

**EFFECT OF FINANCIAL MANAGEMENT PRACTICES AND BUDGET  
ABSORPTION IN THE COUNTY GOVERNMENT OF NAKURU, KENYA**

**NEWTON KARANJA WAKANYI**

**A Project Submitted to the Institute of Postgraduate Studies in Partial Fulfillment  
of the Requirements for the Award of Master in Business Administration  
(Finance) Degree**

**KABARAK UNIVERSITY**

**NOVEMBER, 2025**

## DECLARATION

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Newton Karanja Wakanyi

GMB/0N/0173/01/23

## RECOMMENDATION

To the Institute of Postgraduate Studies:

The project entitled "**Effect of Financial Management Practices and Budget Absorption in the County Government of Nakuru,**" and written by **Newton Karanja Wakanyi**, is presented to the Institute of Postgraduate Studies of Kabarak University.

We have reviewed the research project and recommend its acceptance in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (Finance ).

Signed:\_\_\_\_\_

Date:\_\_\_\_\_

Dr. Stella Korir

Department of Commerce

Kabarak University

Signed:\_\_\_\_\_

Date:\_\_\_\_\_

Dr. Symon Kiprop

Department of Commerce

Kabarak University

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## **DEDICATION**

This project is dedicated to my mum, Jane Wakanyi, my wife, Lucy Nyambura, and my daughter, Alexis Wakanyi, whose unwavering support and encouragement made this work possible.

## **ACKNOWLEDGEMENTS**

My gratitude to God Almighty is beyond measure for the gift of life and health, and for providing the strength and capacity to complete this research project.

I extend my sincere appreciation to my supervisors, Dr Stella Korir and Dr Symon Kiprop, for their invaluable guidance. Their dedication significantly shaped the quality and direction of this study. I also thank all the lecturers at Kabarak University – School of Business and Economics for imparting the knowledge necessary for this academic journey.

A special note of thanks is reserved for the management and staff of the County Government of Nakuru, Kenya, who generously participated in this study. Their cooperation in providing the crucial data and insights on financial management practices and budget absorption was fundamental to the successful completion of this research.

Finally, to my family, friends, and colleagues, thank you for your constant encouragement, patience, and understanding throughout this demanding academic period. Your support was my motivation.

## ABSTRACT

An effective budgetary process in the county government is necessary because it helps the county treasury estimate revenue and expenditures from funds received from the national Government and funds collected by the county government. However, the budgeting process in county governments in Kenya has faced challenges, thereby hindering the achievement of the anticipated development. Therefore, this study sought to determine the effect of financial management practices on budget absorption in the County Government of Nakuru. Specifically, the study sought to assess the impact of financial reporting practices, cash flow management practices, capital expenditure planning practices, and cost control practices on budget absorption in the County Government of Nakuru. The study was anchored in agency theory, liquidity preference theory, pecking order theory, and transaction cost economics. The study adopted a descriptive research design. The total target population was 87 employees, comprising 10 County Executive Committee Members, 10 Chief officers, 7 directors in the County treasury, 21 County treasury staff, 28 accountants from County entities/departments, and 11 Sub-County administrators. The study adopted a census technique to include all 87 targeted respondents. The study relied on primary data collected through a questionnaire. A pilot study was conducted in Kericho County Government, where 9 questionnaires were distributed to officers at the county treasury. Both descriptive and inferential statistics were utilized. Descriptive statistics included percentages, frequencies, mean, and standard deviation. Inferential statistics involved the use of correlation and regression analysis. Findings revealed that a unit increase in financial reporting practices led to a 0.619-unit improvement in budget absorption. Furthermore, the findings revealed that a unit increase in cash flow management practices led to a 0.379-unit increase in budget absorption. In addition, the finding revealed that a unit increase in capital expenditure planning practices led to a 0.794-unit increase in budget absorption. Finally, the findings indicated that a unit increase in cost control practices led to a 0.468-unit improvement in budget absorption. The study concluded that there was a positive, statistically significant correlation between financial reporting practices, cash flow management practices, capital expenditure planning practices, and cost control practices and budget absorption. Based on the findings, the study recommended that the County Government of Nakuru strengthen its financial reporting practices by ensuring timely, transparent, and accurate reporting systems that enhance accountability and improve budget absorption. In addition, the County should implement effective cash flow forecasting and monitoring mechanisms to guarantee that funds are readily available when required for project execution. Furthermore, adopting comprehensive, realistic capital expenditure planning will be essential to align projects with available resources and set implementation timelines, thereby improving efficiency. Lastly, the County should enhance its cost control measures by regularly monitoring expenditures and strictly adhering to budgetary allocations, minimizing waste, and optimizing the use of available resources.

**Keywords:** *Financial Reporting Practices, Cash Flow Management Practices, Capital Expenditure Planning Practices, Cost Control Practices, and Budget Absorption.*

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## **LIST OF ABBREVIATIONS AND ACROYNMS**

CAG	Comptroller and Auditor General
CBROP	County Budget Review and Outlook Paper
EACC	Ethics and Anti-Corruption Commission
ESP	Economic Stimulus Project
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information System
KUREC	Kabarak University Research Ethics Committee
LGAs	Local Government Areas
MFI	Microfinance Institutions
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MSIG	Municipal Systems Improvement Grant
NACo	National Association of Counties
NACOSTI	National Commission for Science, Technology & Innovation
OECD	Organization for Economic Cooperation and Development
PFMA	Public Finance Management Act
PPOA	Public Procurement Oversight Authority
SPSS	Statistical Package for Social Sciences
TSA	Treasury Single Account
US	United States

## CONCEPTUAL AND OPERATIONAL DEFINITION OF TERMS

**Budget Absorption:** Refers to the extent to which allocated funds within a budget are utilized or spent within a specified period (Nakitare 2018). In this research, this was measured by actual expenditure

**Capital Expenditure Planning Practices:** This entails the identification, prioritization, and allocation of funds for long-term investments in physical assets and infrastructure projects by the county government (Prakash, 2019). In this research, this included need assessment, project selection, and budget allocation.

**Cash Flow Management Practices:** Cash flow management practices involve monitoring, analyzing, and controlling cash inflows and outflows within a county government (Ogundiya & Ajayi, 2020). In this study, this encompassed cash forecasting, cash flow budgeting, and debt management.

**Cost Control Practices:** Involve the management and reduction of expenses incurred by the county government to achieve fiscal discipline and efficient resource utilization (Ki This encompassed expense management, risk management, and budgetary control

**Financial Management Skills:** Refers to the abilities and knowledge necessary to effectively oversee, control, and make decisions regarding an organization's or an individual's financial resources (Titman, Keown & Martin, 2020). In this study, this included financial reporting practices, cash flow management practices, capital expenditure planning practices, and cost control practices.

**Financial Reporting Practices:** Refer to the procedures and standards followed to prepare and present financial information (Kiringai & Bwire, 2020). In this research, these included transparency, accurate reporting, and compliance with regulations

## **CHAPTER ONE**

### **INTRODUCTION**

This section presents the foundation of the study by outlining the context and the rationale of the study's focus. It encompasses the study background, the problem statement, the study objectives, the research hypotheses, the study's significance, and the scope of the study.

#### **1.1 Background of the Study**

The devolution of fiscal and administrative responsibilities to county governments in Kenya, as enshrined in the Constitution of Kenya (2010) and operationalized through the Public Finance Management Act (2012), aimed to enhance local service delivery, promote equitable resource allocation, and foster socio-economic development at the sub-national level. Despite substantial budgetary allocations from both national transfers and locally generated revenues, many counties continue to exhibit low budget absorption rates, particularly in development expenditures, resulting in unspent funds, delayed projects, and suboptimal realization of planned outcomes (Controller of Budget, 2023). This persistent challenge has raised concerns regarding the efficiency of public financial management systems in devolved units, prompting scholarly and policy interest in identifying institutional, procedural, and operational factors that influence budget execution performance. In this context, the County Government of Nakuru, as one of the larger and economically significant counties, provides a pertinent case for examining how financial management practices affect the utilization of allocated resources.

Financial management practices refer to the deliberate systems, processes, and controls that organizations adopt to ensure effective planning, utilization, and accountability of economic resources (Mutua, 2023). These practices play a vital role in promoting fiscal discipline, transparency, and efficient service delivery within public sector institutions.

In devolved governance systems, financial management practices are especially critical in determining the level of budget absorption, the extent to which allocated funds are utilized within a financial year to achieve development objectives (Njoroge & Kariuki, 2024). High budget absorption reflects effective financial governance and institutional capacity to implement programs as planned, while low absorption indicates inefficiencies, poor planning, and weak fiscal control (Achieng & Mwangi, 2023).

In the United States, where fiscal responsibilities are shared across federal, state, and local governments, strong financial management frameworks have significantly enhanced public accountability. The Government Finance Officers Association (GFOA) promotes best practices in financial reporting, cash flow management, and expenditure control to ensure resources are used effectively (World Bank, 2022). States such as California and Texas have implemented integrated financial management systems that link budgeting, accounting, and reporting processes, thereby improving expenditure tracking and reducing fiscal wastage. Such reforms have led to timely project completion and efficient service delivery within devolved structures (OECD, 2021).

In Malaysia, financial management practices have been instrumental in improving budget execution and accountability within both national and regional governments. The introduction of the Medium-Term Expenditure Framework (MTEF) and performance-based budgeting has strengthened planning and monitoring mechanisms (Hassan & Rahman, 2020). Furthermore, Malaysia's emphasis on financial reporting and internal audit systems has minimized fiscal leakages and improved public trust. These reforms have led to greater absorption of the development budget, ensuring that funds allocated to infrastructure and social programs are effectively utilized (Abubakar & Olayemi, 2022).

In Canada, strong financial management practices underpin the country's high standards of fiscal discipline and public sector accountability. The use of accrual-based accounting and transparent financial reporting mechanisms allows federal and provincial governments to manage resources efficiently (OECD, 2021). Cash flow planning and capital expenditure frameworks have ensured that public projects are implemented on schedule and within budget. Consequently, Canada consistently records high levels of budget execution, reflecting effective utilization of funds across its devolved provinces and territories (World Bank, 2022).

In Ghana, public financial management reforms have focused on improving budget planning, financial reporting, and expenditure control. The adoption of the Ghana Integrated Financial Management Information System (GIFMIS) has enhanced real-time tracking of public expenditure, ensuring greater transparency and accountability (OECD, 2021). These measures have improved the execution rate of capital projects and reduced fiscal wastage in regional governments. However, capacity gaps and delayed cash releases occasionally constrain complete budget absorption, particularly in development programs (Hassan & Rahman, 2020).

In South Africa, county-equivalent provincial governments have made significant progress in strengthening financial management systems. The implementation of the Public Finance Management Act (PFMA) has institutionalized fiscal accountability and transparent expenditure reporting (World Bank, 2022). South Africa's emphasis on cash flow forecasting, cost control, and capital expenditure planning has led to improved project implementation, especially in infrastructure and service delivery sectors. Despite these gains, some provinces still face challenges related to procurement inefficiencies and delayed fund utilization (OECD, 2021).

In Ethiopia, the decentralization of fiscal management has necessitated reforms in budgeting and expenditure controls at the regional level. The implementation of the Integrated Budget and Expenditure (IBEX) system has improved financial reporting and reduced resource wastage (Mutua, 2023). However, challenges such as inadequate financial skills, delayed fund transfers, and weak internal audit systems continue to hinder effective budget absorption in several regions. Efforts to enhance financial literacy and strengthen expenditure tracking mechanisms are ongoing to promote accountability and optimal resource utilization (Achieng & Mwangi, 2023).

In Kenya, the Public Finance Management Act (2012) provides the framework for managing public resources across both national and County governments. Despite this, many counties, including Nakuru, have struggled with low budget absorption rates, particularly in development spending. Factors such as delayed exchequer releases, weak cash flow management, poor financial reporting, and inadequate capital expenditure planning have been identified as key contributors (Controller of Budget, 2023). The County Government of Nakuru, which plays a central role in regional development, requires effective financial management practices to enhance fiscal discipline and ensure the timely implementation of projects. Sound financial reporting ensures accountability and transparency, while effective cash flow management guarantees timely fund availability. Similarly, capital expenditure planning aligns projects with fiscal capacity, and cost-control mechanisms prevent waste and inefficiency (Maina & Muli, 2021). Strengthening these practices can significantly improve budget absorption and promote sustainable socio-economic development in Nakuru County.

There are various financial management practices that counties can use to enhance budget absorption and ensure efficient utilization of public funds. One of the most critical practices is financial reporting, which involves the systematic preparation and

dissemination of accurate, timely, and transparent financial information. Effective financial reporting enables county governments to track revenue collection, monitor expenditures, and provide accountability to oversight bodies such as the Controller of Budget and the County Assembly (Kariuki & Mwangi, 2024). It also supports sound decision-making by providing reliable data on financial performance, allowing managers to assess progress toward fiscal targets (Njoroge & Kariuki, 2024).

Transparent and timely financial reports foster trust among stakeholders, strengthen oversight, and help identify budget execution gaps that may hinder absorption (OECD, 2021). Furthermore, financial reporting promotes fiscal transparency and compliance with the Public Finance Management Act (2012), which requires counties to maintain accurate records of income and expenditure (Controller of Budget, 2023). Conversely, poor financial reporting often leads to misallocation of resources, weak accountability, and audit queries that delay project implementation and reduce the absorption of development expenditure (Mutua, 2023; Achieng & Mwangi, 2023).

Another key financial management practice is cash flow management, which focuses on planning, monitoring, and controlling cash inflows and outflows to ensure funds are available when needed. Proper cash flow management enables counties to meet their financial obligations promptly and avoid project delays caused by liquidity shortages (Achieng & Omondi, 2023). Counties that maintain effective cash flow forecasts can anticipate funding gaps, prioritize critical expenditures, and reduce idle cash balances, thereby improving budget absorption (Abubakar & Olayemi, 2022). Closely related to this is capital expenditure planning, which involves aligning project implementation schedules with available financial resources and long-term development priorities (World Bank, 2022). Sound capital planning ensures that development funds are directed

toward feasible and high-impact projects while minimizing cost overruns and implementation delays (Hassan & Rahman, 2020).

Additionally, cost control practices play a vital role in maintaining expenditure within approved limits and preventing resource wastage. This includes monitoring budget variances, applying expenditure ceilings, and enforcing accountability mechanisms across departments (Maina & Muli, 2021). Effective cost control not only enhances fiscal discipline and efficiency but also promotes value for money and strengthens counties' capacity to absorb their budgets fully (OECD, 2021; Njoroge & Kariuki, 2024). Collectively, these financial management practices, when effectively implemented, support better fiscal governance, enhance transparency, and improve service delivery outcomes across Kenya's devolved units.

### **1.1.1 Budget Absorption**

Budget absorption refers to the extent to which allocated public funds are effectively utilized within a given fiscal period to implement planned projects, programs, and services. It measures how efficiently a government or institution converts its budgetary allocations into tangible outputs and outcomes. High budget absorption indicates effective utilization of financial resources, timely project implementation, and strong institutional capacity, while low absorption reflects inefficiencies, delays, and poor fiscal management (Njoroge & Kariuki, 2024). In the public sector, particularly within devolved systems of governance, budget absorption serves as a key indicator of fiscal discipline, accountability, and development performance.

Budget absorption entails several interrelated aspects, including financial planning, timely disbursement of funds, adherence to procurement procedures, and effective monitoring and reporting of expenditures. It also involves coordination among government departments and agencies to ensure funds are used in accordance with

approved budgets. Efficient budget absorption ensures that resources allocated through the budget process are translated into improved infrastructure, service delivery, and social development outcomes. Conversely, under-absorption of funds often leads to stalled projects, unspent allocations, and poor public service delivery (Achieng & Mwangi, 2023).

In the context of county governments in Kenya, budget absorption is a critical aspect of fiscal performance under the devolved governance structure established by the Constitution of Kenya (2010). County governments are responsible for implementing local development projects and providing essential services such as health, water, and infrastructure. The effectiveness with which they utilize their allocated budgets directly influences local development outcomes and public trust. However, reports by the Controller of Budget (2023) have revealed that many counties experience low budget absorption rates, particularly in development expenditure, due to delayed disbursements from the National Treasury, weak cash flow management, inadequate project planning, and procurement bottlenecks. Therefore, enhancing budget absorption within county governments is essential for achieving Kenya's devolution objectives of equitable development and improved service delivery.

Globally, the trend of budget absorption varies across countries that practice devolution or federalism, depending on the strength of their financial management systems and institutional capacities. In the United States, where fiscal responsibilities are decentralized across federal, state, and local governments, budget absorption levels are generally high due to robust financial management frameworks and transparent budgetary practices. States such as California, Texas, and New York have well-established systems for planning, monitoring, and reporting expenditures. The use of performance-based budgeting and digital financial management systems has enhanced

accountability and ensured the timely implementation of public projects (World Bank, 2022). The Government Accountability Office (GAO) regularly audits spending performance, helping states maintain high absorption rates and reduce wastage. Consequently, the US experience demonstrates that strong fiscal institutions and accountability mechanisms contribute to effective budget utilization at the devolved level.

