series and lags after

taking out the impact of the previous lags. It helped to determine the autoregression order of models. These plots were crucial in diagnosing whether or not there was autocorrelation in the residuals that is a fundamental assumption in most time series models. Autocorrelation of the results implied that the model was not successful in fitting the patterns in the data, and the model could, therefore, be improved.

3.6.2 Shapiro-Wilk and Kolmogorov-Smirnov Normality Tests

Tests of normality, such as Shapiro-Wilk test and Kolmogorov-Smirnov test, are used to test the assumption that the residuals of a time-series model are normally distributed and thus play a key role in determining many statistical conclusions. The Shapiro-Wilk test is very sensitive to small and moderate sample sizes, and tests the null that data is normally distributed. The Kolmogorov-Smirnov test tests the distribution of the residuals by comparing it to a normal curve and gives p-value to indicate whether there is a statistical significance in the deviations(Curran-Everett & Williams, 2025) Failure to follow a normal distribution of residuals could be considered a violation of models assumptions, which means its ramifications on confidence intervals and hypothesis tests. Presence of non-normal residuals triggers data transformation or consideration of other robust methods of modeling. These tests make inference made on the model to be valid making the test of predictive analysis and hypothesis testing to be reliable in modeling time series (Yang & Berdine, 2021).

3.6.3 Linearity

Linear assumption was considered with respect to budgeting practices and financial stability of county governments in Kenya. The study considered that the changes of the independent variables (budget planning, budget implementation, budget monitoring, and budget evaluation) had a proportional impact on the financial stability indicators (pending bills, liquidity, and fiscal discipline). To observe this assumption, the study checked the scatterplot and regression diagnostics to see if the relationships between the variables were linear. Out of the results, it is concluded that the relationships were mostly linear and hence the linear regression model was appropriate to be used for the analysis. The linear deviations were not of sufficient magnitude to significantly affect the overall model estimates. This confirmed the suitability of applying linear regression methods to financial stability in county

governments when determining the budgeting practices.

3.6.4 Multicollinearity

Multicollinearity was evaluated to check if the independent variables were correlated and thus would have influenced the results of the regression. Correlation analysis and Variance Inflation Factor (VIF) test were performed. The results revealed that the variables were correlated with each other in the predicted direction in the budgeting process, but the level of correlation was within acceptable limits. The VIF values were within recommended limits, ruling out any multicollinearity had no significant effect on the research model. This meant that each independent variable explained the variations in financial stability in a unique manner. Therefore, the regression estimates were deemed to be reliable.

3.6.5 Homoscedasticity

The assumption of homoscedasticity was checked to see if the variance of the error terms was the same throughout all levels of the independent variables. For this study, a residual plot was plotted and visually examined to determine the distribution over the range of predicted financial stability. The Breusch–Pagan test ruled that out heteroscedasticity, the residuals showed no significant trend of variance increasing or decreasing. This indicated that the assumption of constancy of variance was well-approximated. Thus the model estimates were concluded to be efficient and unbiased hence the relationship between budgeting practices and financial stability in the county governments in Kenya could be inferred.

3.7 Data Analysis

The gathered secondary data included review and coding. Descriptive analysis including, mean, standard deviation were used to analyze data. Inferential statistics was used to analyze data. Time series analysis was done using SPSS version 28 the expert modeling where all the diagnostic tests were modeled in the software automatically.

3.8 Data Presentation

The study presents an analysis of the data collected by employing appropriate descriptive statistics. Graphs were used for comparative analysis. Descriptive

statistics provided a summary of the central tendencies and variability. Graphs are also used to make key trends more accessible.

3.9 Ethical Considerations

In the collection of secondary data, this research maintained strict adherence to privacy and confidentiality principles to protect the identity of individuals. Before carrying out this study, permission was sourced from National Commission for Science, Technology, and Innovation (NACOSTI) as well as Murang'a University of Technology. Accuracy and integrity of secondary data was ensured. Respect of data ownership rights observed to ensure transparency, accountability, and proper citation was paramount as was ensured to avoid bias in the selected data.

3.10 Summary

This chapter described the research methodology that was used to examine the influence of budgeting practices on the financial stability of Murang'a and Kiambu county governments. A comparative research design was adopted, focusing on the two counties over the period from the 2013/2014 to the 2021/2022 financial years. Secondary data were collected from county financial statements, Auditor General reports, the Controller of Budget, and the Kenya National Bureau of Statistics (KNBS). The study further outlined the target population, sampling procedure, data collection process, and the application of descriptive statistics and time series analysis using SPSS Version 28 to analyze the data (Berman et al., 2020; Casteel & Bridier, 2021). The chapter also explained the diagnostic tests conducted to validate the statistical models, including the Autocorrelation Function (ACF), Partial Autocorrelation Function (PACF), normality, linearity, multicollinearity, and homoscedasticity tests, which ensured the reliability of the analysis (Yakubu & Saputra, 2022; Yang & Berdine, 2021). Finally, it described how the findings were presented using descriptive statistics and graphs and highlighted the ethical considerations observed throughout the study.

CHAPTER FOUR
RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research analysis and findings and the resultant interpretations.

4.2 Descriptive Statistics

The descriptive statistics were calculated for N-9 cases, which mean total number of variables entered for analysis. The descriptive statistics of the counties of Murang'a and Kiambu provide an overview of the effectiveness of the budgetary processes and financial stability as shown in tables 4.1 and 4.2 respectively. The results show that both counties performed well in budget planning and budget implementation, but there were some differences in financial stability results.

The score of budget planning in Murang'a County was 89.00 with a standard deviation of 5.08 that shows that the budget planning process was effective and also relatively consistent across Murang'a County. Likewise, implementing the budget had a mean score of 89.22 with a standard deviation of 2.48. This indicates that the implementers' budget practices were not only effective but also more consistent than their planning practices. The uniformity of the budget monitoring indicator was also consistent, scoring 1.00 without any deviations, which could suggest that monitoring was consistently used. Budget evaluation resulted in a mean score of 1.20 and a standard deviation of 0.43, indicating low levels of the budget evaluation practices with little variation between responses. The mean value of the financial stability in Murang'a County was 32.77 with a standard deviation of 0.41, which points to slightly low levels of financial stability in the county despite the high levels of financial planning and implementation

Table 7.1: Descriptive Statistics (Murang'a County)-203/2014 -2021/2022

	Minimum	Maximum	Mean	Std. Deviation
Budget planning	80.00	96.00	89.0000	5.08456
Budget implementation	85.00	93.00	89.2200	2.28453

Budget Monitoring	1.00	1.00	1.0000	0.00000
Budget Evaluation	1.00	2.00	1.2000	0.42164
Financial Stability	13.57	19.20	32.77	0.432

Likewise, as shown in table 4.2, Kiambu County had impressive performance on budget planning and implementation. The mean score for every question in the budget planning was 85.00 with a standard deviation of 4.08 and the mean score for all budget implementation was 83.00 with a standard deviation of 3.48. The results indicate that both counties were equally effective and consistent in the first stages of budgeting. The budget monitoring had a resultant score of 1.00, with no variation, while the budget evaluation had a low mean score of 1.20 and a standard deviation of 0.42, demonstrating that the evaluation practices were still weak, similar to those in Murang'a County.

