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EFFECTS OF POLICY GUIDELINES ON BUDGET REPORTING IN KITUI COUNTY GOVERNMENT, KENYA

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Abstract

Budget reports are important documents which can provide a meaningful basis for thorough auditing as they are meant to provide more reliable information on the budget implementation processes. However, financial reporting still presents serious challenges to the public sector in the country despite numerous public sector reforms aimed at stemming the problem. Therefore, the broad objective of the study was to establish the determine the effects of policy guidelines on budget reporting in County governments in Kenya focusing on Kitui County. The study was guided by the Policy Learning Theory. The study adopted the survey research design targeting the management and general staff of 14 administrative units and county assembly in Kitui County who number 111. Stratified random sampling was used to obtain a sample size of 86 respondents. The study used questionnaires as data collecting instruments. The data was analyzed using both descriptive and inferential statistical methods. From the results it was evident that policy guidelines significantly affected budget reporting in Kitui County. The study, therefore, recommends that there is need for the county to consistently benchmark with other counties and devolved public sector organizations on how to implement the policy guidelines.

Keywords: Budget implementation, budget reporting, financial reporting, policy guidelines

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INTRODUCTION

Several countries across the globe have been increasingly adopting the devolution model of governance to increase their public service delivery capability to the grassroots (Cheema & Rondinelli, 2007). As such, they are devolving the administrative, fiscal and political functions of the central government to sub-national governments and other agencies to improve service delivery. However, implementing devolution is a massive public sector undertaking and requires reporting adequate structures, procedures and practices to ensure its fluidity. The budget is one of the key instruments of devolution that connects public policy to the aspirations of the citizens at the grassroots. Essentially, the strength of the budget depends on how it is implemented and reported.

The public budgeting processes are anchored on acts of parliament. The new constitution dispensation (CoK, 2010) has brought in additional dimensions and statutes to the public budgeting processes. At the national government level, the budgeting involves the integrated development planning process which shall include both long term and medium term planning, which is essentially a form of capital budgeting; planning and determining financial and economic policies and priorities at the national level over the medium term; preparing overall estimates in the form of the Budget Policy Statement of national government revenues and expenditures; adoption of Budget Policy Statement by Parliament as a basis for future deliberations; preparing budget estimates for the national government; submitting those estimates to the National Assembly for approval; enacting the appropriation Bill and any other Bills required to implement the National government's budgetary proposals. The process is necessary to ensure funds flow to the counties.

In the national budget in order to promote economic efficiency by upholding budget ceilings, the increase in spending in a vote must be complimented by a reduction in spending in another vote (Lakin, 2016b: Public Finance Management Act No. 18 of 2012). Hence, it is expected that the county government spending follow this pattern. This is not happening as yet. Another difficulty arises in determining the level of budget implementation is the fact that the law is silent on sector spending at the county level (IPB, 2014). This makes it difficult to determine the prioritization of county government spending on sectors and also given that historical data on spending is not available directly, it may impose constraints on determining the efficacy of implementation. County governments avail their revenue budgets more readily than expenditure budgets. This may imply that the public participation in the budgeting implementation process is wanting though it is required by statute. The county government budgeting processes is similar to the one in the national government although the former is expected to accurately capture the aspirations of the populace as it has provisions for public participation.

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The Controller of Budget office (2016) recently revealed that County governments have cumulative debts of Sh37.46 billion and the amount includes Sh9.25 billion for recurrent expenditure and Sh28.21 billion for development. Also according to Lakin (2016a), while the law is clear on the issue of conditional grants, it does not prescribe a formula for the implementation of the grants and unlike the revenue allocation formulas which are subject to parliamentary discussions, the conditional grants have no exact formula and, hence, at the sectorial levels, it is possible to find an overlap of expenditure by various actors on the same vote head.

In the devolved government system in the country, it can be appreciated that the new public service dispensation has to be supported by new laws and policies in order for them to be effective. In other words, the regime change has necessitated a change in laws and policies in order to bring the much needed change and, hence, the various legislations carried out by the constitution implementation commission (CIC). However, questions arise over the capacity of the budget officials sitting at the county level and most of who have no prior financial training to competently interpret the policies and regulations required in budgeting. For instance, Rotich and Ngahu (2015) in their study on factors that affect budget utilization in County Governments revealed that Government policy and inflation affected budget utilization negatively. The complexity of the tax systems in Kericho County Government affected budget utilization thus retarded economic development.