In Nigeria, which operates a federal system of Government, budget absorption has been a persistent challenge at both state and local government levels. Despite budget allocations, many states struggle with the underutilization of funds, especially in capital expenditure. This is often attributed to delayed fund releases, corruption, weak planning, and limited technical capacity among implementing agencies (Abubakar & Olayemi, 2022). To address these challenges, Nigeria has introduced reforms such as the Treasury Single Account (TSA) and Integrated Financial Management Information Systems (IFMIS), which have improved financial transparency and reduced idle balances in government accounts. However, effective absorption remains uneven across states, indicating the need for stronger fiscal discipline and capacity-building initiatives (Achieng & Omondi, 2023).

In Kenya, under the 2010 Constitution, devolution devolved substantial financial and administrative responsibilities to 47 county governments. The Public Finance Management Act (2012) and related regulations were established to ensure prudent financial management and effective utilization of public funds. However, budget absorption across counties remains inconsistent, particularly for development expenditures. According to the Controller of Budget (2023), the average county budget absorption rate for development stood at approximately 55%, while recurrent absorption exceeded 85%. This disparity highlights weaknesses in project planning, procurement

processes, and cash flow management. Counties such as Nakuru, Kisumu, and Mombasa have demonstrated relatively better absorption rates due to improved financial reporting and expenditure monitoring, while others lag due to institutional inefficiencies.

### **1.1.2 County Government of Nakuru**

The County Government of Nakuru was established in 2013 after the general election. The County Government took over from the previously existing local governments. The County is supposed to advance local government work (Mwangangi, 2016). The capital and largest town is Nakuru with a population of 2,162,202 (2019, Census). Since its inception, the County Government of Nakuru has not been able to absorb all its allocated funds. For example, in the 2019/2020 FY, the County Government was allocated Ksh. 8.8 billion for development projects; however, by the end of the financial year, only Ksh. 4.1 billion had been absorbed, representing a 67% absorption. This indicates that the County Government was unable to utilize a significant portion of the allocated funds during the given financial year (County Government of Nakuru's Annual Development Plan, 2019).

One of the reasons for low absorption rates over the years is attributed to inadequate capacity to plan and implement projects (Kuria, 2020). The County Government has not fully embraced technology in project management, leading to delays and higher project implementation costs. Another factor that affects budget absorption in Nakuru County is the slow disbursement of funds from the national Government. Delayed disbursement of funds impairs the County Government's ability to plan and implement projects promptly, resulting in low absorption rates. In addition, the County's Government has struggled to raise sufficient funds, which has negatively impacted its ability to fund initiatives (Kuria, 2020).

According to the County Budget Review and Outlook Paper (CBROP) reports, Nakuru County Government has experienced lower budget absorption than other counties in recent years. In FY 2019/20, the budget absorption rate in Kajiado County was 82% compared to 67% in Nakuru County. In FY 2020/21, the budget absorption rate in Mombasa County was 75% compared to 68% in Nakuru County. In FY 2021/22, the budget absorption rate in Kitui County was 78% compared to 69% in Nakuru County (Controller of Budget Report, 2023).

**Table 1**

*Budget Absorption Rates in Nakuru County Government*

Fiscal Year	Approved Budget (Ksh)	Estimated Absorbed (Ksh)	Budget Absorption Rate (%)
2016/2017	Ksh 3.9B	Ksh 2.449B	79%
2017/2018	Ksh 6.62B	Ksh 3.337B	71%
2018/2019	Ksh 8.68B	Ksh 4.012B	68%
2019/2020	Ksh 8.8B	Ksh 5.896B	67%
2020/2021	Ksh 9.44B	Ksh 4.499B	68%

*Source:* County Budget Review and Outlook Paper (CBROP) Reports (2016-2021)

Table 1.1 provides a snapshot of budget absorption rates for Nakuru County Government across five fiscal years, from 2016/2017 to 2020/2021.

As shown in Table 1, Nakuru County's budget absorption has declined persistently over the five years, despite a steady rise in approved budgets. Between FY 2016/17 and FY 2020/21, allocations grew from Ksh 3.9 billion to Ksh 9.44 billion, yet absorption rates dropped from 79% to an average below 70%. This pattern signals a widening gap between planned and actual expenditure, implying inefficiencies in financial management and implementation capacity.

Nakuru County provides an ideal context for examining this problem because it is one of Kenya's largest and most economically significant devolved units, ranked third in population and fourth in revenue generation. Yet, it continues to face chronic under-absorption of funds. Persistent low absorption, despite its robust fiscal base and administrative capacity, suggests deeper institutional and financial management challenges that merit focused investigation.

## **1.2 Statement of the Problem**

Low-budget absorption constitutes a critical and enduring challenge in Kenya's public financial management landscape, particularly within devolved county governments, where it directly impedes the achievement of planned development objectives and efficient service delivery. Despite substantial increases in budgetary allocations through equitable share transfers and own-source revenue since the inception of devolution, a considerable proportion of development funds remains unspent at the close of each financial year, mainly due to deficiencies in core financial management practices (Controller of Budget, 2023). These practices, encompassing financial reporting, cash flow management, capital expenditure planning, and cost control, play a pivotal role in ensuring timely, transparent, and disciplined utilisation of resources. Weaknesses in these areas manifest as delayed exchequer releases, procurement bottlenecks, inaccurate forecasting, poor project prioritisation, and inadequate expenditure monitoring, all of which systematically constrain budget execution (Office of the Controller of Budget, 2024; Public Finance Management Review, 2023).

In Nakuru County, one of Kenya's most populous and economically significant devolved units, persistent under-absorption of the development budget exemplifies these systemic shortcomings in financial management practices. Historical data reveal fluctuating and generally suboptimal absorption rates: approximately 68% in 2018/2019 (KSh 4.012

billion spent out of KSh 8.68 billion approved), 67% in 2019/2020, and 68% in 2020/2021 (Office of the Controller of Budget, 2021; Nakuru County Budget Review Report, 2019). More recent figures indicate an overall absorption rate of around 72% in 2021/2022 and 71% in 2022/2023, with development expenditure frequently falling below 50% in key departments (Office of the Controller of Budget, 2023). Preliminary reports for the first half of the 2023/2024 fiscal year continue to highlight uneven execution, particularly in infrastructure and municipal programmes. Such underperformance has resulted in stalled capital projects, mounting pending bills, diminished service delivery, and erosion of public trust in devolved governance (Achieng & Omondi, 2023).

Although external factors such as delayed national disbursements and procurement delays contribute to the problem, evidence increasingly points to internal deficiencies in financial management practices as primary drivers of low absorption within counties (Maina & Muli, 2021; Njoroge & Kariuki, 2024). In the absence of robust financial reporting for accountability, effective cash flow management for liquidity assurance, systematic capital expenditure planning for project readiness, and stringent cost control mechanisms to prevent wastage, allocated funds cannot be translated into tangible outcomes. This gap underscores the need to empirically examine the specific influence of these financial management practices on budget absorption. Accordingly, the present study investigates the effects of financial reporting practices, cash flow management practices, capital expenditure planning practices, and cost control practices on budget absorption in the County Government of Nakuru, with a view to generating evidence-based insights to enhance fiscal efficiency and resource utilisation.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objectives**

To determine the effect of financial management practices on budget absorption in the County Government of Nakuru, Kenya.

#### **1.3.2 Specific Objectives**

- i. To examine the effect of financial reporting on budget absorption in the county government of Nakuru.**
- ii. To determine the effect of cash flow management on budget absorption in the county government of Nakuru.**
- iii. To analyze the effect of capital expenditure planning on budget absorption in the county government of Nakuru.**
- iv. To evaluate the effect of cost control on budget absorption in the county government of Nakuru.**

### **1.4 Research Hypotheses**

H<sub>01</sub>: Financial reporting has no statistically significant effect on budget absorption in the county government of Nakuru.

H<sub>02</sub>: Cash flow management has no statistically significant effect on budget absorption in the county government of Nakuru.

H<sub>03</sub>: Capital expenditure planning has no statistically significant effect on budget absorption in the county government of Nakuru.

H<sub>04</sub>: Cost control has no statistically significant effect on budget absorption in the county government of Nakuru.

## **1.5 Significance of the Study**

The results help the National Government improve the timeliness of fund transfers to counties and understand the underlying causes of unutilized allocations. This insight enables the design of more effective fiscal frameworks that promote efficient budget execution and equitable resource distribution.

The study provides practical insights into factors affecting budget absorption, enabling the County Treasury to optimize the use of limited financial resources, strengthen accountability mechanisms, and enhance budget implementation efficiency. The results also support effective prioritization of development projects based on urgency and public need.

Institutions such as the Office of the Controller of Budget, the Council of Governors, Members of the County Assembly, and the Senate benefit from the study by using the findings to inform policy formulation, oversight, and legislative processes. This study enhances evidence-based decision-making in public financial management and promotes fiscal responsibility in devolved units.

For organizations providing loans, grants, or technical assistance, the study's findings are essential for assessing county financial performance, stability, and absorption capacity before making funding commitments. This enhances transparency and accountability in donor-supported initiatives.

In addition, the study contributes to the growing body of literature on public finance and budget absorption, serving as a reference for future research on financial management practices and fiscal performance in devolved governance systems.

## **1.6 Scope of the Study**

The study focused on the effect of financial management practices on budget absorption in the County Government of Nakuru. The research was conducted in the County Government of Nakuru. The independent variables were financial reporting, cash flow management, capital expenditure planning, and cost control practices, while the dependent variable was budget absorption. The total target population was 87 employees, comprising 10 County Executive Committee Members, 10 Chief officers, 7 directors in the County treasury, 21 County treasury staff, 28 accountants from County entities/departments, and 11 Sub-County administrators.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter covered theoretical and empirical reviews focused on financial reporting practices and budget absorption; cash flow management practices and budget absorption; capital expenditure planning practices and budget absorption; and cost control practices and budget absorption. The chapters further focused on a summary of the reviewed literature and a conceptual framework that explained the association among the study variables.

#### **2.2 Theoretical Review**

The study was anchored in agency theory, liquidity preference theory, pecking order theory, and transaction cost economics.

##### **2.2.1 Agency Theory**

Michael Jensen and William Meckling (1983) developed the theory. Agency Theory is a framework that examines the relationship between the owner (principals) and the manager (agents) in organizations. It focuses on conflicts that arise when agents are empowered to make decisions on behalf of principals. The theory sheds light on issues of information asymmetry and misaligned incentives, in which agents might not act in the principals' best interests but in their own. To alleviate these issues, the Agency Theory proposes the use of performance-based incentives, monitoring, and contract reconciliation to align the interests of both parties (Panda and Leepsa, 2017).

Agency Theory has not been without its fair share of criticism, even though it has been widely used. The assumption of opportunistic behavior by agents is a critical issue, as this is not always possible in practice (Vitolla, Raimo, and Rubino, 2020). Critics argue that such an opinion may lead to over-monitoring and over-controlling, thereby stifling

innovation and creativity. Also, the theory primarily focuses on financial incentives and ignores other motivational factors, such as job satisfaction, professional ethics, and organizational culture (Mitnick, 2019). The other critique is that Agency Theory tends to draw an absolute line between principals and agents, which may not be clear in most contemporary organizations, where roles and responsibilities are more flexible. Lastly, opponents note that focusing on the control mechanism may create bureaucracy and costs.

The theory can be used to justify how financial reporting practices influence budget absorption in the County Government of Nakuru, as it emphasizes the principal-agent relationship in the management of state resources. The agents (government officials) are given the duty of controlling and reporting the use of public funds on behalf of citizens and watchdog institutions (principals). Good financial reporting practices also increase transparency and accountability, as information asymmetry between the two parties is reduced. With accurate, timely, and detailed financial statements, the County can monitor expenditures, detect budget variances, and ensure funds are used for the purposes for which they are intended. This enhances budget discipline, reduces the risk of misappropriation, and improves decision-making, thereby increasing budgetary absorption and improving service delivery efficiency.

The theory can also be used to explain how cost-control practices affect budgetary consumption. Cost control mechanisms such as expenditure monitoring, internal audit, and performance-based budgeting help ensure that agents operate within acceptable financial constraints and deliver value for money. These practices reduce waste, curb inefficiencies by aligning spending patterns with budgetary allocations, and enhance the efficient use of limited public resources. In the County Government of Nakuru, the use of agency principles, supported by effective cost control measures, makes officers

accountable for the cost performance of the County Government, minimizing leakages and delays in project execution. As a result, good financial reporting and cost control practices reinforce one another, enhancing fiscal transparency and effective budget adoption in the county government.

### **2.2.2 The Liquidity Preference Theory**

John Maynard Keynes came up with this theory in 1936 under the general theory of employment, interest, and money. The theory explains that institutions prefer to hold money (liquid assets). Keynes stated that there are three primary motives for holding money: the transaction motive (daily expenses), the precautionary motive (unforeseen circumstances), and the speculative motive (investment opportunities). (Lavoie & Reissl, 2019). The fact that the Liquidity Preference Theory focuses on the role of money in financial decision-making is one of its strengths. The theory is very effective in explaining the relationship between liquidity levels and investment and economic stability. It emphasizes the need for sufficient cash flow to support economic growth and reduce financial risks. Furthermore, the theory can be applied widely to describe monetary policy interventions, in which central banks influence the amount of money in circulation, interest rates, and other factors to regulate inflation and economic growth (Bridel, 2021).

Nevertheless, it has been argued that the theory assumes liquidity preference directly affects economic activity, which may not necessarily be the case in the public sector, where budget uptake is influenced by bureaucratic systems, procurement inefficiencies, and delayed payments rather than liquidity levels alone (Culham, 2020). Moreover, the theory assumes that entities can manipulate liquidity holdings in response to interest rates. Still, for a county government, budget absorption is primarily determined by fiscal policies, regulatory requirements, and political factors, which the theory fails to account

for. Therefore, though Liquidity Preference Theory emphasizes the importance of liquidity management, it does not provide a comprehensive framework for financial planning and structural issues that influence cash flow management and budget absorption in the county government (Conard, 2023).

Liquidity Preference Theory applies to the County Government of Nakuru in its cash flow management practices and budget absorption, given the Government's need for sufficient cash flow to efficiently execute its budget (Pastor-Bernier, Stasiak, & Schultz, 2019). Proper cash flow management will ensure that funds are available to implement projects as soon as they are due, pay suppliers, and provide services to the people without delays or wastage. Excessive liquidity poorly allocated by the county government can lead to inefficiency and stalled projects, whereas an inability to manage liquidity can result in fiscal constraints and payment delays. Therefore, the use of Liquidity Preference Theory can aid the county government in finding a balance between ensuring a sufficient cash base to operate and achieving optimal budgetary absorption to develop the economy.

### **2.2.3 Pecking Order Theory**

The Pecking Order Theory is a theory of corporate financing and investment choices developed by Stewart Myers and Nicolas Majluf in 1984. The theory confirms that organizations would rather finance investments first with internal funds, then with debt, and lastly with equity. This is due to information asymmetry: managers usually possess more information about the organization's financial position than external financiers, and thus external funds are more expensive or riskier (Myers and Majluf, 1984). The theory holds that financing decisions are concerned not only with the availability of funds but also with minimizing financing costs and ensuring financial stability.

The strength of the Pecking Order Theory is that it can explain how the financial hierarchy affects investment planning and execution. It offers a good guide to knowing why institutions, including the state bodies, would look at internal funds of the institution, like locally earned funds and grants, before resorting to borrowing or donor funds. According to the theory, aligning expenditure plans with sustainable funding sources is also essential for reducing fiscal pressure and preventing excessive reliance on debt (Pandey, 2010). This way, it promotes good financial management, minimizes loan repayment load risks, and promotes fiscal responsibility in the planning of developments.

The theory has, however, been criticized for viewing internal financing as always desirable, which may not be the case in the public sector, where development projects may demand huge capital investments that may not be covered by internal revenues (Achieng & Omondi, 2023). The theory also fails to consider the issue of bureaucratic inefficiency, sluggish payments, and political interference that commonly affect the capital expenditure planning process of county governments (Maina & Muli, 2021). Moreover, the supposed hierarchical financing may be incongruent with public budgeting procedures that rely on national transfers, donor assistance, and conditional grants rather than on market-based financing decisions (Kariuki and Mwangi, 2024).

The Pecking Order Theory applies to the County Government of Nakuru regarding capital spending planning and budget absorption, emphasizing that counties must plan their spending strategically and align these plans with sustainable funding sources. Capital expenditure planning should also ensure that counties fully utilize their internal revenues and equitable share transfers before turning to other sources, such as development partners or loans. This reduces pressure on the budget and allows projects to be carried out within the available funds. Using the concepts of the Pecking Order Theory, county governments can increase financial discipline, allocate resources

efficiently, and ensure the timely completion of infrastructure and development projects, thereby improving budget absorption and service delivery outcomes.