Table 7.2: Descriptive statistics (Kiambu County)-2013/1014- 2021-2022

	Minimum	Maximum	Mean	Std. Deviation
Budget planning	80.00	90.00	85.0000	4.07718
Budget implementation	80.00	86.00	83.0000	3.48453
Budget Monitoring	1.00	1.00	1.0000	0.00000
Budget Evaluation	1.00	2.00	1.2000	0.42164
Financial Stability	21.2	37.03	58.23	0.41640

The main distinction lay between the counties lay with financial stability. The standard deviations were 0.42 and 0.43 for Kiambu and Murang'a counties, respectively, indicating a comparable level of variability in the data across the two counties. Kiambu County had a significantly higher financial stability mean score of 58.23 while Murang'a county had a mean score of 32.77. This implies that while the two counties performed well in budget planning and implementation, the financial stability of the county was higher in Kiambu County as compared to Murang'a County. The overall results suggest that, while adequate budget formulation and implementation were a necessary precondition for financial stability, it was not sufficient without appropriate monitoring and evaluation. The results are in line with

the previous studies that state that while budget preparation and budget execution have improved in many Kenyan counties, there exists a problem in monitoring, evaluation, and fiscal stability.

Mibey et al. (2023) and Lakin and Kinuthia (2019) made similar observations in their studies. They argued that most counties permit budget planning and implementation but fall short on post-implementation control, resulting in reduced efficiencies and financial imbalances. The similarity of the scores and outcomes are consistent with the results of: Ndung'u and Ondiek (2019) who affirm that the lack of budget control also leads to the build-up of outstanding payment and poor fiscal responsibility. The findings align with those of Kiringai et al. (2019), who underlined the importance of finances to be maintained by implementing adequate monitoring and reporting on a real-time basis. The research upholds the inference that budget planning requires the improvement of monitoring and evaluation systems to convert the outcomes of the budget planning into the long-term fiscal health and enhanced fiscal performance of the counties.

4.3 Diagnostic Tests

Table 4.3 shows the normality assessment proceeded through the Shapiro-Wilk test. Durbin-Watson test of 3.458 was obtained, indicated the presence of negative autocorrelation in this study. A value of 3.458 is closer to 4, suggested negative autocorrelation.

Table 7.3: Normality Tests

	Kolmogorov-Smirnov			**Shapiro-Wilk**			**Durbin-Watson**
	Statistic	**df**	**Sig.**	**Statistic**	**Df**	**Sig.**	
Budget evaluation	0.391	8	0.001	0.641	8	0.000	
Budget Monitoring	0.381	10	0.000	0.639	10	0.000	3.458
Budget implementation	0.301	10	0.000	0.621	10	0.000	
Budget planning	0.311	10	0.000	0.643	10	0.000	

All variables examined with the Shapiro-Wilk test revealed statistical significance at $p < 0.05$. Budget evaluation (Statistic = 0.641, df = 8, Sig. = 0.000) and budget monitoring (Statistic = 0.639, df = 10, Sig. = 0.000), budget implementation (Statistic = 0.621, df = 10, Sig. = 0.000), budget planning (Statistic = 0.643, df = 10,

Sig. = 0.000) showed statistically significant results ($p < 0.05$). The analyzed p-values equate to 0.000 below the standard significance threshold of 0.05. The test results lead to the rejection of normality null hypothesis across all examined variables meaning that budget planning, implementation, monitoring and evaluation have a significant influence on financial stability.

4.4 Time Series Analysis of Budget Planning

The time series graph below shows the relationship between budget planning and financial stability projected over the years in Kiambu County.

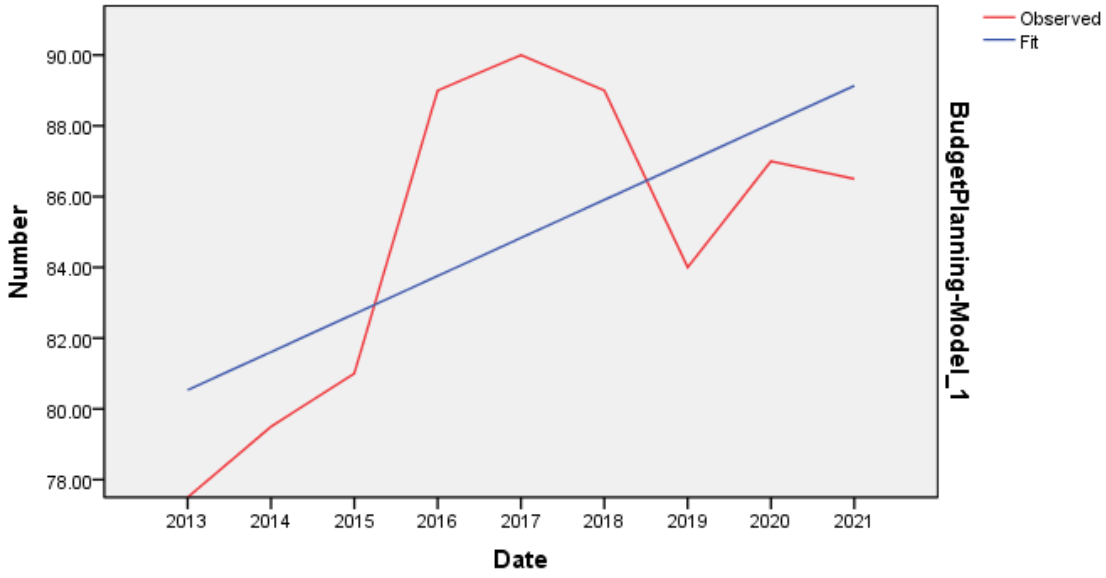


Figure 7.1: Kiambu County Budget Planning

The graph shows the correlation between budget planning and financial stability in Kiambu County between 2013 and 2021. The observed values (red line) are the annual data from the budget planning and financial stability data, and the fitted trend line (blue line) gave the overall direction of the relationship over time. The X-axis is the years (2013-2021) and the Y-axis the values of the observed measures.

Overall, the observed data showed an increasing trend, although there were significant variations in the data over the period of the study. The values start at around 77.5 in 2013 and rise slowly to around 81.0 in 2015. The value first shows a significant improvement from 2015 to 2016 (89.0), with a peak in 2017 of around 90.0. While the value dropped marginally to approximately 89.0 in 2018, it was fairly high when compared to the previous years.

The observed value dropped significantly in 2019 to around 84.0, indicating a

possible short-term interruption in budget planning and financial stability. The value is restored in 2020, rising to approximately 87.0, and then slightly drops to about 86.5 in 2021.

The fitted trend line showed a steady upward trend throughout the study period, suggesting a positive long-term relationship between the two variables. The fitted line smooth out the data as compared to the trend in the observations, showing that, budget planning performance got somewhat better over time. The differences between the observed values and the fitted trend in some years, especially in 2016-2018 and 2019, may have been due to temporary fluctuations in financial performance driven by economic factors, policy changes, or implementation issues.

From the graph, there was a positive relationship between budget planning and financial stability in Kiambu County from 2013 to 2021. There were some short-term declines, especially in 2019 and a slight decrease in 2021, but the overall trend is positive. This finding reinforces the finds that better budget planning practices lead to better financial stability, through more efficient use of resources, more prudent fiscal management and better financial performance in county governments.

The time series graph below shows the relationship between budget planning and financial stability projected over the years in Murang'a.