Kitui County in Kenya

Kitui County is an expansive county located 170Km to the South East of Nairobi City. It covers an area of about 30,496 km^2. According to the Kitui County Integrated Development Plan 2013 - 2017, the main economic activities in the area are commerce, agriculture, mining and cotton production (County Government of Kitui (2013). The County derives its core foundation from its mandate and the government's priorities which are contained in various policy and planning documents such as the National Development Plan (NDP), the Local Authority Development Plan (LADP), Poverty Reduction Strategy for Wealth and Employment Creation (PRSWEC), and the MDGs among others. While the county has a well-developed finance department, it is still listed by the Auditor-General (2016) as among the counties whose financial reports are still unsatisfactory with less unqualified reports than qualified and adverse reports.

Statement of the Problem

Budget reports are important documents which can provide a meaningful basis for thorough auditing as they are meant to provide more reliable information on the budget implementation processes. The general guidelines for presentation of budget information in financial statements

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have been laid out by IPSAS 24. These guidelines have explicitly outlined the financial reporting requirements and expectations for budget (IPSAS, 2013). However, financial reporting still presents serious challenges to the public sector in the country despite numerous public sector reforms aimed at stemming the problem. Revenue leaks and other forms of financial misappropriation are still being reported. This is in stark contrast to the expectation that a more localized government would be easier to manage than the larger national government.

Studies on budget implementation in devolved structures across the globe, such as, Guevara (2000), Kwon (2005), Guo (2009) and Fitriany, et al., (2015) were able to show the political nature of budget implementation but could not link this with the quality of budget reporting. However, an assessment by the International Budget Partnership (2016) revealed that only six out of the forty-seven counties in the country made available more than three out of seven budget documents online for scrutiny. Moreover, the assessment report indicated that as of January 2015, not a single county had published a proper budget implementation report online. The reasons for the massive budget under reporting by these county governments are not yet known. Therefore, the present study sought to examine the effects of policy guidelines on budget reporting in County governments in Kenya focusing on Kitui County

Objective of the Study

The objective of the study was to determine the effects of policy guidelines on budget reporting in County governments in Kenya focusing on Kitui County.

LITERATURE REVIEW

Policy Learning Theory

The Policy Learning Theory was proposed by Heclo (1973). Policy learning refers to ‘relatively enduring alterations of thought or behavioral intentions which result from experience and which are concerned with the attainment (or revision) of policy objectives’ (Heclo, 1974). Policy learning is an important aspect of policy change and can alter secondary aspects of an entity’s culture; changes in the main aspects of a policy usually result from shifts in external factors such as macro-economic conditions or the rise of a new systemic governance structures (Sabatier, 1988). Nonetheless, policy learning is a heterogeneous category. As a result, the literature discusses different types of learning, such as social learning (Hall 1993), political learning (Heclo 1973), policy-oriented learning (Sabatier & Jenkins-Smith, 1993), lesson drawing (Rose 1991), instrumental learning (May, 1992) and causal and diagnostic learning (Levy 1994).

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Concerning the strengths and weaknesses of the policy learning theory, it is important to bear in mind that it is an important concept in the theory of change literature – it is part of several theories and highlights that countries, regions and systems can change policies by learning from others and, hence, shifting their adopted cultures. However, it has been difficult to operationalize and measure the concept of learning in general. Besides, Bennett and Howlett (1992) also point out that policy learning includes three complex processes: learning about organizations, learning about programmes, and learning about policies. For example, in the Kenyan case, the first five years of devolution have been more of a learning opportunity for those charged with governance as they seek to adapt to the new structures, procedures and policies. Thus they propose to differentiate between the three concepts of government learning, lesson-drawing and social learning (Bennett & Howlett 1992). Nonetheless, adding more categories does not necessarily lead to a better understanding of the concept.

Clearly these issues could not have arisen if the budget officials were competent enough in interpreting policies. However, Sabatier (1988) explains that understanding the process of policy change and the role of policy-oriented learning requires a time perspective of a decade or more. Given that devolution in Kenya is now in its 5th year, it will also be important to establish whether budget policy-makers have been learning from past experiences and included new information obtained when considering budget reforms. It is also important to explore how policy-makers try to 'adjust goals or techniques of policy in response to past experience or new information. Learning is indicated when policy changes as the result of such a process' (Hall, 1993: 78).