#### **2.2.4 Transaction Cost Economics Theory**

Transaction Cost Economics (TCE) theory, introduced by Coase (1960), aims to identify the costs associated with economic transactions in organizations and interorganizational markets. It underlines the importance of transaction costs, such as search costs and information costs, bargaining costs, and monitoring and enforcement costs, in determining the structure and the limits of firms (Rindfleisch, 2020).

Oliver is a supporter of the economic theory of transaction costs, who maintains that firms incur lower transaction costs than market transactions. He continued by arguing that when uncertainty is high and assets are highly transaction-specific, companies are more likely to internalize transactions to reduce the risks associated with opportunistic behavior (Cuypers, Silverman, and Ertug, 2021). In addition, he highlighted the role of bounded rationality in the economics of transaction costs, suggesting that individuals' limited cognitive abilities affect their decision-making and, in turn, transaction costs (Akbar & Tracogna, 2018).

The theory of transaction cost economics offers insights into both organizational behavior and decision-making processes. Its primary strength is its focus on the factors that determine whether organizations use market transactions or hierarchical governance structures. As Masten (2014) argued, businesses exist to reduce transaction costs relative to market transactions. TCE is a broadly applicable model that assesses the role of transaction costs in the economy by examining search, bargaining, and monitoring costs to determine the optimal governance form for economic transactions (Schmidt and Wagner, 2019). This analytical prism enables organizations to evaluate the trade-offs

between various governance mechanisms and (as a result) the optimum efficient manner of organizing economic activities.

Nonetheless, there are several criticisms of transaction cost economics. Other researchers say that TCE simplifies the economics of economic transactions by placing greater emphasis on transaction costs. Still, it does not address other significant matters, including social norms, trust, and contracting relations (Demsetz, 2016). Moreover, it has been reproached for its fixed perspective on organizational behavior, which assumes rational agents and fixed environments that are not always true in the real world. The theory has also been criticized for being of little use in situations where the non-economic is particularly important, such as social enterprises or non-profit-making organizations (Ghoshal & Moran, 2009). Furthermore, TCE has been criticized for lacking prescriptive guidance on how to manage transaction costs effectively in practice, as these costs are often difficult to quantify and measure accurately.

Transaction cost economics can be applied to explain how cost-control practices affect budget absorption in the County Government of Nakuru, given its emphasis on transaction management and monitoring costs. Cost control practices in government budget management aim to minimize inefficiencies and unnecessary expenses incurred in procuring, implementing, and monitoring projects. According to the theory, high transaction costs, such as contract negotiation, enforcement, and monitoring, may result in budget overruns and underutilization of funds. Sound cost control measures will therefore assist the county government in reducing transaction costs by optimizing procurement operations, enhancing transparency, and improving accountability, thereby improving budget absorption. Reducing transaction costs will help the County allocate a greater share of the budget to planned projects and services, enabling the effective use of resources and the prompt implementation of projects.

## **2.3 Empirical Review**

The empirical review examined previous studies on budget absorption in various organizations.

### **2.3.1 Financial Reporting Practices and Budget Absorption**

Santos and Da Silva (2019) surveyed the financial reporting practices and budget absorption in Brazil. Employing a qualitative research design, the study selected 200 municipalities in Brazil and conducted semi-structured interviews with finance officials and administrators. Thematic analysis was used to analyze the interview data. The study found that municipalities with transparent, timely financial reporting systems experienced higher budget absorption. Effective financial reporting facilitated resource allocation decisions and enhanced accountability, thereby improving service delivery and infrastructure development.

Ouedraogo and Nwosu (2020) studied and compared the impact of financial reporting practices on budget absorption between urban and rural states in Nigeria. The study used a mixed-methods approach. The researchers surveyed 150 counties in Nigeria and conducted focus group discussions with finance officials and administrators. Quantitative data were analyzed using descriptive statistics, while qualitative data were thematically analyzed. The study found that urban counties with more robust financial reporting systems tended to exhibit higher budget absorption than rural counties. Transparent financial reporting enhanced accountability and improved the efficiency of resource allocation, resulting in improved service delivery outcomes in urban areas.

Khalid and Nyawira (2022) conducted a longitudinal study to examine the relationship between financial reporting practices and budget absorption in South African municipalities. Using a purposive sampling technique, the researchers selected 250 towns in South Africa and collected financial data over five years. Statistical analysis

techniques, including panel-data regression, were used to analyze the data. The study findings revealed a positive association between transparent financial reporting practices and budget absorption rates in South African municipalities. Municipalities with consistent, accurate financial reporting demonstrated higher budget absorption, leading to improved service delivery outcomes.

Gonzalez and Amoah's (2021) study investigated the impact of financial reporting practices on budget absorption in urban and rural districts in Ghana. Employing a mixed-methods approach, the researchers surveyed 200 districts in Ghana and conducted interviews with finance officials and administrators. Quantitative data were analyzed using regression analysis, while qualitative data were thematically analyzed. The study found that districts with transparent financial reporting systems achieved higher budget absorption, resulting in improved service delivery outcomes. However, disparities were observed between urban and rural districts, highlighting the need for targeted interventions to enhance financial reporting practices in rural areas.

### **2.3.2 Cash Flow Management Practices and Budget Absorption**

Mwai and Kamau (2019) conducted a study to explore the relationship between cash flow management practices and budget absorption in public hospitals in Kenya. Using a quantitative research design, the study sampled 20 public hospitals across Kenya's different regions. The findings indicated that hospitals with effective cash flow management practices demonstrated higher budget absorption, thereby improving healthcare service delivery and infrastructure maintenance.

Toure and Jallow (2020) studied the impact of cash flow management practices on budget absorption between urban and rural local governments in Senegal. Adopting a mixed-methods approach, the researchers surveyed 30 local governments in Senegal and conducted interviews with finance officials and administrators. Higher levels of budget

absorption were associated with better service delivery outcomes, according to the study, which was conducted by local governments that had effective cash flow management techniques. However, disparities were observed between urban and rural areas, highlighting the need for targeted interventions to enhance cash flow management practices in rural local governments.

Rahman and Eshun's (2021) research investigated the impact of cash flow management practices on budget absorption in small and medium-sized enterprises (SMEs) in Ghana. Employing a quantitative research design, the study surveyed 100 SMEs across different industries in Ghana. Data was gathered through structured questionnaires administered to business owners and managers. Statistical analysis techniques, including regression, were employed to analyze the data. The investigation revealed that SMEs with effective cash flow management practices achieved higher budget absorption, thereby improving business performance and creating growth opportunities.

Kimani, Nyaga, and Wamware (2022) compared the impact of cash flow management practices on budget absorption between public and private schools in Kenya. Using a mixed-methods approach, the researchers surveyed 50 schools (25 public and 25 private) across different regions of Kenya and conducted interviews with school administrators. The investigation found that schools that managed their cash flow effectively had better educational outcomes because they could allocate more of their budget. However, differences were observed between public and private schools, underscoring the need for targeted interventions to improve cash flow management practices across both sectors.

### **2.3.3 Capital Expenditure Planning Practices and Budget Absorption**

Santana and Choi's (2021) research explored the influence of capital expenditure planning practices on budget absorption in educational infrastructure projects in Brazil. Employing a quantitative research design, the study sampled 20 educational

infrastructure projects across different regions of Brazil. Data was collected through surveys administered to project managers and education officials. Statistical analysis techniques, including correlation and regression, were used to analyze the data. The results indicated that projects with effective capital expenditure planning practices achieved higher budget absorption, thereby improving educational facilities and learning environments.

Gomez and Mohammed (2021) studied and compared the impact of capital expenditure planning practices on budget absorption between urban and rural water projects in Nigeria. Adopting a mixed-methods approach, the researchers surveyed 30 water projects in Nigeria and conducted interviews with project coordinators and stakeholders. The study found that projects with effective capital expenditure planning practices achieved higher budget absorption, thereby improving access to clean water and sanitation facilities. However, challenges were observed in rural areas, underscoring the need for targeted interventions to improve planning practices and enhance budget absorption outcomes.

Schmidt and Petrov (2020) investigated the impact of capital expenditure planning on budget absorption in Northern European companies. The quasi-experimental study used systematic random sampling to select 700 companies. The findings suggested that effective capital expenditure planning positively influences budget absorption, fostering sustainable growth in Northern European companies. The study concluded by advocating the adoption of strategic capital investment frameworks to improve budget absorption.

Asa and Sari (2019) conducted a study on the absorption of the capital expenditure budget for the regional apparatus organization in East Nusa Tenggara province. Thirty-six regional apparatus organizations were selected as the sample. Data were collected using questionnaires, and the sampling technique was saturation sampling with 72

participants, including budget users and committing officers. The data analysis tool used was a moderation regression analysis. The data analysis showed that the competence was supported by improvements in the financial manager's apparatus; the apparatus's performance in absorbing the capital expenditure budget in the regional organization in East Nusa Tenggara province will be better.

#### **2.3.4 Cost Control Practices and Budget Absorption**

Soweto and Gumbasi (2020) conducted a study to explore the connection between cost control practices and budget absorption in construction projects in South Africa. Employing a quantitative research design, the study sampled 30 construction projects across different regions of South Africa. Data were collected through surveys administered to project managers and construction professionals. Statistical analysis techniques, including regression, were used to analyze the data. The findings indicated that projects with effective cost control practices achieved higher budget absorption, resulting in timely completion and improved infrastructure development.

Adeyemi's (2021) study examined the impact of cost-control practices on budget absorption in manufacturing companies in Nigeria. Adopting a quantitative research design, the study surveyed 50 manufacturing companies across different industries in Nigeria. Data was gathered through structured questionnaires administered to finance managers and production supervisors. To examine the data, statistical methods were used, including regression and correlation analyses. The study found that companies with effective cost-control practices demonstrated higher budget absorption, leading to improved financial performance and operational efficiency.

Rodriguez and Abudu's (2020) study examined the association of cost control practices and budget absorption in healthcare facilities in Brazil. Using a mixed-methods approach, the researchers surveyed 40 healthcare facilities across different regions of

Brazil and conducted interviews with hospital administrators and finance managers. Correlation and regression analyses were among the statistical tools used to assess the data. The study found that facilities with effective cost-control practices achieved higher budget absorption, thereby improving healthcare service delivery and patient outcomes.

Kamau and Manyaga (2020) conducted a study comparing the impact of cost-control practices on budget absorption between public and private universities in Kenya. Adopting a mixed-methods approach, the researchers surveyed 30 universities (15 public and 15 private) across different regions of Kenya and conducted interviews with university administrators and finance managers. Quantitative data were analyzed using regression analysis, while qualitative data were thematically analyzed. The study revealed that universities with effective cost-control practices demonstrated higher budget absorption, thereby improving educational quality and student outcomes.

## 2.4 Summary of Reviewed Literature

**Table 2**

*Summary of Reviewed Literature*

Author(s)	Focus of the Study	Findings	Gaps	How the Current Study Addressed the Gaps
Santos and Da Silva (2019)	Financial reporting practices and budget absorption: evidence from municipalities in Brazil	The study found that municipalities with transparent, timely financial reporting systems experienced higher budget absorption. Effective financial reporting facilitated resource allocation decisions and enhanced accountability, thereby improving service delivery and infrastructure development.	The study adopted a qualitative research design but did not provide a detailed explanation of the specific qualitative methodology used for thematic analysis.	The study provided a comprehensive overview of the descriptive research design, census technique, and questionnaire use, thereby addressing a gap in methodology clarity and offering a detailed understanding of data collection and analysis processes.
Khalid and Nyawira (2022)	Relationship between financial reporting practices and budget absorption in South African municipalities	Municipalities with consistent, accurate financial reporting demonstrated higher budget absorption, leading to improved service delivery outcomes.	Lack of explanation regarding the specific statistical analysis techniques employed for data analysis.	The study elucidated the statistical analysis techniques used, such as regression, thereby addressing the gap in methodology explanation and providing insights into the analytical rigor employed in interpreting the study's findings.
Matiba and Valma (2022)	Impact of financial reporting practices on the performance of counties within the coastal region.	The study found that counties with robust financial reporting practices exhibited higher budget absorption. Transparent financial reporting promoted accountability and informed decision-making, leading to more efficient resource allocation and improved service delivery outcomes.	However, the study focused on the performance of counties in Kenya's coastal region.	The study focused on budget absorption practices in the county government of Nakuru.

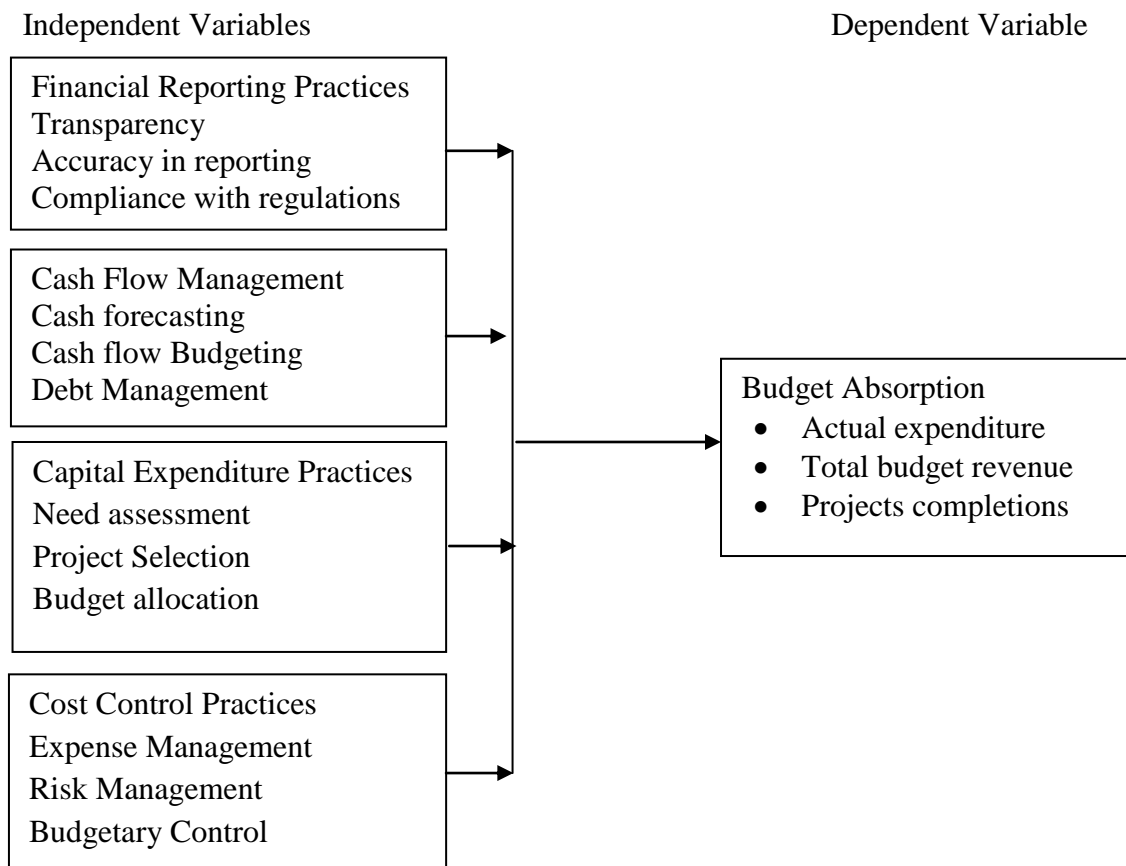
Mwai and Kamau (2019)	Relationship between cash flow management practices and budget absorption in public hospitals in Kenya	Hospitals with effective cash flow management practices demonstrated higher levels of budget absorption, leading to improved healthcare service delivery and infrastructure maintenance.	The study was conducted in hospitals and used a quantitative research design.	The study addressed the gap by focusing on cash flow management practices for budget absorption in the county government of Nakuru and using a descriptive research design.
Rahman and Eshun (2021)	Cash Flow Management Practices on Budget Absorption	Small and medium-sized enterprises (SMEs) with effective cash flow management practices demonstrated higher budget absorption, leading to improved business performance and greater growth opportunities.	Lack of clarity on the specific statistical analysis techniques employed for data analysis. The study was also conducted in SMEs, whereas the current study will be conducted in the County Government.	The study elucidated the statistical analysis techniques used, including regression analysis, thereby addressing a gap in the methodology explanation and providing insights into the analytical rigor employed in interpreting the study's findings.
Ongoi and Ofori (2020)	Cash Flow Management Practices on Budget Absorption	Microfinance institutions (MFIs) with effective cash flow management practices demonstrated higher budget absorption, thereby increasing financial sustainability and outreach to underserved communities.	However, the study was conducted in MFIs and employed a qualitative research design.	The study addressed the gap by focusing on cash flow management practices for budget absorption in the county government of Nakuru and employed a descriptive research design.
Santana and Choi (2021)	Capital expenditure planning practices on budget absorption in educational infrastructure projects in Brazil.	Projects with effective capital expenditure planning practices achieved higher budget absorption, resulting in improved educational facilities and learning environments.	However, the study employed a quantitative research design and sampled 20 educational infrastructure projects across different regions of Brazil.	The study focused on capital expenditure planning practices for budget absorption in the county government of Nakuru and employed a descriptive research design.
Schmidt and Petrov (2020)	Capital Expenditure Planning Practices on Budget Absorption	Companies with effective capital expenditure planning practices demonstrated higher budget absorption, fostering sustainable growth in Northern Europe.	The study was conducted in northern European companies and used a quasi-experimental design, involving systematic random sampling of 700 companies.	The study focused on capital expenditure planning practices for budget absorption in the county government of Nakuru and employed a descriptive research design.