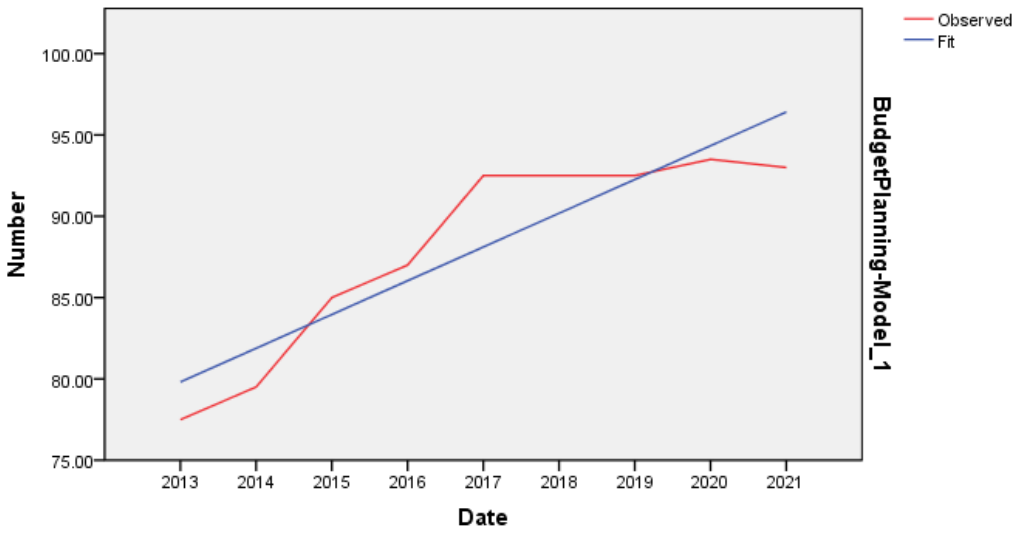


Figure 7.2: Murang'a County Budget Planning

The above graph depicts the correlation between budget planning and financial stability in Murang'a County 2013- 2021. Observed values (red line) show the annual

values of budget planning and financial stability; the fitted trend line (blue line) shows the long-term trend. The x-axis shows the years from 2013 to 2021 and the y-axis shows the value of the measures observed during this time.

The results shown reflect a primarily positive trend during the study period. The values start around 77.5 in 2013 and rise to around 79.5 in 2014. The value increases to about 85.0 in 2015, and to about 87.0 in 2016, which is a more significant improvement. The observed value rises significantly between 2016 and 2017 to around 92.5, and is fairly constant at this level in 2018 and 2019.

A slight increase was noted in 2020 (c = 93.5), being the highest during the study period. There is a slight decrease to 93.0 in 2021, however. This slight decrease does not detract from the fact that observed values continue to be higher than they were in the early years of the study, suggesting that budget planning and financial stability has continued to improve.

The fitted trend line indicated a positive long-term relationship between budget planning and financial stability, with the observed values increasing steadily from approximately 80.0 in 2013 to approximately 96.5 in 2021. This upward trend suggested that improvements in budget planning were associated with enhanced financial stability over the study period. The overall trend of the fitted line shows a positive direction of change, though the values of the observed data have been relatively stable from 2017 to 2019 and have decreased slightly in 2021. The slight variance between the observed and fitted values in the latter years suggests that although the rate of improvement has slowed since 2017, budget planning performance has not been significantly affected. Overall, the graph shows that Murang'a exhibited substantial improvement in budget planning and financial stability from 2013 to 2021. The steady rise in the observed and fitted values indicates that there was an improvement in financial stability over time, accompanied by better budget planning practices. While growth slowed in the last few years of the study, the county continued to perform well, highlighting the need for good budget planning to ensure sound fiscal management and fiscal stability over time.

This finding suggests county’s outlook may have changed due to greater emphasis of fiscal prudence or reform and/or policy change. Murang’a County finances could

have benefited from better budgeting methods. After 2018, the values no longer changed, indicating steady budget planning efforts. Stable economic growth prevents sudden changes in growth rate. Stable economic growth ensures a smoother pace of economic growth. When planning remains the same, the county can absorb shocks or an economic blow at a much better rate. As suggested by the patterns undertaken in Kiambu County, there was an overall good correlation amongst budget planning and financial stability from the year 2013 to 2021. Both the observed and fitted values show an upward trend suggesting financial stability leads to an improved budget over time.

The phases of inertial or minimal decline like the one between 2017 and 2018 also demonstrate that the low budgeting efficiency may result in declining financial health. But, the upward trend all together means resilience and the eventual recovery and hence the theme of constant and prudent budget planning to bring stability to county finances. Such trends would mean that proper budget planning result in the improved allocation of available resources, minimized financial mismanagement, and improved fiscal discipline. Proper budget planning by the counties means that the counties are bound to have fewer deficits and a higher capacity to settle their financial obligations, which would enhance the financial stability of counties. When budget planning fails, it can cause liquidity shortages, excessive debt, and a decline in service delivery, which in turn degrades the economy's overall fiscal health.

This observation is in line with earlier assertions as budget planning essentially has a positive effect on financial viability. Okeke et al. (2024) show that disciplined budgeting greatly improves the financial performance and an important factor in promoting sustainability. Similarly, a study by Wurarah (2024) noted that well-conceived budgets enable local governments to tackle shocks and spur socio-economic growth. A study by Lulaj et al (2022) also concluded that the relationship between budgeting and financial stability is complex and largely depends on external factors such as economic shocks, governance issues. The graphical trends in this research, however, are consistent with other research studies which highlight that budget planning is essential for enhancing financial stability while also highlighting the contextual dynamics.

The study findings show that, in Kiambu County, budget planning enhanced financial stability but other factors may moderate this impact. Similar findings were

reported by Okiro and Mudiwa (2021) whose analysis revealed that regions where budgets were formalized performed significantly better financially; however, informal financial practices were noted as significantly influential in influencing outcomes. In the case of Kiambu County, informal financial activities or failure to comply with formal budgetary frameworks may undermine the effectiveness of the budgeting process. Murang'a County exhibited a pattern whereby effective budget planning is more closely aligned with strategies aimed at enhancing financial stability. Barbera (2020) asserts regions that prove capable of sound budgeting show markedly greater financial resilience to austerity.

Murang'a County can enhance the efficacy of expenditures through the establishment of policy agenda and training programs that will build budgeting capacity of stakeholders. The findings are consistent with that of Frost and Rooney (2021), which found that budgeting alone would not lead to a positive impact with factors like governance, environment, and community supporting budgeting for financial stability. The relationship between budget planning and financial stability in a county is influenced by the context of that county. Tonuchi and Onyebuchi (2019) noted that the budget planning variances should reflect issues such as economic diversification and dependence on agriculture, which can be naturally vulnerable. In a wide-budget development area, it is necessary to diversify the economic base. This needs to ensure that budgeting efforts are not just based on any one thing but also others equally. On the other hand, the environment in Murang'a County may be more viable for the implementation of budget planning.

The existence of financial literacy programs and strong governance frameworks in Murang'a County can lead to a higher effect of budgeting practice on financial stability overall. Similarly, Neesham et al. (2021) found improvements in financial outcomes from the introduction of governance frameworks that enhanced accountability and engagement in a similar context. In conclusion, budgeting does not resolve trade-offs, it could only make them worthwhile. Kiambu County might provide financial management training to county stakeholders in order to strengthen the linkage between budgeting and financial stability. Filling the gap where there is moderate correlation can be achieved by building capacity to strictly adhere to the budgeting process. Murang'a County may experience enhanced results if they keep to current budgetary momentum. But policymakers should continue to monitor

developments and strive to improve governance and transparency always so that chances of occurrence (of the crisis) are minimal. The importance of inclusive policymaking that considers feedback from county stakeholders cannot be overstated, as Touchton et al., (2023) demonstrated that community involvement in budget decisions enhances trust and allocations that are more aligned with county needs.

4.5 Time Series Analysis of Budget Implementation and Financial Stability

The time series graph below shows the relationship between budget implementation and financial stability projected over the years in Kiambu County.