This theory was used in the present study to shed light on how policy changes brought about by changes in government structure necessitate new learning regimes among public officials that may introduce challenges of comprehension and even plain resistance to the new approaches to the new policy documents.

Fiscal policies and guidelines and development budget reporting

Fitriany, Masdjojo and Suwarti (2015) in their findings on factors that impact the accumulation of budget absorption in the end of the fiscal year in Local Governments in Indonesia explain that administration system and accounting procedures in budget implementation are not well understood by the relevant authorities. The administration of local government financial administration related to the policy of local government budget management is not clearly structured. The preparations of financial reports and expenditures are not accompanied by supporting documents. The Local Government Work Unit's financial statement which is the

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responsibility report of the use of the budget cannot be accounted maximally by the relevant authorities. They contend that if this practice ensues over a long time, it will cause a delay in budget implementation. At the end, budget will be congested.

According to a study by Ngundo (2014) on the establishment of Devolved Governments in Kenya focusing on Machakos County, it was established that two structures have been established in the County government of Machakos using the right procedures. It was also established that the two main sources of revenue namely national government transfers and own-collected revenues have been deployed in Machakos County with proper organizational financial management structure. There was harmony between the national and the County government when it comes to service delivery.

In contrast, Okongo (2015) found that efforts to legislate laws and statutes in Bungoma County to support county government mandates were time consuming and tedious and involve many other institutions which were yet to harmonize their acts. According to a study by Rotich and Ngahu (2015) on factors affecting budget utilization in Kericho County, it was established that government policy and especially its interpretation affected budget utilization negatively. This implied that the complexity perceived in budget policies in the County Government of Kericho impacted the utilization of the budget and, hence, was likely to retard economic development.

Changing administrative structure necessarily means that the policy framework undergirding new approach to public sector management must be reviewed (Ayo, 2011). One such policy framework is the financial reporting in the devolved governments. However, much as the budget policy, for example, in Kenya has a clearly stipulated reporting process, it remains silent on reporting quality and contingencies necessitated by irregularities in the country's financial system.

Research Gaps

Tentatively, certain important gaps have emerged from the assessment of the foregoing literature. Apart from the fact that most empirical reviews dwelt on adoption and implementation factors, for the ones that sought to review the performance of IPSAS, particular gaps of interest to the current study were observed. Finally, in regard to policies on budget reporting, not much exists in literature concerning the implications of the budget reporting procedures and cycles on the quality of budget reporting, thus, warranting further discussions supported by empirical evidence.

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METHODOLOGY

Research Design

The study adopted the survey research design. The research design was appropriate for the study especially in assessing the respondents' views on people, events and procedures. It also made it possible to collect data on the study problem in large using minimum effort (Mugenda & Mugenda, 2009). The research design also allows for generalizations to be made of the study from the results.

Target Population

Kitui County government has 14 administrative units including the county assembly. Each of these units has persons directly involved with the budget implementation such as the chief officers, directors and accountants. The target population for this study, therefore, comprised of the management and general staff of 14 administrative units and county assembly in Kitui County who number 111.

Sample Size

To obtain the required sample size from the target population of 111 persons in the administrative units of Kitui County Government, the study employed the formula proposed by Kathuri and Pals (1993) as follows;

$$n = \frac{\chi^2 Np(1-p)}{\sigma^2 (N-1) + \chi^2 p(1-p)}$$

Where:

n = required sample size

N = the given population size

P = population proportion, assumed to be 0.50

σ^2 = the degree of accuracy whose value is 0.05

χ^2 = table value of chi-square for one degree of freedom, which is 3.841

Therefore, the sample size used in the study was 86 respondents. All the departments were included because participation may differ from one department to another.

Sampling Technique

The study employed stratified random sampling to sample respondents across the departments thereby giving every targeted member of the population a fair chance of participating in the study while having a manageable sample size at the same time.

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Instruments

The study used primary data which was collected directly from the respondents using the research instruments while secondary data was collected in form of records from reports and other relevant publications. The study used self-administered questionnaires as data collecting instruments. Closed ended items were used in the questionnaire.

Pilot Testing

Questionnaires were administered to the actual respondents after pilot testing them for correctness and accuracy on 10 non-participatory respondent sample. Piloting was done in the neighboring Makueni County.