## 2.5 Conceptual Framework

A conceptual framework is a set of principles that provides guidance and direction for understanding, interpreting, and analyzing a particular subject or field of study. The conceptual framework, as illustrated in Figure 1, helped explain the relationships among the study variables, including the Independent Variables (Financial Reporting Practices, Cash Flow Management, Capital Expenditure Practices, and Cost Control Practices) and the Dependent Variable (Budget Absorption). The independent variables, as indicated by indicators such as transparency and budgetary control, are hypothesized to influence the dependent variables, which are measured by actual expenditure and project completion rates.

**Figure 1**

### *Conceptual Framework*



*Source:* Own Conceptualization (2025)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presented the methodology used to carry out the study. It begins by describing the research design, the target population, sampling techniques and procedures, data collection methods, the validity and reliability of the instruments and data, and the data processing and analysis that will be employed in the study.

#### **3.2 Research Design**

A research design is the framework or plan for a study used as a guide in collecting and analyzing data. The study adopted a descriptive research design. A descriptive research design helps the researcher present respondents with a set of standardized questions, allowing for comparison (Williams, 2009). The research design was used as it provides information about the effect of financial management practices on budget absorption in the county government of Nakuru. It showed how data were collected, which instruments were employed, how they were used, and the intended means of analyzing the collected data.

#### **3.3 Study Location**

This was done in Nakuru County, Kenya. Nakuru County is one of the 47 devolved counties in Kenya and is among the most economically and administratively important counties. It is a local business and administrative center and, therefore, a good place to research public financial management. A well-organized system of governance governs the County Government of Nakuru; it comprises the County Treasury and various departments that carry out planning, budgeting, and the implementation of development projects. These constructions warrant an evaluation of how financial management practices affect budget absorption.

Nakuru County has been the study location because it is strategically positioned for implementing devolved financial functions. Nakuru has witnessed rapid urbanization, growth, and increased budgetary allocations, alongside multifaceted development needs that require effective financial management to ensure public funds are utilized to the fullest. Furthermore, records of the Office of the Auditor-General and the Controller of Budget have shown underuse of budgets and inefficiencies in financial reporting, cash flows, and capital expenditure within the County. Consequently, Nakuru offers a topical background of exploring the issues and consequences of financial management practices relative to budget absorption in county governments. Research in this country will provide valuable information to guide policy and operational changes across the other devolved units in Kenya.

### **3.4 Target Population**

The target population refers to an entire group of persons or elements that share a common characteristic (Kombo & Tromp, 2019). The unit of analysis was the finance department in the County government of Nakuru. The unit of observation was employees directly involved in financial planning, reporting, and budget implementation within the County Government of Nakuru. These comprised County Executive Committee Members, Chief Officers, directors in the county treasury, county treasury staff, accountants in county entities/departments, and sub-county administrators in the County Government of Nakuru. The total target population was 87 employees, comprising 10 County Executive Committee Members, 10 Chief Officers, seven directors in the County treasury, 21 County treasury staff, 28 accountants from County entities/departments, and 11 Sub-County administrators.

These persons were selected because they are highly qualified in the required expertise, are directly involved in financial management practices, and have personal experience

with budget absorption processes. Their opinions are essential for interpreting how financial reporting, cash flow management, capital expenditure planning, and cost control affect the use of allocated budgets.

The Chief Officers and the County Executive Member Committee were the most suitable respondents since they are involved in the planning, implementation, and management of financial management practices in the County Government of Nakuru. They are involved in the budget formulation process, cash flow management, financial reporting, and expenditure control, and hence have direct experience of what influences budget absorption. As the leading decision-makers in financial operations, their views play a vital role in understanding how financial operations practices shape the effective use of funds and the delivery of services in the county (Controller of Budget, 2024; National Treasury, 2023).

The research excluded employees who were not directly engaged in financial decisions or budget-related implementation activities in the county government. This covered clerical personnel, support personnel, interns, and other officers whose work has no direct or indirect impact on financial reporting, planning, or control activities. These participants failed to ensure that the data obtained were relevant, accurate, and representative of the perceptions of people with substantive knowledge and responsibility for the county's financial management functions.

**Table 3***Target Population*

Category	Number
County Executive Committee Members	10
Chief officers	10
Director in the County Treasury	7
County Treasury Staff	21
Accountants from County entities /departments	28
Sub-County Administrators	11
Total	87

*Source:* County Government of Nakuru (2025)

**3.5 Census Survey**

The study adopted a census technique to include all 87 targeted respondents. Census sampling is a data collection method in which information is gathered from every member of the target population rather than selecting a sample. It is used when the population size is small and manageable.

**3.6 Data Collection Instrumentation**

Data collection is the process of gathering and measuring information on variables of interest in an established, systematic fashion that enables the respondent to address the research questions (Whitney, 2013) effectively. The study collected primary data. Questionnaires were used to collect primary data desirable for the four independent variables, that is, financial reporting practices, cash flow management practices, and capital expenditure planning practices on budget absorption. Any written tool that asks a set of questions and requires a response from the respondent, either by handwritten notes or a pre-existing list of options, is considered a questionnaire (Jankowicz, 2015). The questionnaire consisted of closed-ended Likert-scale items, developed based on the indicators for each study variable. The use of a questionnaire was appropriate due to its

simplicity, ease of administration, and ability to capture standardized responses efficiently. There were five parts to the survey. Section A included the necessary context, while Sections B–E detailed the research variables. Questionnaires were used because they helped respondents provide accurate data and helped minimize costs, as the sample size was not too large to incur additional fees.

### **3.7 Data Collection Procedure**

The researcher first sought clearance from the Kabarak Research and Ethics Committee. After approval, the researcher applied for a research permit through NACOSTI. With an approval letter from Kabarak University and a Research Permit, the researcher sought a license from the County Secretary, County Government of Nakuru, and explained the purpose of the study to him to obtain his authorization. The researcher administered the questionnaire individually to all survey respondents. The researcher exercised care and control to ensure that all questionnaires issued to respondents were returned. To achieve this, the study maintained a register of questionnaires sent and received. The researcher collected the questionnaires two weeks after they were distributed, using a method.

#### **3.7.1 Validity of the Study**

The correctness and significance of conclusions drawn from study findings constitute validity, as stated by Mugenda & Mugenda (2019). Therefore, validity is the extent to which the data analysis yields results that are representative of the topic being studied. It relates to how accurately the data obtained in the study represent the study's variables. If such data accurately reflect the variables, then inferences based on it are accurate and meaningful. The expert and supervisor's opinions verified content validity.

### 3.7.2 Reliability of the Study

The researcher can make any required adjustments based on the reliability estimates. To establish the reliability of the research tools, the study conducted a pilot study with the Kericho County Government. 9 questionnaires were distributed to officers in the county treasury. The study used Cronbach's Alpha to assess the instruments' reliability. A Cronbach's Alpha value of 0.7 or higher is considered acceptable, indicating that the items in the scale are sufficiently correlated and measure the same construct. Values between 0.8 and 0.9 indicate good reliability, while values above 0.9 suggest excellent reliability. On the other hand, values between 0.6 and 0.7 are considered questionable, suggesting the scale may have some inconsistencies, but it's still acceptable for exploratory research. If the value is between 0.5 and 0.6, the reliability is generally considered poor; if it falls below 0.5, it is deemed unacceptable.

**Table 4**

*Reliability Test Results*

Variable	No. of Items	Cronbach's Alpha Value
Financial reporting practices	8	.732
Cash flow management practices	8	.771
Capital expenditure planning practices	8	.749
Cost control practices	8	.712
Budget absorption	8	.769

The reliability test results indicated that all five variables had acceptable levels of reliability. The financial reporting practices, consisting of 8 items, had a Cronbach's Alpha of 0.732. Cash flow management practices also included 8 items and had a Cronbach's Alpha of 0.771. Capital expenditure planning practices had a Cronbach's

Alpha of 0.749, while cost control practices had a Cronbach’s Alpha of 0.712. Lastly, budget absorption, also measured using eight items, had a Cronbach’s Alpha value of 0.769. These results confirm that each set of items for each variable demonstrated acceptable internal consistency, validating the questionnaire for the whole study.

### 3.8 Data Analysis and Presentation

Data analysis is the process of organizing, structuring, and deriving meaning from the mass of information gathered (Cooper & Schindler, 2015). Data analysis comprises cutting the acquired information into a manageable size, producing summaries, identifying patterns, and applying statistical techniques. The data gathered in this study were quantitative and were analyzed using SPSS Version 25. The researcher then utilized both descriptive and inferential statistics. Descriptive statistics included percentages, frequencies, mean, and standard deviation. Inferential statistics involved the use of correlation and regression analysis. After the analysis, the data were presented in a table.

Multiple regression was used in the study.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \dots\dots\dots (3.1)$$

Where:

- Y = Budget Absorption
- $\beta_0$  = Constant Term
- $X_1$  = Financial reporting Practices
- $X_2$  = Cash Flow Management Practices
- $X_3$  = Capital Expenditure Planning Practices
- $X_4$  = Cost Control Practices
- $\varepsilon$  = Error Term

$\beta_1, \beta_2, \beta_3, \beta_4$  represents Regression Coefficients for Independent Variables

### **3.9 Diagnostic Tests**

Diagnostic statistics were used to assess the model's reliability and validity in measuring the association among practices for managing financial and budget absorption (goodness-of-fit). Different diagnostics were conducted, which included normality, multicollinearity, autocorrelation, and homoscedasticity tests

#### **3.9.1 Normality**

Data normality was assessed using graphical methods and the Shapiro-Wilk test. The test researcher used the Kolmogorov-Smirnov test to determine normality. The purpose of a normality test in statistics is to ascertain whether or not a normal distribution can adequately describe a data set and, if so, to calculate the probability that the underlying random variable in the data set follows a normal distribution. Non-normally distributed variables can skew connections and significance tests. A variable is not normally distributed if “Sig.”  $< 0.05$ .

#### **3.9.2 Multicollinearity**

When the independent variables are highly correlated, making it difficult to separate their effects, we say there is multicollinearity. The study used Variance Inflation Factors (VIFs) and tolerance values to assess multicollinearity. Keith (2016) found that multicollinearity is present when tolerance values are low and VIF values are high. When testing for multicollinearity, the acceptable ranges are  $CI < 30$ ,  $VIF < 5$ , and  $tolerance > 0.2$ . Cuthbertson (2010) states that when relationships exist among the independent variables, multicollinearity occurs in the model. When the independent variables of the model in this study area, financial reporting procedures, cash flow management, capital spending practices, and cost control methods, are related to one another, multicollinearity would occur in the model.

### **3.9.3 Homoscedasticity**

Homoscedasticity is the assumption that the variance of the residuals (errors) is constant across all levels of the independent variable(s) in a regression model. In other words, the spread of errors around the regression line remains the same regardless of whether the predicted values are high or low. This assumption is crucial because heteroscedasticity, when violated, can lead to biased standard errors, which in turn affect the reliability of hypothesis tests such as t-tests and F-tests (Tabachnick & Fidell, 2010).

### **3.10 Ethical Consideration**

Ethical considerations were paramount in ensuring the credibility, trustworthiness, and legitimacy of this research involving human participants. The study observed all relevant ethical guidelines as prescribed by the Kabarak University Research Ethics Committee (KUREC) and the National Commission for Science, Technology, and Innovation (NACOSTI). The ethical considerations that guided this study included confidentiality and data privacy, informed consent, fair treatment of participants, accuracy and integrity of findings, and data storage and disposal. The researcher ensured strict confidentiality of all information collected from participants, removing or anonymizing personal identifiers during data entry and analysis to protect identities.

Sensitive financial data obtained from county government staff were treated with the highest level of discretion to prevent misuse or unauthorized access, and only aggregated data were reported in the final findings to maintain anonymity. Access to raw data was restricted to the principal investigator and supervisory team. Informed consent was obtained from all participants before data collection, and they were provided with detailed information about the study, including its purpose, procedures, potential risks, and benefits. Participants were also informed of their right to refuse to participate or withdraw from the study at any stage without penalty. A signed informed consent form

was obtained from each respondent before participation in interviews or questionnaires, and respondents were assured that the study posed no risk. The researcher ensured that all participants were treated fairly and respectfully, without coercion, discrimination, or bias. Special consideration was given to cultural sensitivities and institutional hierarchies during data collection, and participation was voluntary, with equal opportunity provided to all eligible respondents. To uphold research integrity, the researcher maintained transparency and objectivity in data collection, analysis, and reporting.

Findings were reported truthfully without manipulation or fabrication, and any limitations or methodological constraints encountered during the research were acknowledged. Data collected during the study were securely stored to ensure their safety and confidentiality. Electronic data was stored in encrypted files on a password-protected computer and backed up in secure cloud storage. Physical records such as consent forms and printed questionnaires were kept in a locked cabinet at the researcher's institutional office. Access to the data was limited strictly to the principal investigator and academic supervisors. The data were retained for 5 years after the study's completion, in line with ethical research practice guidelines. After this retention period, physical documents were shredded, and electronic data were permanently deleted using secure data-erasure software to ensure complete and irreversible disposal (Resnik, 2015).

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION, AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the study's results through descriptive and inferential analyses. The chapter begins with reliability and validity checks, followed by response rates and descriptive findings of each financial management practice. Thereafter, diagnostic tests are presented, followed by correlation and regression analyses, culminating in hypothesis testing and a discussion of the findings.

#### 4.2 Response Rate

The researcher administered 87 questionnaires to employees comprising 10 County Executive Committee Members, 10 Chief Officers, 7 directors in the County Treasury, 21 County Treasury staff, 28 accountants from County entities/departments, and 11 Suand b-County administrators. Out of which, 62 responses were received, representing a 71% response rate.

**Table 5**

*Response Rate*

	Frequency	Percentage (%)
Returned Questionnaire	62	71%
Unreturned Questionnaire	25	29%
Total	87	100%

#### 4.3 Demographic Information

The study sought to assess respondents' demographics. These include gender representation, the highest level of education, and years of service with the Nakuru County Government.

### 4.3.1 Gender of the Respondents

The study sought to determine the gender distribution of employees at the County Government of Nakuru. The findings are indicated in Table 6.

**Table 6**

*Gender of Respondents*

Gender	Frequency	Percentage (%)
Male	33	53
Female	29	47
Total	62	100

According to Table 5, 53% of respondents were male and 47% were female. This implies that the majority of respondents working in the County Government of Nakuru, Kenya, were male. The gender composition of the workforce, where most employees are male, could influence how organizational structure components affect strategic plan implementation. Gender diversity is often associated with diverse perspectives and decision-making approaches, enriching the planning and execution processes. A predominantly male workforce might reflect traditional gender roles in public-sector jobs or highlight a gap in gender inclusivity within the county government. The lack of gender diversity might affect how the organization prioritizes specific initiatives, including those that require input from diverse groups to ensure inclusive, community-driven strategies

### 4.3.2 Highest Education Qualification Attained

The researcher sought to determine the educational qualifications of employees in the County Government of Nakuru. The findings are indicated in Table 7.

**Table 7**  
*Highest Education Qualification Attained*

Category	Frequency	Percentage (%)
Diploma	15	24
Undergraduate	28	45
Post Graduate	19	31
Total	62	100

According to Table 6, 24% of respondents reported a diploma as their highest qualification, 45% reported an undergraduate degree, and 31% reported a postgraduate degree. This implies that the majority of employees in the County Government of Nakuru, Kenya, had an undergraduate degree as their highest educational qualification. The academic qualifications of employees, with most holding undergraduate degrees, reflect a generally educated workforce. A higher level of education equips employees with critical thinking, problem-solving, and analytical skills essential to implementing complex strategic plans. Employees with undergraduate degrees are likely to understand the county government's strategic objectives better and can execute them effectively.

#### **4.3.3 Years of Service in the County Government**

The researcher sought to determine how many years employees have been working in the County Government of Nakuru. The findings are indicated in Table 8.