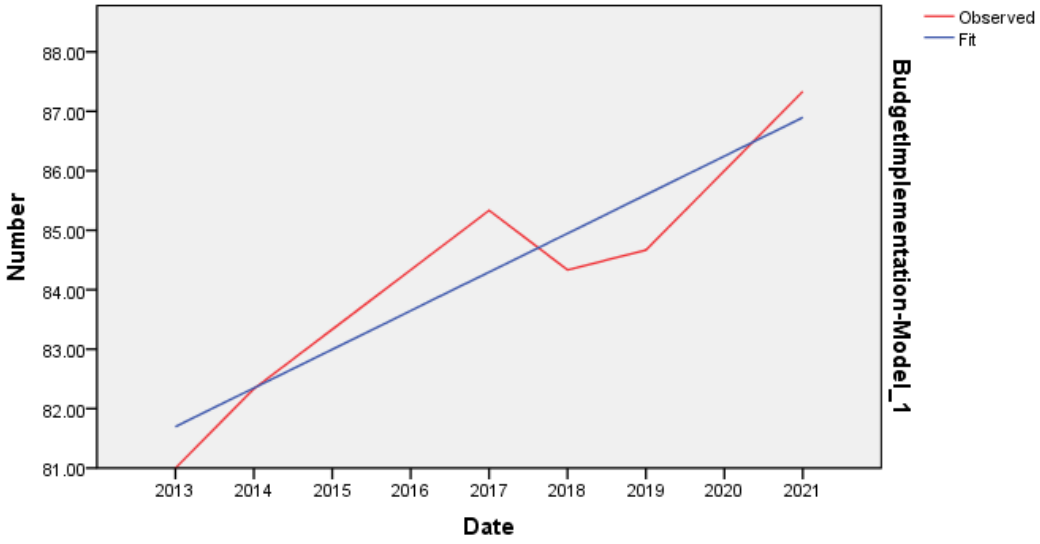


Figure 7.3: Kiambu County budget implementation

The graph shows the relationship between budget implementation and financial stability of the county of Kiambu from 2013 to 2021. The observed values (red) are the actual measures of the implementation of the budget and financial stability for each year and the fitted trend line (blue) shows the overall direction of the relationship over the study period. The x-axis is for years from 2013 to 2021 and the y-axis for the values of the observed measures.

The data shown suggest a positive overall trend but there are some moderate variations across the study. The values start at around 81.0 in 2013 and slowly rise through 2014, 2015 and 2016 culminating at approximately 84.4. This upward trend is maintained in 2017, reaching a peak of around 85.3, indicating that budget implementation and financial stability has improved greatly in this period.

A decrease is seen in 2018, dropping to around 84.4; and a slight rise in 2019, to around 84.7. Such changes can be attributed to mere difficulties in the execution of budgetary programs or changes in the budgetary environment in the county. The county experiences a robust recovery in the last few years of the study, however, as the observed value climbs to about 86.0 in 2020 and about 87.3 in 2021, the highest value in the study period. The fitted trend line has a consistent upward trend from the approximate value of 81.8 in 2013 to 86.9 in 2021. The continued growth shows a favorable long-term connection between the implementation of the budget and financial stability. The values observed lie within the scatter, with some deviations around the fitted line, especially from 2017 to 2019, but pointing upward as a whole, indicating that there were steps taken to increase the financial stability of the budget over time.

The graph shows that overall; the situation in Kiambu County was improving from 2013 to 2021 in terms of budget implementation and financial stability. Both the observed and fitted values showed an increasing trend with short term drops in 2018 and small fluctuations thereafter. The results of this study suggest that good budget implementation improves financial stability in the county.

The time series graph below shows the relationship between budget implementation and financial stability projected over the years in Murang'a.

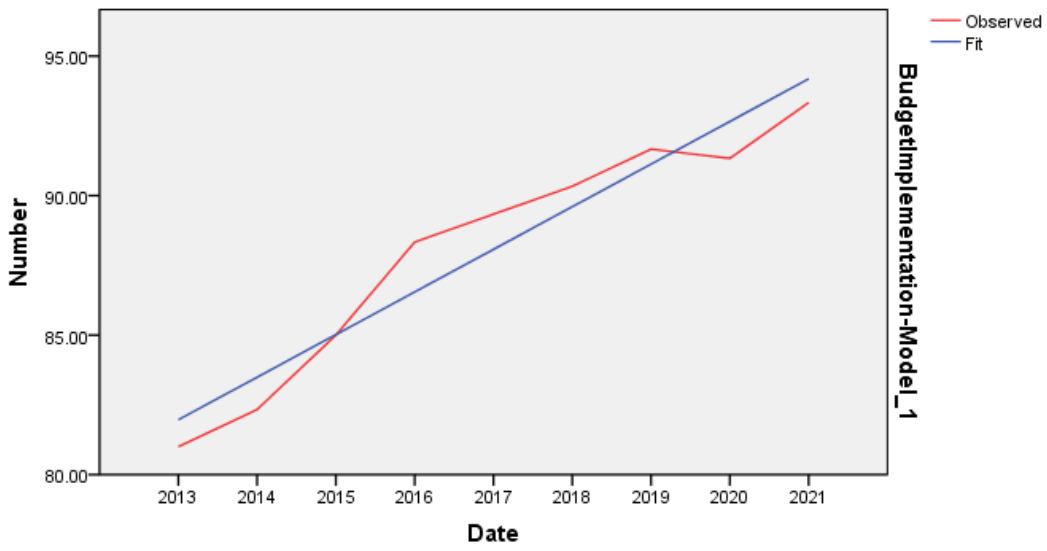


Figure 7.4: Murang'a County Budget Implementation

The graph shows the trend between budget implementation and financial stability in Murang'a County between 2013 and 2021. Observed values (red line) indicate the actual annual budget implementation and financial stability measures, and the fitted trend line (blue line) indicates the overall long-term trend. The x axis indicates the years 2013–2021 and the y axis indicates the value of the observed measures.

From the data collected, it is observed that the trend is generally positive for the entire period of study, although there are minor fluctuations. Starting from 81.0 in 2013, the values rise slowly to ~82.4 in 2014. A more significant increase is evident from 2014 to 2016, increasing from approximately 85.0 in 2015 to approximately 88.4 in 2016. Since then, the observed values have continued to rise steadily to around 89.5 in 2017 and 90.3 in 2018.

The county continues to improve in 2019 with an observed value of ~91.7, followed by a slight drop to ~91.3 in 2020. In 2021, this minor decrease is offset by a recovery with the observed value at around 93.3, the highest observed value over the study period. The overall trend shows continued progress towards better budget implementation and financial stability despite the slight drop in 2020.

The trend line shows a consistent positive slope, rising from about 82.0 in 2013 to about 94.2 in 2021. The steady rise shows the long-term positive relationship between budget implementation and financial stability. The observed values vary slightly from the fitted line, especially in 2019 and 2020, but are generally aligned with the upward trend, suggesting that the financial stability generally improved along with budget implementation over the observation period.

The trend shows that there were significant strides in budget implementation and financial stability in Murang'a County from 2013 to 2021. A slight drop was seen in 2020, but this trend reversed in 2021 and the county slowly turned back into positive direction. The rise in both observed and fitted values indicates that the efficient implementation of budgets plays a major role in boosting the fiscal stability of the county government by promoting efficient use of public resources, encouraging fiscal discipline and better financial management.

There is a clear connection between the implementation of the budget and financial stability, meaning the use of effective financial surveillance could help improve government finances. If the government consistently executes its budget with

continuous review, it can enhance the detection of irregularities and maintain financial discipline through proactive measure. Being able to keep track of the wastages and misappropriations of the funds will make sure that the budgets are executed as planned. Further, tracking wastages and misappropriations of the funds enhances predictability and reliability of the government finances. If a budget does not get implemented, there will be overspending, revenue shortfall, and default fiscal risk. A deficit arises when the government fails to generate sufficient revenue through tax collection and has to borrow funds. The financial situation of the government is likely to improve if budgets work on an effective basis. Investing in a robust financial monitoring system can yield long-term benefits. Getting the government to actively monitor the implementation of the budget is likely to improve financial position economic stability and increase stakeholders' confidence. Effective implementation and monitoring of things is necessary for long-term financial capacity and economic development. Sacchi et al., (2020) looked into the budget process and found that budget implementation processes matter, though they do not ensure financial stability The study found that the implementation of comprehensive plans that regulate diversification and practices were important to improve financial health. According to Kipkirui (2020), the institutional capacity and governance arrangements determine the efficacy of budget implementation in some counties in Kenya. The study found that strong institutions matter for budget execution and oversight preparation and successful outcomes. Counties that had an active community participating in the budget processes have been reported to have a strong financial position (Cheboi 2019). Overall, the analysis of the budgetary implementation on the whole is conducted not only to ensure a significant improvement in the financial position but also to undertake effective budgetary implementation.