Instrument Validity

The study adopted face validity to show whether the test items represent the content that the test is designed to measure (Mugenda & Mugenda, 2009). In order to ensure that all the items used in the questionnaires are consistent and valid, the instruments were subjected to scrutiny and review by experts in Jomo Kenyatta University of Agriculture and Technology, Kenya. The items that were found to be inconsistent were rephrased and modified to avoid ambiguity before being used for data collection.

Instrument Reliability

The research instruments reliability was checked using the internal consistency method. This was achieved by computing the Cronbach's alpha coefficient for the instrument's variables using the results obtained from the pilot study. A minimum Cronbach's alpha $\alpha = 0.70$ threshold was set as the criteria for testing internal consistency of the instrument's constructs. The study instrument had a Cronbach's coefficient of $\alpha = 0.8973$ meaning it had high internal consistency that could be relied on and, thus, it was accepted.

Data Processing and Analysis

Both descriptive and inferential statistical methods were used to analyze the data. Frequencies and percentages were used as descriptive statistics to show the basic features of the data while inferential statistics involved correlation and linear regression analysis to determine the relationships between the independent and dependent variables.

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RESULTS AND DISCUSSIONS

The researcher administered 86 questionnaires to the respondents for this study. Out of these, a total of 65 questionnaires were returned correctly filled and useable for the study representing a high questionnaire response rate of 76%.

Policy Guidelines on Budget Reporting in Kitui County Government

The objective of this study was to determine the effects of policy guidelines on budget reporting in Kitui County government. The findings are presented in Table 1.

Table 1: Policy Guidelines on Budget Reporting in Kitui County Government

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)
Do you think most budget official in our county are conversant with the budget regulations and policies	5(8)	27(42)	9(14)	15(23)	9(14)
Do you still experience considerable challenges in interpreting budget implementation policies	10(15)	21(32)	14(22)	13(20)	7(11)
Is personal integrity encouraged among your budget officials	10(15)	29(45)	7(11)	14(22)	5(8)
Do your budget officials always ensure that the integrity of the budget implementation processes are upheld	19(29)	21(33)	6(9)	12(18)	7(11)
Do you often invite experts to assist in interpreting difficult clauses in budgeting	8(12)	25(39)	12(18)	13(20)	7(11)
Have your county budget policies been harmonized with that of the national government	11(17)	27(42)	8(12)	12(18)	9(14)
Is the compliance rate to budget policies in your county government high	10(15)	15(23)	9(14)	28(43)	3(5)
Are there are still a number of issues that are not clear in the budget policies and regulations that you think need to be addressed	4(6)	27(42)	17(26)	14(22)	3(5)

The findings in Table 1 indicate that majority (42%) of the respondents were of the view that most budget official in the county were conversant with the budget regulations and policies. Most agreed that they still experienced considerable challenges in interpreting budget implementation policies (32%). The findings also indicate that personal integrity was encouraged among the county's budget officials (45%). Further, most budget officials always ensured that the integrity of the budget implementation processes were upheld (33%). Other findings indicate that the county budget officials often invited experts to assist in interpreting difficult clauses in

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budgeting (39%). The county budget policies were also harmonized with that of the national government (42%). The compliance rate to budget policies in the county government was, however, judged to be low (43%). Most felt that there were still a number of issues that were not clear in the budget policies and regulations that needed to be addressed (42%).

The results imply that there were still considerable challenges in implementing the policy guidelines since most were not harmonized with that of the national government and, thus, were not easy to comply with. These findings agree with Okongo (2015) who found that efforts to legislate laws and statutes in Bungoma County to support county government mandates were not yet harmonized with those of other public institutions in the National Government. However, the findings disagree with Ngundo (2014) whose study in Machakos County revealed that there was harmony between the national and the County government when it comes to service delivery owing to the harmonization of procedures and guidelines.

Budget Reporting in Kitui County Government

Finally, the study sought to establish the status of budget reporting in Kitui County Government. The findings are presented in Table 2.