**Table 8**  
*Years of Service in the County Government*

Years	Frequency	Percentage
Less than 1 Year	5	8
2-5 Years	19	30
6-10 Years	32	52
More than 10 Years	6	10
Total	85	100

The findings in Table 8 indicate that 8% of the respondents had been working in the County Government of Nakuru for less than 1 year, and 30% for 2-5 years. Additionally, 52% of respondents indicated they had been working in the County Government of Nakuru for 6-10 years, while 10% stated they had been working there for more than 10 years. This implies that the majority of the employees working in the County Government of Nakuru had been working for 2-5 years and 6-10 years. The finding that most employees have been working in the County Government of Nakuru for 2-5 years or 6-10 years highlights a workforce with a moderate level of experience. Employees with 2-5 years of experience bring fresh perspectives and new ideas to the table, which can be advantageous for strategic planning, especially in innovation and adaptation to changing environments. On the other hand, employees with 6-10 years of experience provide institutional knowledge and understanding of the county's organizational structure and operations.

#### **4.4 Descriptive Analysis of the Study Variables**

##### **4.4.1 Financial Reporting Practices on Budget Absorption**

The researcher sought to establish the effect of financial reporting practices on budget absorption in the county government of Nakuru. The findings are as indicated in Table 9.

**Table 9***Financial Reporting Practices on Budget Absorption*

Statements	SA %	A %	U %	D %	SD %	Mean	Std
The county government has adopted transparent financial reporting practices to ensure that public funds are used efficiently.	15.7	65.2	6.7	12.4	0.0	3.8427	.83800
Transparency acts as a deterrent to corruption by making it more difficult for officials to conceal the misuse of funds.	20.2	32.6	22.5	24.7	0.0	3.4831	1.07780
Through accurate financial reporting, the County government ensures that funds are allocated to priority areas where they are most needed.	28.1	41.6	18.0	12.4	0.0	3.8539	.97177
Through accurate reporting, the county government identifies areas of inefficiency or overspending, allowing for timely adjustments to budgetary allocations.	22.5	33.7	27.0	15.7	1.1	3.6067	1.04030
Compliance with regulations ensures that the county government adheres to legal requirements and avoids penalties.	30.3	50.6	9.0	9.0	1.1	4.0000	.92932
Compliance with regulations enhances the credibility of financial reports, both internally and externally.	38.2	32.6	15.7	12.4	1.1	3.9438	1.10849
Overall Mean & Std						3.7884	0.99428

From the findings, 15.7% of the respondents strongly agreed that the county government has adopted transparent financial reporting practices to ensure that public funds are used efficiently; 65.2% agreed; 6.7% were undecided; and 12.4% disagreed. In contrast, none of the respondents strongly disagreed with a mean of 3.8427 and a standard deviation of

0.83800. These findings align with those of Santos and Da Silva (2019), who found that transparency in financial reporting enhances county governments' ability to allocate resources more effectively and reduce waste. Transparency ensures that financial records are accessible and verifiable, thereby promoting public trust and budget discipline.

In addition, 20.2% of the respondents strongly agreed, 32.6% agreed, 22.5% were undecided, and 24.7% disagreed that transparency acts as a deterrent to corruption by making it more difficult for officials to conceal misuse of funds, resulting in a mean of 3.4831 and a standard deviation of 1.07780. These results align with the findings of Ouedraogo and Nwosu (2020), who emphasized that clear, publicly accessible financial reports reduce opportunities for corruption in devolved units. By limiting discretion and increasing oversight, transparency narrows the avenues for misappropriating public resources.

From the findings, 28.1% strongly agreed that, through accurate financial reporting, County government ensures that funds are allocated to priority areas where they are most needed; 41.6% agreed; 18.0% were undecided; and 12.4% disagreed, with a mean of 3.8539 and a standard deviation of 0.97177. These results support the findings of Khalid and Nyawira (2022), who argued that the accuracy of financial reports guides strategic budgeting decisions and supports timely service delivery. When economic data is accurate, departments can allocate funds more efficiently, aligning budget execution with planning objectives.

Moreover, 22.5% of respondents strongly agreed that through accurate reporting, the county government identifies areas of inefficiency or overspending, allowing for timely adjustments to budgetary allocations 33.7% agreed, 27.0% were undecided, 15.7% disagreed, and 1.1% strongly disagreed, leading to a mean of 3.6067 and a standard deviation of 1.04030. These findings are consistent with a study by Gonzalez and Amoah

(2021), who found that counties that invest in detailed and frequent financial reporting are better able to monitor financial performance and reallocate resources when necessary. Early identification of inefficiencies through reporting enables financial managers to stay within budget and improve absorption rates.

From the analysis, 30.3% of respondents strongly agreed that compliance with regulations ensures that the county government adheres to legal requirements and avoids penalties; 50.6% agreed; 9.0% were undecided; and 9.0% disagreed, with a Cronbach's alpha of 4.0000 and a standard deviation of 0.92932. Lastly, regarding whether compliance with regulations enhances the credibility of financial reports, both internally and externally, 38.2% strongly agreed, 32.6% agreed, 15.7% were undecided, 12.4% disagreed, and 1.1% strongly disagreed, with a mean of 3.9438 and a standard deviation of 1.10849. The findings align with those of Matiba and Valma (2022), who argued that compliance with statutory guidelines builds trust in financial reports both within the organization and among external stakeholders. Overall, the results confirm that financial reporting practices play a critical role in enhancing budget absorption through transparency, accuracy, and regulatory compliance.

The overall mean score of 3.7884 with a standard deviation of 0.99428 suggests a moderate to high level of agreement among respondents that financial reporting practices are effectively implemented within the county. This implies that effective financial reporting practices significantly improve budget absorption by enhancing accountability and guiding evidence-based fiscal decisions. Transparent and compliant financial reporting enables the timely identification of inefficiencies, reduces misuse of public resources, and ensures that funds are directed toward priority development areas.

#### 4.4.2 Cash Flow Management Practices on Budget Absorption

The researcher also sought to establish the effect of cash flow management practices on budget absorption in the county government of Nakuru. The findings are as indicated in Table 10.

**Table 10**

*Cash Flow Management Practices on Budget Absorption*

Statements	SA %	A %	U %	D %	SD %	Mean	Std
Cash forecasts provide valuable insights for financial planning and decision-making within the county government.	28.1	36.0	21.3	13.5	1.1	3.7640	1.04471
Cash forecasting enables the county government to identify potential cash surpluses or deficits, allowing for timely adjustments to budget allocations.	42.7	30.3	13.5	12.4	1.1	4.0112	1.08182
Cash flow budgeting ensures that the county government's spending plans are aligned with its available cash resources.	38.2	32.6	15.7	12.4	1.1	3.9438	1.06983
Through cash flow budgeting, the county government minimizes reliance on external financing to cover cash shortfalls.	36.0	41.6	11.2	6.7	4.5	3.9775	1.07637
Effective debt management ensures that the county's borrowing activities align with budget absorption.	23.6	3.4	12.4	30.3	30.3	2.49551	0.47006
Prudent debt management practices help the government mitigate financial risks associated with borrowing.	22.5	33.7	27.0	15.7	1.1	3.6067	1.04030
Overall Mean & Std						3.63311	0.14875

Regarding cash flow management practices, 28.1% of respondents strongly agreed that cash forecasts provide valuable insights for financial planning and decision-making within the county government. In comparison, 36.0% agreed, 21.3% were undecided, 13.5% disagreed, and 1.1% strongly disagreed with a mean of 3.7640 and a standard deviation of 1.04471. These findings are consistent with those of Mwai and Kamau (2019), who found that cash forecasting is a strategic financial planning tool that enhances the predictability of funding flows and supports sound expenditure decisions. Accurate forecasts ensure the county aligns available resources with expenditure needs, reducing the risk of funding shortfalls during budget execution.

On whether cash forecasting enables the county government to identify potential cash surpluses or deficits, allowing for timely adjustments to budget allocations, 42.7% of respondents strongly agreed, 30.3% agreed, 13.5% were undecided, 12.4% disagreed, and 1.1% strongly disagreed, with a mean of 4.0112 and a standard deviation of 1.08182. These findings are supported by Toure and Jallow (2020), who observed that real-time cash flow monitoring in county governments improves the ability to proactively address budget execution gaps and make timely reallocations where necessary. Anticipating cash flow gaps reduces delays in project implementation and enhances overall budget absorption.

Regarding whether cash flow budgeting ensures that the county government's spending plans align with its available cash resources, 38.2% of respondents strongly agreed, and 32.6% agreed. In comparison, 15.7% were undecided, 12.4% disagreed, and 1.1% strongly disagreed, with a mean of 3.9438 and a standard deviation of 1.06983. This supports the findings of Rahman and Eshun (2021), who noted that aligning expenditure plans with available cash through budgeting enhances fiscal discipline and prevents

overspending. Such alignment ensures that only committed, fundable projects are executed, thereby improving budget absorption.

From the findings, 36.0% of the respondents strongly agreed, 41.6% agreed that, through cash flow budgeting, the county government minimizes reliance on external financing to cover cash shortfalls; 11.2% were undecided; 6.7% disagreed; and 4.5% strongly disagreed, with a mean of 3.9775 and a standard deviation of 1.07637. These findings align with those of Kimani, Nyaga, and Wamware (2022), who observed that well-structured cash budgeting frameworks reduce borrowing pressure by enhancing internal resource planning. By minimizing reliance on external funding, counties avoid unplanned debts and interest obligations that could hamper budget implementation.

From the analysis, 23.6% strongly agreed that effective debt management ensures that the county's borrowing activities are aligned with the budget absorption; 3.4% agreed; 12.4% were undecided; 30.3% disagreed; and 30.3% strongly disagreed, with a mean of 3.1671 and a standard deviation of 1.23967. This contrasts with the findings of Ongoi and Ofori (2020), who argued that effective debt management plays a key role in sustaining fiscal stability and optimizing budget performance. The low agreement may reflect limited visibility or weak linkage between debt management policies and budget absorption at the county level.

On whether prudent debt management practices help the government mitigate financial risks associated with borrowing, 22.5% strongly agreed, 33.7% agreed, 27.0% were undecided, and 15.7% disagreed. In comparison, 1.1% strongly disagreed with a mean of 3.6067 and a standard deviation of 1.04030. These findings correspond with those of Chen and Singh (2021), who noted that strategic debt practices, such as borrowing caps and debt servicing plans, reduce fiscal vulnerabilities.

The overall mean score of 3.7451 with a standard deviation of 1.0921 suggests a moderate to high level of agreement among respondents that cash flow management practices are effectively implemented within the County Government of Nakuru. This indicates that the county has made notable progress in ensuring that financial resources are properly planned, monitored, and utilized in line with budgetary objectives. These findings imply that effective cash flow management practices are essential for enhancing budget absorption within the County Government of Nakuru.

Sound forecasting, budgeting, and debt management ensure that sufficient funds are available for the timely implementation of projects and the payment of obligations, thereby minimizing delays and budget underutilization. Moreover, proactive cash management enhances fiscal predictability, reduces dependency on short-term borrowing, and supports efficient resource allocation across county programs. Strengthening these practices will not only improve liquidity management but also foster financial sustainability and accountability in the county's overall budget implementation process.

#### **4.4.3 Capital Expenditure Planning Practices on Budget Absorption**

Further, the researcher sought to establish the effect of capital expenditure planning practices on budget absorption in the county government of Nakuru. The findings are as indicated in Table 11.

**Table 11***Capital Expenditure Planning Practices on Budget Absorption*

Statements	SA %	A %	U %	D %	SD %	Mean	Std
The county government conducts a needs assessment to identify areas that require investment in capital projects.	20.2	32.6	22.5	24.7	0.0	3.4831	1.07780
Need assessment allows the county government to prioritize capital projects based on their urgency and importance.	44.9	30.3	14.6	10.1	0.0	4.1011	1.00051
Project selection ensures that capital expenditure initiatives align with the county government's strategic objectives and development priorities.	40.4	33.7	11.2	13.5	1.1	3.9888	1.08182
Rigorous project selection processes help mitigate the risk of investing in projects that may not deliver the expected benefits.	41.6	34.8	13.5	10.1	0.0	4.0787	.97962
Flexible budget allocation processes allow the government to respond to changing needs and circumstances.	51.7	25.8	13.5	6.7	2.2	4.1798	1.05056
Transparent budget allocation promotes accountability by ensuring that resource decisions are made openly.	42.7	32.6	13.5	11.2	0.0	4.0674	1.00902
Overall Mean & Std						3.9832	1.0332

From the findings, 20.2% of respondents strongly agreed that the county government conducts a needs assessment to identify areas requiring investment in capital projects; 32.6% agreed; 22.5% were undecided; and 24.7% disagreed, with a mean of 3.4831 and a standard deviation of 1.07780. These findings align with those of Santana and Choi

(2021), who emphasized that conducting thorough needs assessments ensures that capital investments are directed to sectors with the most significant impact on public service delivery. Proper needs assessments reduce the risk of misallocating scarce resources to low-priority or non-essential projects.

In addition, 44.9% strongly agreed, 30.3% agreed, 14.6% were undecided, and 10.1% disagreed, with a mean of 4.1011 and a standard deviation of 1.00051. These results support the findings of Gomez and Mohammed (2021), who noted that prioritization of capital projects based on evidence and community needs enhances the relevance and timeliness of county development initiatives. Prioritization also improves implementation efficiency by focusing efforts on projects with the most immediate socioeconomic returns.

From the findings, 40.4% of respondents strongly agreed, 33.7% agreed that project selection ensures that capital expenditure initiatives align with the county government's strategic objectives and development priorities, 11.2% were undecided, 13.5% disagreed, and 1.1% strongly disagreed, with a mean of 3.9888 and a standard deviation of 1.08182. These findings are consistent with the study by Schmidt and Petrov (2020), which found that strategic alignment of capital projects enhances coordination and coherence in county development plans, improving budget absorption and service outcomes. When capital investments are aligned with policy priorities, it becomes easier to secure political and administrative support during implementation.

Moreover, 41.6% of respondents strongly agreed that rigorous project selection processes help mitigate the risk of investing in projects that may not deliver the expected benefits; 34.8% agreed; 13.5% were undecided; and 10.1% disagreed, resulting in a mean of 4.0787 and a standard deviation of 0.97962. These results echo the findings of Asa and Sari (2019), who found that counties with strong project appraisal and selection

criteria are less likely to experience stalled or underperforming infrastructure projects. Rigorous selection minimizes fiscal waste and ensures that projects implemented are viable, sustainable, and impactful.

From the findings, 51.7% strongly agreed that flexible budget allocation processes allow the government to respond to changing needs and circumstances; 25.8% agreed; 13.5% were undecided; 6.7% disagreed; and 2.2% strongly disagreed, with a mean of 4.1798 and a standard deviation of 1.05056. These findings align with those of Sakina and Mandela (2022), who concluded that flexibility in budget implementation enables county governments to reallocate resources to emerging priorities or emergency projects, thereby enhancing budget execution and responsiveness. Flexibility also helps prevent under-absorption by ensuring that available funds are used, even when project plans need to be modified.

Lastly, regarding whether transparent budget allocation promotes accountability by ensuring that decisions about resource allocation are made openly, 42.7% of respondents strongly agreed, 32.6% agreed, 13.5% were undecided, and 11.2% disagreed, with a mean of 4.0674 and a standard deviation of 1.00902. These findings confirm the position of Nguyen and Kiplagat (2019), who observed that transparent allocation processes reduce leakages and corruption and build public confidence in capital budgeting. Transparency also facilitates better stakeholder engagement and monitoring, thereby enhancing budget absorption through improved oversight and community support.

The overall mean score of 3.9832 with a standard deviation of 1.0332 indicates a high level of agreement among respondents that capital expenditure planning practices are effectively applied within the County Government of Nakuru. This suggests that the county has made commendable progress in identifying, prioritizing, and allocating capital project resources in a structured and transparent manner.

These findings imply that robust capital expenditure planning practices significantly enhance budget absorption in the County Government of Nakuru. By ensuring that projects are well-prioritized, strategically aligned, and supported with flexible budgeting mechanisms, the county can improve the efficiency and timeliness of budget execution. Transparent, evidence-based capital planning minimizes the risk of stalled or underfunded projects, enhances public trust, and optimizes the use of development funds. Therefore, strengthening capital expenditure planning through continuous needs assessment, stakeholder engagement, and strategic project evaluation can lead to higher budget absorption rates and improved delivery of infrastructure and public services.

#### **4.4.4 Cost Control Practices on Budget Absorption**

Further, the researcher sought to establish the effect of cost control practices on budget absorption in the county government of Nakuru. The findings are as indicated in Table 12.