4.6 Time Series Analysis of Budget Monitoring and Financial Stability

The time series graph below depicts the projected relationships between budget monitoring and financial stability over the years for Kiambu County.

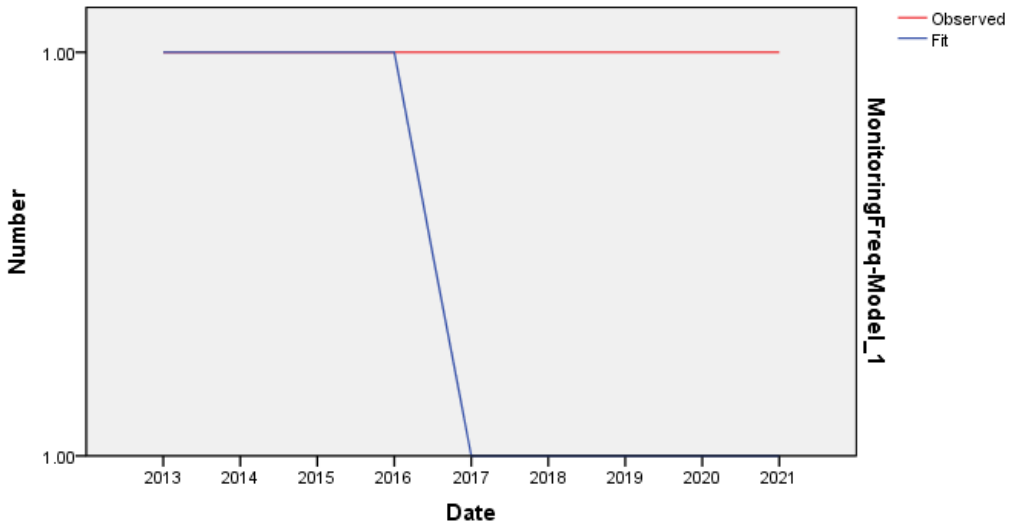


Figure 7.5: Kiambu County Budget Monitoring

The graph demonstrates the correlation among budget monitoring and financial stability within Kiambu County between 2013 and 2021. The data plots the number of the instances (or measures) associated with budgeting monitoring and financial stability against a trend line that gives some information on how these two variables interact in the course of time. The horizontal line shows that there was a constant monitoring technique, which was done quarterly for all the years thus the straight line shown.

The time series graph below shows the relationship between budget monitoring and financial stability projected over the years in Murang'a.

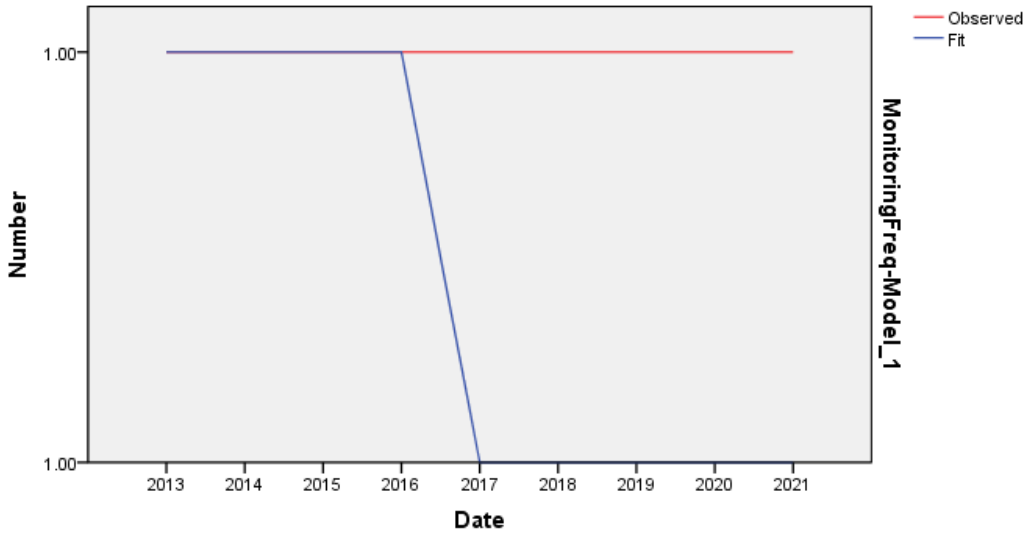


Figure 7.6: Murang'a County Budget Monitoring

The graph shows that financial stability increases with monitoring frequency, ranging from 2013 to 2021. The observations are plotted as the red line and the fitted values as the blue line. The x-axis shows the years from 2013 to 2021, and the y-axis shows the values measured. The values in this figure are stable over the majority of the study period, and show very little variation in the data observed.

The values observed over the years 2013–2021 are all 1.0, indicating that the measured indicator of monitoring frequency is not only uniformly distributed but is also consistent throughout the study period. This implies that there was no apparent change in monitoring frequency over the 9-year period. Since there is no variation, no trends in the observed data would suggest an increase or decrease in monitoring frequency with time.

From 2013 to 2016, the model's predictions closely match the observed data, suggesting the predictive model was effective at capturing the observed pattern during these early years of the study. Starting in 2017, the fitted line then regresses to the lower line and stays at that level through 2021, clearly showing the different behavior from the observed points which are constant. This difference indicates that the fitted model is not a complete representation of this data following 2016. When no variation is observed compared to the fitted values, this may mean that the variation between monitoring frequency and financial stability may not be adequately captured with a simple linear trend.

In general, the graph suggests that the monitoring frequency remained constant over time and that there were no significant variations of measured values. The level of monitoring is considered a key feature of effective public financial management, but the monitoring frequency was not observed to vary over time, so the study could not establish if higher frequency of monitoring had a positive impact on financial stability over time. Further research would be needed to determine whether the frequency of monitoring affects financial stability, particularly when the data collected over the study period exhibit little or no variation.

The introduction of adaptive and innovative budgeting could further enhance counties' resilience and effectiveness in financial planning. The graph on budget monitoring highlights how continuous monitoring can enhance the financial health of a county. The graph shows that budget monitoring activities for examined county

were largely constant. It was evident that that the monitoring of the budget remained uniform.

As Sani et al. (2024) note, regular monitoring strengthens the capacity of counties to adhere to their financial plans with a view to reduce budget deficits and increase financial stability. Periods of increased activity coincide with government or outside audits, policy changes, or public sector reforms to strengthen the financial oversight framework.

Prolonged monitoring effort is more useful than occasional reactive monitoring, these highlight. Harchenko (2024) avers that continued supervision results in increased fiscal discipline, lower corruption levels and better compliance with financial regulations, and overall financial stability. If the monitoring of the budget is inaccurate, there will be consequences. This will lead to a greater risk of misallocation of financial resources. Conversely, without regular monitoring, all the effort to improve efficiency, transparency and accountability will fail which undermines financial stability. Nakhmurina (2024) asserts that lack of effective oversight mechanisms are linked to more financial abuses and budget deficits among public sector entities. By having monitoring frameworks, there will be efficiency, cut corruption and see to the financial stability of county governments. The findings are supported by empirical studies. (Sani et al., 2024), (Harchenko, 2024), (Nakhmurina, 2024), suggest the significance of effective monitoring of the budget to strengthen financial stability.