Table 2: Budget Reporting in Kitui County Government

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)
Do you have well laid down accounting procedures that are in use in budget reporting in your county	7(11)	17(26)	9(14)	26(40)	6(9)
Do you adhere to the stipulated reporting at quarterly intervals	1(2)	21(32)	12(18)	20(31)	11(17)
Are your budget reporting documents prepared in such a way as to ensure they are highly comprehensible to the intended readers	3(5)	48(74)	1(2)	7(11)	6(9)
Do you still experience considerable challenges in budget reporting	2(3)	40(62)	5(8)	10(15)	8(12)
Do you at times enlist the services of experts to assist us in budget reporting	7(11)	32(49)	2(3)	16(25)	8(12)
Do you prepare budget implementation reports and present them in a timely manner	8(12)	20(31)	5(8)	25(39)	7(8)
Do you usually work with all the audit recommendations when preparing and implementing budgets	5(8)	17(26)	4(6)	33(31)	6(9)
Do you think your budget implementation reporting procedures needs serious amendments	9(14)	30(49)	2(3)	18(28)	6(9)

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Concerning this variable, the findings in Table 2 suggest that the county did not have a well laid down accounting procedures that were in use in budget reporting in the county (40%). Most respondents were of the view that the budget officials did not adhere to the stipulated reporting at quarterly intervals (31%). However, most agreed that the county budget reporting documents were prepared in such a way as to ensure they were highly comprehensible to the intended readers (74%). The findings also indicate that most of the respondents still experienced considerable challenges in budget reporting (62%) and at times enlisted the services of experts to assist them in budget reporting (49%). Most were of the opinion that the budget implementation reports were not prepared and presented in a timely manner (39%). Also all the audit recommendations were not followed when preparing and implementing budgets (31%). Other findings indicate that majority (49%) agreed that the county's budget implementation reporting procedures needed serious amendments.

It is clear from these findings that there were considerable challenges in terms of actual budget reporting in the County. This is consistent with the Auditor-General report (2016) which cited Kitui County as among the counties whose financial reports are still unsatisfactory with less unqualified reports than qualified and adverse reports. The county was also cited in an assessment by the International Budget Partnership (2016) as one of the counties lagging behind in accurate budget reporting.

Regression Analysis

Regression analysis was used to determine the extent to which each independent variable affected the dependent variable. The results are given in the model summary in Table 3.

Table 3: Linear regression analysis model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
. 0.659	0.4342	0.417	3.17524

a Predictors: (Constant), Budget Reporting Policies

The linear regression analysis in Table 3 shows that the relationship between the dependent variable and all the independent variable was significant with a value obtained for R, which was the model correlation coefficient = 0.659 being higher than any zero order value in the table. This indicated that the model improved when more variables were incoporated when trying to examine factors affecting budget reporting in Kitui County.The results in Table 3 further suggest that the model could explain up to 41.7 % of the variations in the budget reporting in Kitui County resulting from the application of the independent variable.

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Table 4: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
Reporting Policies	0.709	0.159	0.451	4.456	0.000	1.658

a Dependent Variable: Budget Reporting

It can be deduced from the findings in Table 4 that Reporting Policies was a significant factor affecting budget reporting in Kitui County ($\beta = 0.451$; $p < 0.05$).The strong relationship evident between the variables suggests that there was much emphasis on policy adherence to facilitate reporting information its obtained, processed and shared within the guidelines stipulated. These results concur with Ngundo (2014) that policies and guidelines were critical to the implementation of county mandates. Lastly, the findings on reporting policies support those of Rotich and Ngahu (2015) who found that government policies and especially their interpretation significantly affected budget utilization.

CONCLUSIONS

The findings revealed that most budget officials always ensured that the integrity of the budget implementation processes were upheld and personal integrity was encouraged among the county's budget officials. However, in spite of most budget official in the county being conversant with the budget regulations and policies, most agreed that they still experienced considerable challenges in interpreting budget implementation policies. Additionally, the study findings revealed that policy guidelines significantly affected budget reporting in Kitui County. Other findings indicate that the county budget officials often invited experts to assist in interpreting difficult clauses in budgeting. The county budget policies were also harmonized with that of the national government. However, there were still a number of issues that needed to be clarified in the budget policies and regulations. Therefore, the study concluded that policy guidelines was the most influential factor budget reporting in Kitui County

RECOMMENDATIONS

In relation to the findings concerning policy guidelines and budget reporting, there is need for the county to consistently benchmark with other counties and devolved public sector organizations on how to implement the policy guidelines. This will enable the county to reassess and realign its budget priorities according to the best practices in other counties.

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