**Table 12***Cost Control Practices on Budget Absorption*

Statements	SA %	A %	U %	D %	SD %	Mean	Std
Through expense management, the county government controls and reduces unnecessary expenditures.	32.6	31.5	22.5	11.2	2.2	3.8090	1.08582
Proactive expense management enables the government to stay within budgetary limits and prevent overspending	38.2	32.6	15.7	12.4	1.1	3.9438	1.06983
Effective risk management practices help the county government to assess and mitigate potential financial risks.	20.2	32.6	22.5	24.7	0.0	3.4831	1.07780
Risk management facilitates the development of contingency plans to address unexpected events.	30.3	50.6	9.0	9.0	1.1	4.0000	.92932
Budgetary control practices instill financial discipline within the county government by establishing mechanisms to monitor and regulate spending activities	46.1	37.1	9.0	5.6	2.2	4.1910	.97557
Budgetary control practices promote accountability and transparency in financial management, thus enhancing budget absorption.	41.6	34.8	13.5	10.1	0.0	4.0787	.97962
Overall Mean & Std						3.9176	1.0197

From the findings, 32.6% of respondents strongly agreed that, through expense management, the county government controls and reduces unnecessary expenditures. In comparison, 31.5% agreed, 22.5% were undecided, 11.2% disagreed, and 2.2% strongly disagreed, with a mean of 3.8090 and a standard deviation of 1.08582. These findings

resonate with those of Soweto and Gumbasi (2020), who emphasized that deliberate expense monitoring improves expenditure predictability and curbs inefficiencies. A robust expense management framework ensures that financial outflows are well aligned with fiscal objectives, thereby supporting effective budget absorption.

Regarding whether proactive expense management enables the government to stay within budgetary limits and prevent overspending, 38.2% of the respondents strongly agreed, 32.6% agreed, 15.7% were undecided, 12.4% disagreed, and 1.1% strongly disagreed, with a mean of 3.9438 and a standard deviation of 1.06983. These results align with Adeyemi (2021), who found that proactive fiscal practices help county governments to anticipate deviations and make timely financial adjustments. The findings suggest that counties that employ forward-looking cost controls experience fewer budget deviations, thereby improving their budget absorption rates.

In relation to whether effective risk management practices help the county government to assess and mitigate potential financial risks, 20.2% strongly agreed, 32.6% agreed, 22.5% were undecided, and 24.7% disagreed, with a mean of 3.4831 and a standard deviation of 1.07780. This finding supports Rodriguez and Abudu (2020), who concluded that weak risk management contributes to mid-year budget revisions and misalignments in public project execution. The moderate mean indicates that while risk management is recognized, its application in Nakuru County might be inconsistent or insufficiently institutionalized.

From the analysis, 30.3% strongly agreed that risk management facilitates the development of contingency plans to address unexpected events; 50.6% agreed; 9.0% were undecided; 9.0% disagreed; and 1.1% strongly disagreed, with a mean of 4.0000 and a standard deviation of 0.92932. This supports the work of Kamau and Manyaga (2020), who found that contingency budgeting increases resilience and prevents the

derailment of ongoing development projects during shocks. The strong agreement suggests that Nakuru County employs structured risk responses to protect budget execution.

In addition, 46.1% of the respondents strongly agreed that budgetary control practices instill financial discipline within the county government by establishing mechanisms to monitor and regulate spending activities; 37.1% agreed; 9.0% were undecided; 5.6% disagreed; and 2.2% strongly disagreed. This recorded the highest mean of 4.1910 and a standard deviation of 0.97557. These findings corroborate the work of Ferreira and Mandala (2019), who observed that robust budget control systems are crucial for ensuring financial discipline and timely project implementation. When budget execution is tightly monitored, there's reduced room for waste and overspending. Finally, 41.6% strongly agreed that budgetary control practices promote accountability and transparency in financial management, thus enhancing budget absorption. 34.8% agreed, 13.5% were undecided, and 10.1% disagreed, with a mean of 4.0787 and a standard deviation of 0.97962. These results support Mutya (2021), who argued that transparency not only improves public trust but also acts as a deterrent to misallocation of funds.

The overall mean score of 3.9176 with a standard deviation of 1.0197 indicates a high level of agreement among respondents that cost control practices are effectively implemented within the County Government of Nakuru. This suggests that the county has put in place mechanisms to monitor expenditures, manage financial risks, and maintain fiscal discipline. The findings imply that effective cost-control practices are vital to improving budget absorption in the County Government of Nakuru. Strong expense management, risk mitigation, and budgetary control mechanisms ensure funds are used efficiently, reduce waste, and prevent cost overruns that could derail project implementation. Moreover, enforcing financial discipline promotes accountability and

transparency, key factors in fostering public trust and sustainable fiscal performance. By strengthening risk management systems and continuously monitoring expenditure patterns, the county can further enhance its capacity to fully absorb allocated budgets and achieve its development objectives in a timely and efficient manner.

#### 4.4.5 Budget Absorption

The researcher sought to determine the budget absorption of the Nakuru County Government in Kenya. The findings are as indicated in Table 13.

**Table 13**  
*Budget Absorption*

Statements	SA	A	U	D	SD	Mean	Std
	%	%	%	%	%		
The county government has met its revenue targets for the financial year, resulting in improved budget performance.	0	10.3	18.9	40.4	30.4	1.9551	1.11712
The county projects are implemented within the budgetary provisions.	12.4	12.4	16.9	22.5	36.0	2.4382	1.30519
The projects are delivered on time.	0	16.9	18.0	14.6	50.6	1.9292	.93398
The majority of the programs in the budgets have been implemented in the last three years.	20.2	32.6	22.5	24.7	0.0	3.4831	1.07780
Development expenditure typically has a higher execution rate than recurrent spending, thereby contributing to a higher budget absorption rate.	7.9	2.2	10.1	38.2	41.6	1.9562	1.00408
Overall Mean & Std						2.3524	1.0876

From the findings none of the respondents strongly agreed that county government of Nakuru attain its revenue targets in a financial year which has led to improved budget performance, 10.3% of respondents agreed that the 18.9% were neutral, 40.4% disagreed and 30.4% strongly disagreed that county government attain its revenue targets in a financial year which has led to improved budget performance with a mean of 1.9551 and a standard deviation of 1.11712. In addition, 12.4% strongly agreed, 12.4% agreed, 16.9% were undecided, 22.5% disagreed, and 36.0% strongly disagreed that the county projects are implemented within the budgetary provision, with a mean of 2.4382 with a high standard deviation of 1.30519, indicating poor budget adherence.

Regarding whether the projects are delivered on time, none strongly agreed, 16.9% agreed, 18.0% were undecided, 14.6% disagreed, and 50.6% strongly disagreed, with a mean of 1.9292 and a standard deviation of 0.93398. This finding aligns with Maina and Wambua (2022), who reported that procurement delays, political interference, and poor monitoring mechanisms often stall project timelines in counties. Delays reduce the fiscal year's effective execution window, leading to underutilized budgets. When asked whether most programs in the budget have been implemented in the last three years, 20.2% strongly agreed, 32.6% agreed, 22.5% were undecided, and 24.7% disagreed, with a mean of 3.4831 and a standard deviation of 1.07780. This supports Kilonzo and Atambo (2020), who found that implementation rates across counties are often skewed, with recurrent projects favored over capital ones. While some programs are completed, systemic inefficiencies still hinder full absorption.

On whether development expenditure always has a high execution rate as opposed to recurrent spending, hence contributing to a higher budget absorption rate, 7.9% strongly agreed, 2.2% agreed, 10.1% were undecided, 38.2% disagreed, and 41.6% strongly disagreed, with a mean of 1.9562 and a standard deviation of 1.00408. These results

align with Otieno and Koskei (2021), who emphasized that complex procurement processes and limited contractor capacity often delay capital projects. Overall, these findings depict a challenging budget absorption environment in Nakuru County, driven by poor revenue collection, slow project implementation, and inefficiencies in the execution of development budgets.

The overall mean score of 2.3524 with a standard deviation of 1.0876 indicates a generally low level of agreement among respondents that budget absorption is effectively achieved within the County Government of Nakuru. This suggests that the county continues to face challenges in efficiently and on time using its allocated funds. These findings imply that budget absorption in the County Government of Nakuru remains suboptimal due to delayed fund disbursements, weak revenue performance, and inefficiencies in project implementation. Low absorption rates may result in stalled projects, underutilization of development funds, and failure to achieve county development goals.

#### **4.5 Diagnostic Test**

The study conducted three diagnostic tests to validate the assumptions underlying statistical models.

##### **4.5.1 Normality Assumptions Test**

The first diagnostic test the researcher conducted was a normality test to determine whether the data were normally distributed. The results of the normality test are shown in Table 14.

**Table 14**  
*Normality Assumption Test Results*

Variable	Kolmogorov- Smirnov	Sig
Financial Reporting Practices	.282	.667
Cash Flow Management Practices	.228	.877
Capital Expenditure Planning Practices	.236	.912
Cost Control Practices	.236	.877
Budget Absorption	.241	.812

The findings indicated that financial reporting practices had a p-value of .282 (i.e., >0.05) under the Kolmogorov-Smirnov test. Cash flow management practices had a p-value of 0.228 (Kolmogorov-Smirnov), which is > 0.05. Capital expenditure planning practices had a p-value of 0.236 (Kolmogorov-Smirnov), which is > 0.05. Cost control practices had a Kolmogorov-Smirnov p-value of 236 (>0.05), while budget absorption had a Kolmogorov-Smirnov p-value of 241 (>0.05). Since the p-values were greater than the significance level (0.05), the data were normally distributed. This aligns with Freeman (2017), who argues that when  $p > 0.05$ , the data are typically distributed.

#### **4.5.2 Multicollinearity Test**

The study conducted a test for multicollinearity to determine whether the variables are correlated. Ensuring the absence of multicollinearity validates the reliability of regression coefficients. Multicollinearity occurs when two or more independent variables are highly correlated. When multicollinearity is present in a regression model, it can be difficult to determine each independent variable's unique contribution to the outcomes. The study result is presented in Table 15.

**Table 15**  
*Multicollinearity Assumption Test Results*

Variables	Tolerance	VIF
Financial Reporting Practices	.162	6.172
Cash Flow Management Practices	.363	2.755
Capital Expenditure Planning Practices	.889	1.125
Cost Control Practices	.592	1.689
Budget Absorption	.493	2.349

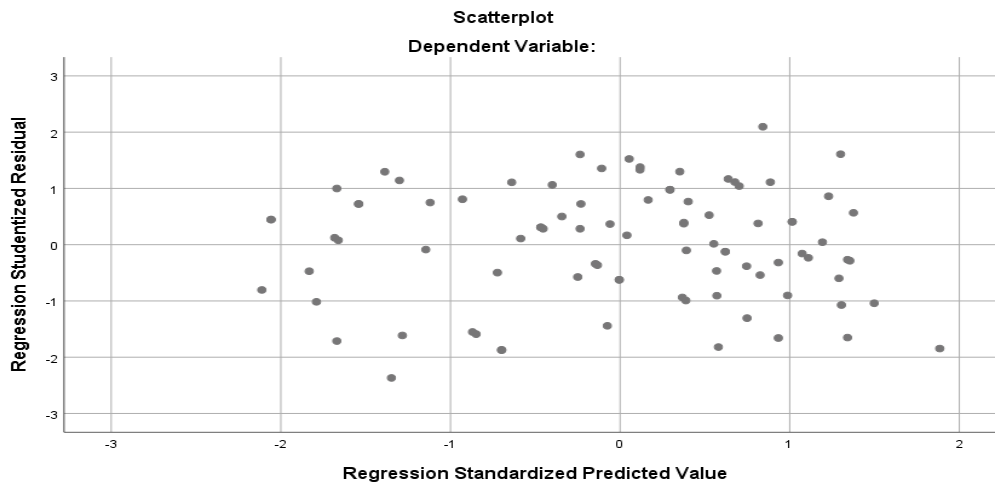
From the findings, the tolerance and variance inflation factor value for financial reporting practices (tolerance=0.162 and VIF=6.172), for cash flow management practices (tolerance=0.363 and VIF=2.755), for capital expenditure planning practices (tolerance=0.889 and VIF=1.125), for the cost control practices (tolerance=0.592 and VIF=1.689), and for budget absorption was (tolerance=4.93 and VIF=2.349). The study results indicate that all tolerance values for the five variables under study were above 0.10, and the VIF values were less than 10, suggesting that the data used did not exhibit multicollinearity. This is in line with Fox (2015), who argued that for the research to be accepted, the Tolerance for all independent variables should be greater than 0.1, and the variance inflation factor (VIF) should be below 10.

#### **4.5.3 Homoscedasticity**

Homoscedasticity is a statistical assumption that the errors (or residuals) in a regression have constant variance. The researcher sought to determine homoscedasticity using a scatterplot diagram. The findings are indicated by the Scatter plot in Figure 2 below.

**Figure 2**

*Homoscedasticity*



Based on the findings, the spots are diffuse and do not form a clear, specific pattern; therefore, the regression model does not exhibit heteroscedasticity. This is in line with Freedman (2016), who argued that the spread and dispersion of residuals across different values of predictors identify violations of homoscedasticity.

#### **4.6 Inferential Statistics**

The study used inferential statistics to determine the nature and strength of relationships among the study variables and to draw conclusions that extend beyond the sampled respondents. The essence of conducting inferential statistics lies in its ability to enable the researcher to make evidence-based generalizations about the study.

##### **4.6.1 Correlation Analysis**

The researcher conducted a correlation analysis to establish the nature and strength of the relationships between the independent and dependent variables of the study.

**Table 16***Correlation Matrix*

		Financial reporting practices	Cash flow management practices	Capital expenditure planning practices	Cost control practices
Financial reporting practices	Pearson Correlation	1	.514**	.749**	.390**
	Sig. (2-tailed)		.000	.000	.000
	N	62	62	62	62
Cash flow management practices	Pearson Correlation	.514**	1	.635**	.585**
	Sig. (2-tailed)	.000		.000	.000
	N	62	62	62	62
Capital expenditure planning practices	Pearson Correlation	.749**	.635**	1	.531**
	Sig. (2-tailed)	.000	.000		.000
	N	62	62	62	62
Cost control practices	Pearson Correlation	.390**	.585**	.531**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	62	62	62	62
Budget Absorption	Pearson Correlation	.566**	.658**	.754**	.793**
	Sig. (2-tailed)	.000	.000	.000	.000
	N	62	62	62	62

From the findings, Pearson's correlation coefficient was 0.566, which is less than 0.05; this indicates a moderate, positive, and statistically significant correlation between financial reporting practices and budget absorption in the county government of Nakuru ( $r=0.566$ ;  $p<0.01$ ). This implies that better financial reporting practices enhance budget absorption in the Nakuru County Government. The study's findings align with those of Santos and Da Silva (2019), who revealed that municipalities with transparent and timely financial reporting systems experienced higher budget absorption. Effective financial reporting facilitated resource allocation decisions and enhanced accountability, thereby improving service delivery and infrastructure development. The study's findings further

align with those of Ouedraogo and Nwosu (2020), who found that urban counties with more robust financial reporting systems tended to exhibit higher budget absorption than rural counties. Transparent financial reporting enhanced accountability and improved the efficiency of resource allocation, resulting in improved service delivery outcomes in urban areas.

Moreover, Pearson's correlation coefficient was 0.658, which is less than 0.05; this indicates a moderate, positive, and statistically significant correlation between cash flow management practices and budget absorption in the county government of Nakuru. This means that better cash flow management practices enhance budget absorption in the Nakuru County Government. The study's findings align with those of Rahman and Eshun (2021), who found that SMEs with effective cash flow management practices demonstrated higher budget absorption, thereby improving business performance and creating growth opportunities. The study further aligns with Ongoi and Ofori (2020), who found that MFIs with effective cash flow management practices demonstrated higher budget absorption, thereby increasing financial sustainability and outreach to underserved communities.

Furthermore, the Pearson's correlation coefficient was 0.754, which is less than 0.05; this indicates a strong, positive, and statistically significant correlation between capital expenditure planning practices and budget absorption in the county government of Nakuru. This means that better capital expenditure planning practices enhance budget absorption in the Nakuru County Government. The study's findings align with those of Santana and Choi (2021), which showed that projects with effective capital expenditure planning practices demonstrated higher budget absorption, resulting in improved educational facilities and learning environments. Moreover, the study's findings align with those of Gomez and Mohammed (2021), who found that projects with effective

capital expenditure planning practices exhibited higher budget absorption, thereby improving access to clean water and sanitation facilities.

Finally, Pearson's correlation coefficient was 0.793, which is less than 0.05; this indicates a strong, positive, and statistically significant correlation between cost control practices and budget absorption in the county government of Nakuru. This means that better cost-control practices enhance budget absorption in the Nakuru County Government. The study's findings align with those of Soweto and Gumbasi (2020), who found that projects with effective cost control practices demonstrated higher budget absorption, leading to timely completion and improved infrastructure development. The study's findings also align with those of Kamau and Manyaga (2020), who found that universities with effective cost-control practices demonstrated higher budget absorption, thereby improving educational quality and student outcomes.

Overall, the correlation results revealed varying levels of association between the financial management practices and budget absorption in the County Government of Nakuru, Kenya. Financial reporting demonstrated a moderate positive and statistically significant relationship with budget absorption ( $r = 0.566$ ;  $p < 0.01$ ), indicating that improvements in financial reporting moderately enhance the county's ability to absorb its budget. Cash flow management also exhibited a moderate, positive, and significant correlation with budget absorption ( $r = 0.658$ ;  $p < 0.01$ ), suggesting a slightly more decisive influence than financial reporting and highlighting the importance of effective cash flow practices in ensuring timely expenditure.