Monitoring the budget led to enhanced accountability, improved financial discipline, and empowered informed decision-making which stabilized finances. By constantly comparing budgeted costs with actual costs,

Monitoring of budget is an important characteristic of a good financial management system. It contributes to the long-term financial stability of organizations and county governments. Kipkirui (2019). studied various counties in Kenya; the study found that jurisdictions with credible budget monitoring designs performed better and more stable financially. The study concluded that open budget monitoring will enhance better accountability and transparency which reduces the chances of financial misappropriation and allocates funds more efficiently. The Odhiambo et al. (2020) study further established this relationship; they analyzed how financial management

practices such as budget monitoring impact the financial health of county governments. Cheboi (2019) studied Elgeyo Marakwet County and found that poor budget monitoring had caused large amounts of money not to be properly accounted for. In places where budget fitness programs are weak or applied inconsistently, monitoring‘s benefits will not achieve the goal of budget fitness, the author argued.

The study concludes that county governments must craft full-fledged strategies for budgeting and monitoring to improve financial stability. They must also ensure that the strategies integrate good financial planning and management. This holistic approach would likely enhance the overall effectiveness of budgetary systems and contribute to more favorable financial outcomes over time.

4.7 Time Series Analysis of Budget Evaluation and Financial Stability

The time series graph below shows the relationship between budget evaluation and financial stability projected over the years.

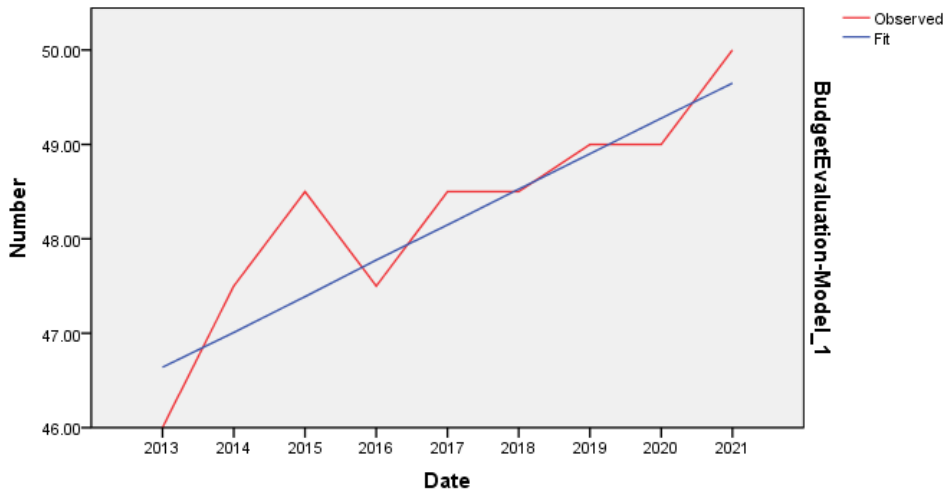


Figure 7.7: Kiambu County Budget Evaluation

The graph shows the connection of budget evaluation and the financial stability from 2013 to 2021. The observed values (red line) show the actual budget evaluation and financial stability measures over the years, and the fitted trend line (blue line) shows the overall long term trend. The X axis shows the year of the observation (2013 through 2021), and the Y axis shows the values of the measures observed in each year.

The data observed shows that there are less fluctuations and a gradual upward trend throughout the study period. The values start 46.0 in 2013, and then grow to 47.5 in

2014 and to about 48.5 in 2015. There is a small drop in the year 2016 as the value drops down to 47.5, indicating a temporary reduction in the budget evaluation performance. The county recovers in 2017 as the observed value rises to about 48.5, and the county is relatively stable through 2018.

The observed value continues to improve since 2019, with approximately 49.0 for both 2019 and 2020, and reaching approximately 50.0 in 2021, the highest point observed. The trend line is also fitted to the observed data, and it shows a gradual rise over time, suggesting that there is a positive relationship between budget evaluation and financial stability in the long term. There are variations in 2015, 2016 and 2021 but the general trend indicates that there has been an improvement in the way budgets are being evaluated with a corresponding increase in financial stability. The findings suggest that the proactive budget evaluation exercise helps to enable sound financial management by fostering accountability, highlighting implementation gaps, and aiding in decision-making, all of which are crucial for long-term improvements in financial stability.

The time series graph below shows the relationship between budget evaluation and financial stability projected over the years in Murang'a.

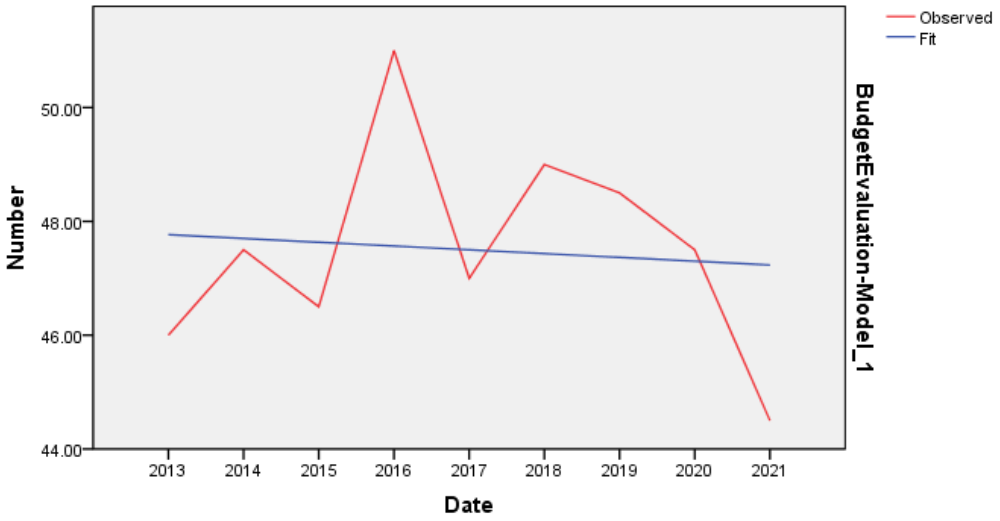


Figure 7.8: Murang'a County budget evaluation

The chart above shows the trend between the budget evaluation and financial stability from 2013 to 2021. The observed values (red line) are the actual annual values of budget evaluation and financial stability, and the fitted trend line (blue line)

indicates the general long-term trend. The years 2013-2021 are shown on the X-axis and the respective values of the observed measures on the Y-axis.

There are significant variations observed in the data across the study period, reflecting the variability of budget evaluation. The values start at 46.0 in 2013, rise to about 47.5 in 2014 and then slightly drop to around 46.5 in 2015. A significant improvement is evident in 2016, with the observed value being 51.0, the highest value that has been recorded during the study. But this is followed by a rapid drop to around 47.0 in 2017. This rises to 49.0 in 2018 and then slowly drops to around 48.5 in 2019 and 47.5 in 2020. There is a greater reduction in 2021 with the observed value reaching about 44.5, the lowest value during the study period.

The fitted trend line indicates that over the 9 years there was a subtle decline in the overall relationship between budget evaluation and financial stability, although there was an improvement in some years. The significant difference between those observed and fitted trends, in 2016 and 2021, represent significant difference in the performance of the budget evaluation from year to year. The graph indicates that the budget evaluation remained inconsistent during the study period, indicating that short-term gain is not sustainable in the long term. This may suggest that they have not had a sufficiently good track record in the development of good evaluation practices and thus not contributed adequately to long-term financial stability.

The relationship between effective budget evaluation and financial stability, as illustrated by the graph, should be regarded as positive: better evaluation leads to stronger financial health, while a decline in evaluation quality negatively impacts financial stability. Strengthening budgetary review processes may be essential for Murang'a County to maintain and enhance the sustainability of financial affairs when departments in Murang'a closely monitor their spending, they are more likely to keep within budget ceilings and make prudent spending choices, thereby preventing wasteful expenditures. Evaluation of the budget helps to identify financial irregularities on time. Murang'a County has an effective evaluation framework which allows for the early identification of trends like declining revenue or unexpected spikes in expenditures.