Capital expenditure planning recorded a strong positive and statistically significant correlation with budget absorption ( $r = 0.754$ ;  $p < 0.01$ ), demonstrating that well-structured capital planning substantially boosts the county's capacity to utilize allocated resources. Cost control practices showed the strongest, statistically significant positive

correlation with budget absorption ( $r = 0.793$ ;  $p < 0.01$ ), suggesting that stronger cost control mechanisms play a critical role in maximizing budget utilization. Collectively, these results indicate that while all financial management practices positively influence budget absorption, cost control, and capital expenditure planning, cost control and capital expenditure planning have the most pronounced effects within the county government.

#### 4.6.2 Regression Analysis

The study conducted a multiple regression to assess the relationship between each independent variable and the dependent variable.

##### *Model Summary*

The researcher sought to determine the R<sup>2</sup> value. The R-squared is the proportion of variance in the dependent variable that the independent variables can explain.

**Table 17**

##### *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of	Sig. F Change
1	.828	.686	.675	.42268	.000

The adjusted R-squared value of 0.686 indicates that the four independent variables, financial reporting practices, cash flow management practices, capital expenditure planning practices, and cost control practices, jointly explain approximately 68.6% of the variation in budget absorption in the County Government of Nakuru. This demonstrates that the regression model has strong explanatory power, indicating that these financial management practices are substantial predictors of how effectively the county utilizes its allocated budget.

The remaining 31.4% of the variation is attributed to other factors not captured within the model, suggesting that additional organizational, institutional, or contextual

dynamics also influence budget absorption. The results underscore that the four predictors are critical determinants of budget absorption outcomes in the county government. Furthermore, the model's validity is supported by diagnostic tests conducted in the study, which confirmed that key regression assumptions, including normality of residuals, homoscedasticity, and absence of multicollinearity, were satisfactorily met. This affirms that the regression results are statistically reliable and robust for interpretation.

### *Analysis of Variance*

The analysis of variance in this study was used to determine whether the model is a good fit for the data. The findings are indicated in Table 18.

**Table 18**

*Analysis of Variance*

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	33.176	4	8.294	31.1333	.000 <sup>b</sup>
1	Residual	15.186	57	.2664		
	Total	48.362	61			

a. Dependent Variable: Budget absorption in the county government of Nakuru.

b. Predictors: (Constant), (Financial Reporting Practices, Cash Flow Management Practices, Capital Expenditure Planning Practices, and Cost Control Practices).

From the findings, the p-value was 0.000, which is less than 0.05; hence, the model is good at predicting how the four independent variables (financial reporting practices, cash flow management practices, capital expenditure planning practices, and cost control practices) affect budget absorption in the county government of Nakuru. Further, the F-value was 31.133, indicating that the model fit in predicting the effect of the independent variables on the dependent variable.

**Overall Regression Model**

Table 19 shows the overall significant test results for the hypothesized research model.

**Table 19**  
*Regression Results*

Model	Unstandardized		Standardized	T	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	.425	.341		1.246	.216
Financial reporting practices	.619	.146	.587	4.235	.000
Cash flow management practices	.379	.150	.348	2.528	.013
Capital expenditure planning practices	.794	.125	.597	6.356	.000
Cost Control Practices	.468	.153	.321	3.059	.011

The interpretations of the findings follow the following regression model.

$$Y = 0.425 + 0.619X_1 + 0.379 X_2 + 0.794X_3 + 0.468X_4 \dots\dots\dots 4.1$$

According to the intercept ( $\beta_0$ ), when the four independent variables are held constant, the value of budget absorption for the Nakuru County Government is 0.425. In addition, holding all other independent variables constant, a unit increase in financial reporting practices would lead to a 0.619-unit increase in budget absorption in the county government of Nakuru. Further, holding all other independent variables constant, a unit increase in cash flow management practices would lead to a 0.379-unit increase in budget absorption in the county government of Nakuru.

Further, holding all other variables constant, a unit increase in capital expenditure planning practices would lead to a 0.794-unit increase in budget absorption in the county government of Nakuru. The findings further revealed that, holding all other variables constant, a unit increase in cost control practices would lead to a 0.468-unit increase in budget absorption in the county government of Nakuru.

### **4.6.3 Hypothesis Testing**

The study sought to test the first hypothesis,  $H_{01}$ : Financial reporting practices have no statistically significant effect on budget absorption in the county government of Nakuru. The p-value for financial reporting was  $0.000 \leq 0.05$ . Therefore, the study rejects the null hypothesis and concludes that financial reporting practices have a statistically significant effect on budget absorption in the county government of Nakuru. The study's findings align with those of Khalid and Nyawira (2022), which revealed a positive association between transparent financial reporting practices and budget absorption rates in South African municipalities. Municipalities with consistent, accurate financial reporting demonstrated higher budget absorption, leading to improved service delivery outcomes. The findings also concur with those of Odhiambo (2022), suggesting a positive correlation between enhanced financial reporting practices and improved budget absorption. The study concluded by advocating that African corporations strengthen financial reporting mechanisms to optimize budget absorption.

The study sought to test the second hypothesis,  $H_{02}$ : Cash flow management practices have no statistically significant effect on budget absorption in the county government of Nakuru. The p-value for cash flow management practices was 0.013, which is  $\leq 0.05$ . Thus, the study rejects the null hypothesis and concludes that cash flow management practices have a statistically significant effect on budget absorption in the county government of Nakuru. The study's findings align with those of Chen and Singh (2021), who suggested that proactive cash flow forecasting positively influences budget absorption, thereby enhancing financial stability. The study concluded by advocating that Southeast Asian enterprises prioritize accurate cash flow forecasting to optimize budget absorption.

The study further sought to test the third hypothesis, which states that H0<sub>3</sub>: Capital expenditure planning practices have no statistically significant effect on budget absorption in the county government of Nakuru. The p-value was  $0.00 \leq 0.05$ . Therefore, the study rejected the null hypothesis, indicating that capital expenditure planning practices have a statistically significant effect on budget absorption in the county government of Nakuru. The study's findings align with those of Schmidt and Petrov (2020), who suggested that effective capital expenditure planning positively influences budget absorption, fostering sustainable growth in Northern European companies. The study concluded by advocating the adoption of strategic capital investment frameworks to improve budget absorption. Moreover, the study aligns with Sakina and Mandela (2022) in finding that projects with effective capital expenditure planning practices exhibit higher budget absorption, thereby improving housing provision and socio-economic development.

The study further sought to test the fourth hypothesis, which states that H0<sub>4</sub>: Cost control practices have no statistically significant effect on budget absorption in the county government of Nakuru. The p-value was  $0.00 \leq 0.05$ . Therefore, the study rejected the null hypothesis, indicating that cost control practices have a statistically significant effect on budget absorption in the county government of Nakuru. The study agrees with Ferreira and Mandala (2019), who found that MFIs with effective cost-control practices demonstrated higher budget absorption, leading to greater financial sustainability and outreach to underserved communities. Moreover, Mutya (2021) also clearly shows that cost control and organizational success are positively and significantly related.

**Table 20***Summary Table*

Hypotheses	Findings	Decision
H0 <sub>1</sub> : Financial reporting has no statistically significant effect on budget absorption in the county government of Nakuru.	$p=0.000 \leq 0.05$	Reject Null Hypothesis
H0 <sub>2</sub> : Cash flow management has no statistically significant effect on budget absorption in the county government of Nakuru.	$p=0.013 \leq 0.05$	Reject Null Hypothesis
H0 <sub>3</sub> : Capital expenditure planning has no statistically significant effect on budget absorption in the county government of Nakuru.	$p=0.000 \leq 0.05$	Reject Null Hypothesis
H0 <sub>4</sub> : Cost control has no statistically significant effect on budget absorption in the county government of Nakuru.	$p=0.011 \leq 0.05$	Reject Null Hypothesis

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides a detailed summary of the study's significant findings, then concludes and discusses their implications. Finally, it offers recommendations and suggestions for further research. The main aim of this study was to assess the effect of financial management practices on budget absorption in the County Government of Nakuru, Kenya.

#### **5.2 Summary of Major Findings**

The study sought to summarize the key findings. Specific objectives are categorized in the summary.

##### **5.2.1 Financial Reporting Practices and Budget Absorption**

The study established that transparent and accurate financial reporting has a significant positive effect on budget absorption in the County Government of Nakuru. Respondents affirmed that timely disclosure of financial information enhances efficiency in the use of public funds, strengthens accountability, and promotes public confidence in government spending. Reliable financial data was found to improve departmental decision-making by enabling the effective allocation of funds to priority areas, thereby aligning budget planning with implementation. The findings also indicated that adherence to reporting regulations and audit standards enhances oversight and reduces opportunities for misuse of resources. Overall, the results suggest that effective financial reporting not only fosters fiscal discipline but also provides a credible foundation for monitoring expenditures, thereby enhancing the county's capacity to absorb allocated budgets efficiently.

These findings align with Agency Theory, which posits that transparency and accountability reduce information asymmetry between public officials (agents) and citizens or oversight institutions (principals). By providing timely and accurate financial reports, the county minimizes opportunities for mismanagement and aligns public officials' actions with public interest. The findings also resonate with Transaction Cost Economics Theory, as improved reporting reduces monitoring costs and enhances oversight efficiency. Additionally, adherence to reporting standards strengthens trust and reduces uncertainty, thereby supporting better decision-making in line with theoretical expectations.

### **5.2.2 Cash Flow Management Practices and Budget Absorption**

The study found that effective cash flow management plays a critical role in improving budget absorption in the County Government of Nakuru. The use of accurate cash flow forecasts and projections was observed to enhance the predictability of funds, ensuring that expenditures are aligned with available resources. This alignment promotes fiscal discipline, minimizes implementation delays, and enables timely adjustments to spending priorities. The findings further indicated that well-structured cash budgeting practices reduce dependence on external borrowing and safeguard the county from unplanned financial shocks. However, the study also revealed that debt management practices remain weak and poorly integrated within the county's financial systems, creating inconsistencies between borrowing strategies and budget performance outcomes. Overall, sound cash flow management supports the smooth execution of projects and enhances the county's ability to utilize its allocated budget effectively.

The observed importance of cash flow forecasting and predictability supports Liquidity Preference Theory, which emphasizes maintaining adequate liquidity to meet obligations and avoid financial disruptions. Effective cash budgeting reduces reliance on costly

borrowing, reflecting the theory's argument that entities prefer internal liquidity buffers before seeking external financing. The weakness in debt management aligns with the Pecking Order Theory, which suggests that organizations that are inefficient in internal financial planning often rely on external funding in a suboptimal manner. The findings also align with Agency Theory, as enhanced cash flow controls reduce opportunities for misuse and better align managers' decisions with public financial goals.

### **5.2.3 Capital Expenditure Planning Practices and Budget Absorption**

The study findings revealed that capital expenditure planning significantly influences budget absorption in the County Government of Nakuru. The findings indicated that systematic needs assessment and evidence-based project prioritization enhance the relevance and effectiveness of development spending. By aligning project selection with strategic objectives and community demands, the county improved planning coherence and ensured resources were directed toward projects with the highest socioeconomic impact. The results further showed that rigorous project appraisal and transparent allocation procedures minimize fiscal wastage and strengthen accountability in capital spending. Flexibility in reallocating funds based on emerging needs also improved responsiveness during implementation. Overall, the study concluded that sound capital expenditure planning enhances the efficiency and timeliness of project execution, thereby improving overall budget absorption levels within the county.

The results strongly align with Transaction Cost Economics Theory, as rigorous appraisal and transparent project selection help reduce wastage, inefficiencies, and bureaucratic delays, thereby lowering transaction costs during implementation. The emphasis on evidence-based prioritization supports Agency Theory, which underscores the need for public officials to act in the best interests of citizens through transparent, accountable decision-making. Flexibility in reallocating funds aligns with the principles

of Liquidity Preference Theory, which holds that maintaining adaptability in resource allocation helps address emerging needs and uncertainties. The strategic alignment of projects with development goals also complements Pecking Order Theory, which posits that institutions prefer internally planned and prioritized projects over externally imposed ones.

#### **5.2.4 Cost Control Practices and Budget Absorption**

The study findings established that cost control practices have a positive effect on budget absorption in the County Government of Nakuru. The presence of expense management mechanisms was found to enhance fiscal discipline by curbing unnecessary expenditures and ensuring that spending remains within approved limits. Proactive financial controls and regular expenditure reviews enable timely corrective action whenever deviations occur, promoting budget consistency and accountability. The findings also indicated that financial risk management and contingency planning are moderately implemented, helping the county anticipate and respond to potential fiscal shocks. Although these practices are not yet fully institutionalized, they contribute to the county's resilience in managing financial uncertainties. Moreover, well-structured budgetary control systems were shown to strengthen transparency, reduce overspending, and facilitate the timely completion of projects. Overall, effective cost-control practices create an environment of accountability and prudent resource use, thereby enhancing the county's capacity to efficiently absorb allocated funds.

The positive influence of cost control mechanisms supports Transaction Cost Economics Theory, which states that effective monitoring and control systems reduce operational inefficiencies and minimize wastage. Regular expenditure reviews and corrective actions reflect Agency Theory, as they ensure public funds are used responsibly and in line with citizen expectations. Financial risk management practices align with Liquidity

Preference Theory, as anticipating fiscal shocks helps maintain adequate liquidity for uninterrupted implementation. The gradual institutionalization of cost control aligns with Pecking Order Theory, which illustrates a preference for strengthening internal financial systems before resorting to external interventions.

### **5.2.5 Budget Absorption**

The study found that the County Government of Nakuru continues to experience challenges in achieving complete budget absorption due to persistent revenue shortfalls and weak financial planning. Failure to meet revenue targets limits the availability of funds for development projects and undermines overall budget execution. The results further indicated that most county projects are implemented beyond their planned timelines, reflecting inefficiencies in procurement processes, governance, and interdepartmental coordination. Although some programs have been completed within the past three years, implementation has been inconsistent, suggesting underlying structural and capacity gaps that hinder steady progress. The study also established that development expenditure lags significantly behind recurrent spending, resulting in underutilization of capital budgets. These findings collectively point to systemic weaknesses in financial management and institutional capacity that continue to constrain the county's ability to absorb allocated funds and fully achieve its development objectives.

## **5.3 Conclusions**

### **5.3.1 Financial Reporting Practices and Budget Absorption**

From the findings, the study concluded that financial reporting practices have a statistically significant effect on budget absorption in the County Government of Nakuru. Transparent, accurate, and timely financial reporting enhances accountability, strengthens fiscal discipline, and facilitates informed decision-making in resource

allocation. The findings align with those of Santos and Da Silva (2019), who observed that municipalities with robust financial reporting systems achieved higher budget absorption due to improved oversight and greater public trust. Consistent with these results, effective financial reporting enables departments to plan and execute budgets more efficiently, minimizes misappropriation of funds, and promotes the efficient implementation of development projects. Overall, the study affirms that sound financial reporting is a key driver of fiscal efficiency and improved absorption of public resources.

### **5.3.2 Cash Flow Management Practices and Budget Absorption**

The study further concluded that cash flow management practices have a statistically significant effect on budget absorption in the county government of Nakuru. This implies that effective cash flow management practices are essential for improving budget absorption in the County Government of Nakuru. When cash inflows and outflows are adequately planned, monitored, and aligned with expenditure needs, the county can ensure timely project implementation and avoid disruptions caused by cash shortages or delayed disbursements. The study's findings align with those of Rahman and Eshun (2021), who found that SMEs with effective cash flow management practices demonstrated higher budget absorption, thereby improving business performance and creating growth opportunities.

### **5.3.3 Capital Expenditure Planning Practices and Budget Absorption**

Based on the findings, the study concluded that cash flow management practices have a statistically significant effect on budget absorption in the County Government of Nakuru. Effective forecasting and monitoring of cash inflows and outflows were found to enhance fiscal discipline, minimize budget implementation delays, and ensure that expenditures align with available financial resources. These practices enable the county to anticipate revenue shortfalls or surpluses and make timely adjustments that improve

the efficiency of fund utilization. The findings are consistent with those of Rahman and Eshun (2021), who reported that entities with sound cash flow management frameworks achieved higher budget absorption and improved financial performance. In the context of county governance, efficient cash flow management reduces the risk of funding gaps, enhances the predictability of financial operations, and supports the timely execution of development projects.

#### **5.3.4 Cost Control Practices and Budget Absorption**

From the results, the study concluded that cost control practices have a statistically significant effect on budget absorption in the County Government of Nakuru. Effective cost management mechanisms were found to promote fiscal discipline by preventing unnecessary expenditures, ensuring efficient resource use, and facilitating the timely completion of projects. The implementation of proactive financial controls and expenditure monitoring helped maintain spending within approved limits, thereby minimizing wastage and promoting accountability. These findings are consistent with those of Soweto and Gumbasi (2020), who observed that institutions with robust cost control systems achieved higher budget absorption and improved project outcomes. In the context of county governance, strong cost-control practices foster a culture of financial responsibility and transparency, enhancing public trust and optimizing the use of allocated development funds.