Having stakeholders participate in budget evaluation in Murang'a can enhance community participation in financial governance. This participatory approach can

strengthen governing structures with respect to financial decision-making. Despite this likelihood, the weaker budget evaluation in Kiambu County may limit stakeholder engagement, thus restricting the government's connection with stakeholders. Murang'a County, however, has stronger budget evaluation systems, which likely contribute to improved fiscal discipline and greater transparency. Kiambu's evaluation reveals inefficiency in resource use. This means that enhancing the budget evaluation frameworks in both counties may lead to financial improvements and enhanced financial stability within the counties. A study by Kibor (2019) which finds that budget evaluation influences financial performance in Kenya's counties supports these findings.

Ayoo (2020) investigated the link between financial governance and financial stability in devolved units in Kenya. The study evaluated budget monitoring and evaluation, and the financial health of devolved units is positively influenced by effective budget evaluation.

It can be concluded that the employed practices, such as auditing by a competent public authority and the participation of a competent public authority in the budget process, promote fiscal responsibility and financial stability. The findings from Murang'a County demonstrated that financial stability relies on the efficacy of budget evaluation frameworks. This study did not find significant statistical relationships, indicating that budget evaluation cannot be the only factor influencing financial stability, but applies within a wider context. All of these variables imply the need for integrated financial management.

4.8 Summary

The findings showed counties can effectively plan budgets to allocate resources according to needs while also being transparent. Because the budget is not merely a forecast, it facilitates a robust revenue and expenditure estimate and Effective budgeting resulted in control over the proposed expenses and income. Counties mostly did well with the budget implementation, but there were some differences between them. Budget monitoring resulted in accountability that prevented overspending and improved use of resources. Counties regularly evaluated the budget in the last phase, served as a feedback mechanism for assessing fiscal performance. Consistent evaluations created responsibility.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Key findings

The study established that budgeting practices play a significant role in promoting financial stability in county governments in Kenya. Both Murang'a and Kiambu counties demonstrated relatively strong performance in budget planning and budget implementation, indicating that the counties generally prepared and executed their budgets in accordance with established public financial management frameworks. The time series analysis further showed an overall positive trend between budget planning, budget implementation, and financial stability over the study period (2013–2021), suggesting that improvements in these budgeting practices contributed to better fiscal discipline, efficient resource allocation, and enhanced financial management. However, the findings also revealed notable differences in financial stability between the two counties, with Kiambu County recording relatively higher levels of financial stability than Murang'a County.

The study further found that budget monitoring and budget evaluation remain critical but comparatively weaker components of the budgeting process. Although budget monitoring was implemented consistently across the study period, limited variation in monitoring practices made it difficult to establish its full effect on financial stability. Budget evaluation showed mixed results, with improvements in some years but inconsistencies that affected long-term financial performance, particularly in Murang'a County. Overall, the findings indicate that while effective budget planning and implementation provide a strong foundation for financial stability, sustained financial resilience requires robust monitoring, regular budget evaluation, transparency, accountability, and continuous strengthening of public financial management systems to support efficient service delivery and sustainable county finances.

5.1.1 Budget Planning

All counties are showed an upward trend in their budget planning year-on-year as shown in the table and charts. Budget planning allows counties to allocate resources appropriately. The counties utilized a smooth, uniform budgeting process that was

responsible for the various levels of stability they maintained and were able to produce. The budgeting process ensured that the cash was spent on key sectors, and the stability created a sense of budget discipline which ultimately assisted the counties' long-term economic viability and financial stability.

5.1.2 Budget Implementation

Despite some erratic variation in the data, the counties did well in executing their budgets. Budget plans are concrete, and the findings show that tighter control and constant monitoring made the actual expenditure in line with the budget estimates. Having a strong control environment helps assure that funds are used as intended. It also helps avoid unnecessary spending and reduces financial overruns. This promotes financial stability by ensuring that expenditure is prudent and aligned with overall development targets.

5.1.3 Budget Monitoring

Consistent budget monitoring is essential for efficient financial management and long-term sustainability. Through regular monitoring, counties can ensure that expenditures remain aligned with spending priorities and broader development objectives, thereby promoting value for money. The study concluded that counties should strengthen budget monitoring practices to ensure financial stability and improve the effective use of public resources.

5.1.4 Budget Evaluation

The study found that the counties undertake regular annual budget reviews. Regularly reviewing these expenditures helped the counties to find out whether the spending is according to the planned objectives and how resources are used.

5.2 Conclusion

The study concluded that consistent and systematic budget planning contributes significantly to financial stability. Counties establish a framework for the allocation and utilization of resources by setting financial targets and detailed annual budget allocations. Effective budget planning helps reduce uncertainties and enhances transparency in public financial management. However, the success of budget

planning depends on how well the plans are integrated into subsequent stages of implementation, monitoring, and evaluation.

The study further concluded that adherence to the approved budget, supported by effective monitoring, enhances financial stability at the county level. Proper budget implementation ensures that planned activities are executed as intended while minimizing deviations and addressing emerging challenges. The findings revealed that budget implementation and oversight mechanisms are interdependent and are essential for achieving sound financial management and stability within county governments.

The study also concluded that effective budget monitoring enables the early identification of deviations from budget targets, thereby reducing wastage and promoting the efficient utilization of public resources. Continuous and active monitoring was found to be associated with improved financial performance and accountability, highlighting the need for standardized monitoring procedures and regular budget reviews to ensure that financial objectives are achieved.

Finally, the study concluded that effective budget evaluation contributes to maintaining budgetary balance and improving financial performance. Budget evaluations help identify weaknesses and gaps in the budgeting process while providing timely feedback for corrective action. Regular evaluation strengthens accountability, enhances decision-making, and supports continuous improvement in public financial management.

5.3 Recommendations

5.3.1 Study Recommendations

The study calls for county governments to improve budgeting practices as a basis for financial stability. This should include a realistic approach to forecast resource allocation based on available evidence, and budgeting for the year in harmony with the medium-term development priorities. Counties should also utilize learning, where lessons learned in past budget cycles are incorporated into new plans. The policy stance should be that the national treasury and oversight institutions should ensure that all counties follow the principles.

The county governments should enhance implementation of approved budgets to prevent budget deficits including over-expenditure and outstanding bills. Improvement in the policy enforcement by the oversight bodies like Controller of Budget should ensure that there is compliance to approved budget ceilings and regulations.

The study recommends further that county governments should develop strong and effective budget monitoring systems of monitoring of expenditure against approved budgets. This should be reinforced through the use of internal monitoring units and financial management systems with real time monitoring. Early identification of deviations should be given first priority so as to minimize wastage and enhance corrective actions mechanisms. At the policy level, there is a need for uniformity of monitoring tools across all counties. Use of digital monitoring tools may be explored in future.

The research finds that county governments should undertake regular evaluation procedures to test performance against targets set and to inform any necessary action. Evaluation results should be incorporated into future budgets so as to ensure ongoing improvement in financial management. Evaluation reports should also be made available to the public to improve transparency and the public's confidence in county financial management, and policy makers should ensure they are. Further research is needed to investigate the implications of the performance audit results on devolved unit budgets and financial stability.

5.3.2 Recommendations for Further Studies

There is a need for long-term studies to monitor the practice of budgeting and financial security over the long-term. This of studies would yield clearer results on the long run effects of budgeting decisions on fiscal results, as opposed to short period analyses that might not necessarily reflect the changing dynamics in fiscal outcomes over time.

Political and governance aspects should be studied in future research to understand how they influence the budgeting process. This should encompass a detailed

evaluation of the extent of the influence of political interference on leadership agendas. Such an understanding would shed light on how much financial instability is driven by the dynamics of the politics in the devolved units.

Further studies to be undertaken on the effect of financial management automation systems, in particular the Integrated Financial Management Information System (IFMIS) on the effectiveness of budgets. This research would be valuable as to whether or not digital systems have been successful in solving issues like funding issues or backlogs of bills at the county level.

Finally, a comparative study of the high performing and low performing counties is needed to reveal the best practices in budgeting and financial management. This would assist in documenting effective approaches and structures that can be implemented in other counties to enhance financial stability.

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APPENDICIES

Appendix 1: Secondary Data Collection Schedule

	Budget Planning (%)	**Budget Execution Efficiency Index**	**Budget Variance Analysis Trends**	**Budget Alignment with Strategic Goals**	**Budget Implementation (%)**	**Resource Allocation**	**Expenditure Patterns**	**Contract Management**	**Budget Monitoring**	**Key Performance Indicators (KPIs)**	**Monitoring Frequency and Reporting Timelines**	**Expenditure Variance Analysis**	**Budget Evaluation**	**Budget Variances**	**Revenue collection**	**Debt Levels**	**Financial Stability**	**Level of payment bills in a Financial Year**
2013/2014																		
2014/2015																		
2015/2016																		
2016/2017																		
2017/2018																		
2018/2019																		

2019/2020																		
2020/2021																		
2021/2022																		
Average																		

Appendix 2: Data on Financial Years for Kiambu & Murang'a

Kiambu County

Metric	**Budget Planning**		**Budget Implementation**			**Budget Monitoring**		**Budget Evaluation**		**Financial Stability**
	Budget Alignment with Strategic Goals	Proposed versus Approved budget ratio	Budget Execution Efficiency Index	Contract Management	Budgeted Implementation ratio	Key Performance Indicators (KPIs)	Monitoring Frequency and Reporting Timelines	Budget Variances	Revenue collection	Level of payment of bills in a financial year
2013/2014	75%	80%	78%	80%	85%	Met	Quarterly	2%	90%	46%
2014/2015	77%	82%	79%	81%	87%	Met	Quarterly	3%	92%	47.5%
2015/2016	78%	84%	80%	82%	88%	Met	Quarterly	4%	93%	46.5%
2016/2017	80%	86%	81%	83%	89%	Met	Quarterly	1%	94%	51%
2017/2018	82%	87%	82%	84%	90%	Met	Quarterly	2%	95%	47%
2018/2019	81%	85%	81%	83%	89%	Met	Quarterly	3%	94%	49%
2019/2020	83%	85%	82%	84%	88%	Met	Quarterly	2%	96%	48.5%
2020/2021	84%	90%	83%	85%	90%	Met	Quarterly	1%	97%	47.5%
2021/2022	85%	88%	84%	86%	92%	Met	Quarterly	2%	98%	44.5%
Average	**80.5%**	**85.2%**	**81.1%**	**83.1%**	**88.7%**	**Met**	**Quarterly**	**2.2%**	**94.3%**	**47.5%**

MURANGA COUNTY

Metric	**Budget Planning**		**Budget Implementation**			**Budget Monitoring**		**Budget Evaluation**		**Financial Stability**
	Budget Alignment with Strategic Goals	Proposed versus Approved budget ratio	Budget Execution Efficiency Index	Contract Management	Budgeted Implementation ratio	Key Performance Indicators (KPIs)	Monitoring Frequency and Reporting Timelines	Budget Variances	Revenue collection	Level of payment of bills in a financial year
2013/2014	75%	80%	78%	80%	85%	Met	Quarterly	2%	90%	46%
2014/2015	77%	82%	79%	81%	87%	Met	Quarterly	3%	92%	57%
2015/2016	83%	87%	82%	83%	90%	Met	Quarterly	5%	88%	69%
2016/2017	85%	89% %	90%	87%	88%	Met	Quarterly	7%	95%	45%
2017/2018	93%	92%	87%	91%	90%	Met	Quarterly	4%	90%	80%
2018/2019	96%	89%	91%	88%	92%	Met	Quarterly	6%	92%	77%
2019/2020	90%	95%	95%	93%	87%	Met	Quarterly	3%	94%	82%
2020/2021	91%	96%	93%	90%	91%	Met	Quarterly	5%	90%	69%
2021/2022	95%	91%	92%	95%	93%	Met	Quarterly	2%	87%	60%
Average	**87.22** %	**89**%	**87.44 %**	**87.6**%	**89.2**%	**Met**	**Quarterly**	**4.1**%	**90.9** %	**65**%

Appendix 3: Research Approval

C3

DEAN, SCHOOL OF BUSINESS & ECONOMICS
MURANG'A UNIVERSITY OF TECHNOLOGY
06 JUN 2024
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P. O. Box 75-10200, MURANG'A
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Office of the Director, Postgraduate Studies

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P.O. Box 75-10200
Murang'a, Kenya

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Date: 6th June, 2024

DIRECTORATE OF POSTGRADUATE STUDIES
MURANG'A UNIVERSITY OF TECHNOLOGY
03 JUN 2024
P. O. Box 75 - 10200, MURANG'A
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Ms. Susan Wanjiru Waweru (BE401/5790/2022)
School of Business and Economics
Murang'a University of Technology,
P.O. Box 75-10,200
Murang'a.

Dear Ms. Waweru,

RE: APPROVAL OF RESEARCH PROPOSAL AND SUPERVISORS.

I am pleased to inform you that the Directorate of Postgraduate Studies on 15th May 2024 considered and approved your Master research proposal entitled ***"An investigation of the relationship between budgeting and financial stability in County Governments in Kenya"*** and appointed the following as supervisors:

1. Prof. Paul Muoki Nzioki- Murang'a University of Technology
2. Dr. Grace Kariuki Njogu- Murang'a University of Technology

You may now proceed with your data collection subject to obtaining research permit from NACOSTI, if required. You should also begin consulting your supervisors and submit through them quarterly progress reports to the Director Postgraduate Studies through your CoD and School Dean. Progress Reports forms can be accessed in the Student Portal.

It is the policy and regulations of the University that you observe deadlines. The guidelines on Postgraduate supervision can be accessed in the post graduate Handbook.

Your responsibilities as a student will include, among others;

i. Maintain regular consultation with your supervisor(s), at least once a month
ii. Submit quarterly reports on time, through your supervisors, CoD, Dean and to the Director of Postgraduate Studies;
iii. Ensure quality work all through;

C3

iv. Present your research findings at 2-3 seminars/conferences prior to thesis examination.

v. Publish two articles from your research findings in a refereed journal prior to thesis examination.

For any further clarification please contact the undersigned.

Yours Sincerely,

Prof. Geoffrey Muchiri, PhD
Director, Postgraduate Studies
GM/PSM

Copy to:
1. Registrar, Academics, Research and Students Affairs
2. Dean, School of Business and Economics

Appendix 4: NACOSTI Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **284869**

Date of Issue: **26/August/2024**

RESEARCH LICENSE



This is to Certify that Ms.. SUSAN WANJIRU WAWERU of Murang'a University of Technology, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Muranga on the topic: AN INVESTIGATION OF THE RELATIONSHIP BETWEEN BUDGETING AND FINANCIAL STABILITY IN COUNTY GOVERNMENTS IN KENYA for the period ending : 26/August/2025.

License No: **NACOSTI/P/24/39503**

284869

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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See overleaf for conditions

Appendix 5: Publication

This thesis has produced the following publication:

Waweru, S. W., Nzioki, P. M., & Njogu, G. (2025). Budgeting and financial stability in county governments in Kenya. *The International Journal of Business & Management,13*(11). https://doi.org/10.24940/theijbm/2025/v13/i11/BM2511-004