### **5.4 Recommendations**

#### **5.4.1 Financial Reporting Practices and Budget Absorption**

The study recommends that the Heads of departments consistently submit monthly budget utilization reports to promote transparency and inter-departmental accountability. Furthermore, the County assembly public accounts committee was recommended to strengthen its oversight role by reviewing and publicizing financial performance audits to

increase public trust and pressure for compliance. In addition, the County Government of Nakuru should amend the County Public Finance Management Policy to make monthly budget utilization reporting mandatory for all departments, with non-compliance attracting sanctions under the County Government Act, 2012, and direct the County Assembly to enact a standing order requiring quarterly public disclosure of financial audit findings.

#### **5.4.2 Cash Flow Management Practices and Budget Absorption**

The study recommended that the director of budget should institutionalize the use of rolling cash flow forecasts to improve the predictability of disbursements and minimize implementation delays. Additionally, the Treasury cash management unit was recommended to align disbursement schedules with project timelines to prevent idle funds or bottlenecks. The County executive committee member for finance was also recommended to adopt a debt strategy that integrates repayment planning with budget execution, thereby reducing fiscal vulnerability and ensuring smoother budget absorption. Further, the study recommended the County Treasury to formulate and gazette a Cash Flow Management Policy that mandates the preparation and submission of rolling 12-month cash flow forecasts updated monthly, establishes a Cash Management Committee chaired by the Chief Officer Finance, and requires all debt contracting to be accompanied by a Debt Sustainability Impact Assessment integrated into the annual budget process as required under Section 107 of the Public Finance Management Act, 2012.

#### **5.4.3 Capital Expenditure Planning Practices and Budget Absorption**

The study recommended that the director of planning and development establish a participatory needs assessment framework involving local communities to guide the selection of high-impact capital projects. It also recommended that the County

Infrastructure and Public Works unit adopt structured project appraisal tools to assess technical and financial viability before funding. Moreover, the County monitoring and evaluation directorate was recommended to institutionalize capital project performance and provide real-time feedback for adaptive budget reallocation, thereby improving absorption efficiency. The study also recommends the County Government to develop and adopt a Capital Expenditure Planning Policy that institutionalizes annual participatory public needs assessment forums at ward level, mandates the use of standardized project appraisal templates (including cost–benefit analysis and risk assessment) for all projects above KSh 50 million, and establishes a County Project Management Information System for real-time monitoring and quarterly performance reporting to the County Executive Committee.

#### **5.4.4 Cost Control Practices and Budget Absorption**

The study recommended that the internal audit department strengthen its oversight role by conducting quarterly expenditure reviews to flag wastage and enforce cost control measures. The director of procurement was also recommended to enhance procurement planning to reduce cost overruns and avoid delayed project starts. Furthermore, the County budget controller was recommended to enforce expenditure ceilings and ensure that all departments adhere to approved cost benchmarks, thereby promoting financial discipline and timely project completion. The study also recommended that the County revise its Internal Audit and Procurement Policies to require quarterly value-for-money audits with mandatory follow-up action plans, enforce multi-year procurement planning linked to the County Integrated Development Plan, and introduce automated commitment control modules in the IFMIS that block expenditures exceeding approved budgetary ceilings, with disciplinary measures for violations as provided under the Public Finance Management Regulations.

## **5.5 Suggestions for Further Studies**

The current study examined the effect of selected financial management practices on budget absorption in the County Government of Nakuru using a census-based descriptive design. While the findings provide valuable insights specific to this context, several opportunities exist for future research to enhance generalizability, establish causality, and explore additional influencing factors.

Future studies could undertake comparative analyses across multiple Kenyan counties to assess how differences in institutional capacity, own-source revenue generation, and governance structures moderate the relationship between financial management practices and budget absorption rates. Such research would determine whether the observed effects are consistent nationwide or vary significantly across counties.

Researchers may also investigate the mediating or moderating roles of political interference, leadership commitment, and the timeliness of intergovernmental fiscal transfers on the effectiveness of financial management practices. Adopting mixed-methods designs would allow for a deeper understanding of both quantitative impacts and qualitative dynamics in budget execution.

A longitudinal investigation tracking the implementation and outcomes of the policy interventions proposed in this study such as mandatory rolling cash flow forecasting, participatory capital project appraisal frameworks, and automated commitment controls over at least three fiscal years would be beneficial. This approach would evaluate the practical sustainability and long-term effects of these reforms on absorption performance.

Further inquiry into the influence of staff competency levels, targeted training programs, and advanced enhancements to the Integrated Financial Management Information

System (IFMIS) on the efficacy of financial reporting, cash flow management, capital expenditure planning, and cost control practices is warranted. Such studies could identify critical human and technological enablers required for optimal budget execution.

Finally, replicating the research framework in other devolved or federal systems within East Africa, including Uganda, Tanzania, or Ethiopia, would test the generalizability of the findings and highlight context-specific factors that affect budget absorption under decentralized governance. These extensions would strengthen the evidence base for public financial management reforms across the region.

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## APPENDICES

### **Appendix I:** Letter of Introduction

Newton Karanja Wakanyi  
P.O. BOX 10-20157,  
Kabarak.

Dear Respondent,

#### **Ref: Request for Permission to Collect Data**

I am a postgraduate student at Kabarak University. As part of my fulfillment of the requirements of the said program, I am currently conducting fieldwork for my project. The topic of my research is: “*Financial Management Practices and Budget Absorption in the County Government of Nakuru, Kenya.*” Regarding the data collected, I hereby and committedly declare that the information provided will be used strictly for academic purposes only. Participation is voluntary, and a respondent can terminate their participation at any time without giving a reason.

Yours Faithfully

Newton Karanja Wakanyi  
Kabarak University

## Appendix II: Informed Consent Form



### **Kabarak University Research Ethics Committee Adult Informed Consent Form (Template)**

*(The form is written in the English language, but can be translated to Kiswahili or any other appropriate language.)*

**Study Title:** Financial Management Practices And Budget Absorption In The County Government Of Nakuru, Kenya

**PI:** Wakanyi Newton Karanja\_ **Affiliated Institution:** Kabarak University

**Co-investigator(s)** Dr. Stella Korir & Dr. Symon Kiprop

Affiliated Institution(s) Kabarak University

#### **Introduction**

You are invited to participate in this research study being undertaken by the above- listed investigators. This form will help you gather information about the survey so you can decide whether to participate voluntarily. You are encouraged to ask any questions regarding the research process, as well as any benefits or risks that you may accrue by participating. After you have been adequately informed about the study, you will be requested to either agree or decline to participate. Upon deciding to participate in the survey, you will be further asked to affirm that by appending your signature/thumbprint on this form. Accepting or declining to participate in this study does not in any way waive the following rights, which you're entitled to:

Voluntary participation in the study;

Withdrawing from the study at any time without the obligation of having to explain and

Access to services that you're entitled to

A copy of this form will be provided to you for your own records. Should I continue?

YES/NO     YES    

This study has been reviewed and approved by Kabarak University Research Ethics Committee (KUREC)

**What is the Purpose of the Study?**

The main reason(s) for conducting this study are to answer the following questions:

What is the effect of financial reporting practices on budget absorption in the county government of Nakuru, Kenya?

What is the effect of cashflow management practices on budget absorption in the county government of Nakuru, Kenya?

What is the effect of capital expenditure planning practices on budget absorption in the county government of Nakuru, Kenya?

What is the effect of cost control practices on budget absorption in the county government of Nakuru, Kenya?

**Who can Take Part in the Study?**

Outline the inclusion and exclusion criteria.

The study will include 87 employees directly involved in financial planning, reporting, and budget implementation within the County Government of Nakuru. These will comprise directors in the county treasury, county treasury staff, accounting officers from county departments, accountants in county entities, and sub-county administrators.

The study will exclude employees who are not involved in financial decision-making or budget implementation within the county government. This includes clerical staff, support personnel, interns, and other officers.

**Specify the sample size**

The study will adopt a census technique to include all 87 targeted respondents.

**In Case You Agree to Participate in the Study, What Will Happen**

This is what is going to happen once you have agreed to participate in the study:

*First, the interview will take less than one hour, after which you are at liberty to fill the questionnaire immediately or within a period of two weeks.*

- *Second, a qualified, well-trained interviewer will ask you questions in a private place where you feel comfortable. In case there is any question you feel uncomfortable responding to, you will not be coerced into responding. The questions will be on the following areas:*
  - i. *Financial reporting practices*
  - ii. *Cash flow management practices*
  - iii. *Capital expenditure planning practices*
  - iv. *Cost control practices*
  - v. *Budget absorption*

*Third, after the interview, the following procedures will be done*

*The questionnaires will be cleaned and edited before being coded and further analyzed.*

- *Lastly, you are requested to provide your contact details (phone number or another reliable contact method). This will help reach you in case new information regarding the study emerges. Other reason(s) for requesting your contact details are)*

*Give recommendations after data analysis.*

*The contact details you will provide shall remain confidential to the lead researcher (Wakanyi Newton Karanja).*

### **What Potential Risks are Associated with Participation in this Study?**

Any research involving human subjects has the potential to impose several risks/harm, or discomfort, including psychological, physical, emotional, environmental, and cultural risks.

*Participation in this study doesn't pose any risk or harm to you.*

### **Privacy & Confidentiality**

Privacy is the right of an individual to have some control over how their personal information/data is collected, used, and/or disclosed. Confidentiality is the duty to ensure information (data) is kept secret only to the extent possible/reasonable.

*To ensure participants' privacy and confidentiality are upheld, the researcher will maintain respondents' anonymity from the collection of information through the*

*dissemination of findings and the disposal of records or devices on which the data is stored.*

*In case you aren't comfortable answering any of the questions during the interview because of feeling embarrassed or uncomfortable, it will be within your rights to decline. Otherwise, every measure has been taken to ensure the interview is conducted in a private area with minimal to no interference, so you feel comfortable.*

*In case of clinical procedures: You may experience some discomfort/pain after*

*{State the procedure}. No Clinical Procedure Required. This may even cause some.*

If at all you suffer any injury, illness, or complication(s) by participating in this study, kindly contact us immediately using the contact details provided at the bottom of this form. The study clinician will attend to you, and if there is a need for further assessment or treatment, you will be referred accordingly.

**What Benefits are you going to accrue by participating in the Study**

This study will benefit the County Government of Nakuru by identifying ways to improve budget absorption through better financial management practices, thereby increasing development and the efficient use of public funds. It will also offer valuable lessons for other counties in Kenya and contribute to academic knowledge on public finance.

**What Will it Cost You to Participate in the Study?**

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*Participating in the study will not cost you anything.*

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**Will Any Expenditure that You Incur by Participating in the Study be Refunded?  
Or will you be paid for participating in the Study?**

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*Participating in the study will not cost you anything.*

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**In Case I have any Further Questions/Concerns in the Future, Whom Should I contact?**

If you need further clarification or have any questions regarding your continued participation in the study, feel free to contact the PI, {*Wakanyi Newton Karanja +254 705 191 977*}. In case of concerns regarding your rights and/or obligations as a research participant, do not hesitate to contact the secretary, KUREC on {*+254 722 587 768*}

**What Alternative Options are Available to Me?**

*Participation is entirely voluntary. You will be free to withdraw from the study at any point during the survey without providing any explanation.*

**How Will the Findings of this Study be Communicated or Shared?**

*The feedback on the study findings will be shared with you personally or with your firm's management.*

**Statement of Consent**

I have comprehensively read the consent form, or/the information has been comprehensively read to me by the researcher. I understand what the study is about, and all the questions and concerns I had have been addressed clearly and concisely. The study benefits and foreseeable risks have been explained to me. I totally understand that my decision to participate in this study is voluntary, and I have the right to withdraw at any point during the study.

I freely consent to participate in this study.

Signing this form does not in any way imply that I have given up the rights I am entitled to as a participant.

I agree to participate in this research. YES \_\_\_ NO \_\_\_

I agree to provide my contact details for follow-up. YES \_\_\_ NO \_\_\_

Participant's Name

Participant's Signature/Thumbprint Date \_\_\_\_

### Appendix III: Research Questionnaire

This questionnaire is an integral part of a study titled: *“Financial Management Practices And Budget Absorption In The County Government Of Nakuru, Kenya.”*

You are kindly requested to give precise and honest information. Please fill in the required information in the spaces provided by placing a tick (✓) where appropriate.

#### Section A: Demographics

1. What is your gender?

Male ( )

Female ( )

2. Highest education qualification attained

: a) Diploma ( )

b) Undergraduate ( )

c) Postgraduate ( )

3. How long have you been working in the County Government?

Less than 1 year ( )

2-5 Years ( )

6-10 Years ( )

More than 10 Years ( )

#### Section B: Financial Reporting Practices

On a scale of 1-5, indicate the level of agreement regarding the following statement on the financial reporting practices on budget absorption in the county government of Nakuru. Key 5= Strongly Agree, 4= Agree, 3= Undecided, 2= Disagree and 1= Strongly Disagreed

Statement	5	4	3	2	1
The county government has adopted transparent financial reporting practices to ensure that public funds are used efficiently.					
Transparency acts as a deterrent to corruption by making it more difficult for officials to conceal misuse of funds.					
Through accurate financial reporting, the County government ensures that funds are allocated to priority areas where they are					

most needed.					
Through accurate reporting, the county government identifies inefficiencies or overspending, enabling timely adjustments to budgetary allocations.					
Compliance with regulations ensures that the county government adheres to legal requirements and avoids penalties.					
Compliance with regulations enhances the credibility of financial reports, both internally and externally.					

### Section C: Cash Flow Management Practices

On a scale of 1-5, indicate the level of agreement regarding the following statement on the effect of cash flow management practices on budget absorption in the county government of Nakuru. Key 5= Strongly Agree, 4= Agree, 3= Undecided, 2= Disagree, and 1= Strongly Disagree.

Statement	5	4	3	2	1
Cash forecasts provide valuable insights for financial planning and decision-making within the county government.					
Cash forecasting enables the county government to identify potential cash surpluses or deficits, allowing for timely adjustments to budget allocations.					
Cash flow budgeting ensures that the county government's spending plans are aligned with its available cash resources.					
Through cash flow budgeting, the county government minimizes reliance on external financing to cover cash shortfalls.					
Effective debt management ensures that the county's borrowing activities align with budget absorption.					
Prudent debt management practices help the government mitigate financial risks associated with borrowing.					

### Section D: Capital Expenditure Planning Practices

On a scale of 1-5, indicate the level of agreement regarding the following statement on the effect of capital expenditure planning practices on budget absorption in the county government of Nakuru. Key 5= Strongly Agree, 4= Agree, 3= Undecided, 2= Disagree and 1= Strongly Disagreed

Statement	5	4	3	2	1
The county government conducts a needs assessment to identify areas that require investment in capital projects.					
A needs assessment allows the government to prioritize capital projects based on their urgency and importance.					
Project selection ensures that capital expenditure initiatives align with the county government's strategic objectives and development priorities.					
Rigorous project selection processes help mitigate the risk of investing in projects that may not deliver the expected benefits.					
Flexible budget allocation processes allow the government to respond to changing needs and circumstances.					
Transparent budget allocation promotes accountability by ensuring that resource decisions are made openly.					

### Section E: Cost Control Practices

On a scale of 1-5, indicate the level of agreement regarding the following statement on the effect of cost control practices on budget absorption in the county government of Nakuru. Key 5= Strongly Agree, 4= Agree, 3= Undecided, 2= Disagree and 1= Strongly Disagreed

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Through expense management, the county government controls and reduces unnecessary expenditures.					
Proactive expense management enables the government to stay within budgetary limits and prevent overspending.					
Effective risk management practices help the county government to assess and mitigate potential financial risks.					
Risk management facilitates the development of contingency plans to address unexpected events.					
Budgetary control practices instill financial discipline within the county government by establishing mechanisms to monitor and regulate spending activities.					
Budgetary control practices promote accountability and transparency in financial management, thus enhancing budget absorption.					

### **Section F: Budget Absorption**

On a scale of 1-5, indicate the level of agreement regarding the following statement on the budget absorption of the county government of Nakuru, Kenya. Key 5= Strongly Agree, 4= Agree, 3= Undecided, 2= Disagree, and 1= Strongly Disagree. Key 5= Strongly Agree, 4= Agree, 3= Undecided, 2= Disagree and 1= Strongly Disagreed

<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
The county government has met its revenue targets for the financial year, resulting in improved budget performance.					
The county projects are implemented within the budgetary provisions.					
The projects are delivered on time.					
The majority of the programs in the budgets have been implemented in the last three years.					
Development expenditure always has a high execution rate as opposed to recurrent spending, hence contributing to a higher budget absorption rate.					

Thank you

## Appendix IV: KUREC Clearance Letter



### KABARAK UNIVERSITY RESEARCH ETHICS COMMITTEE

Private Bag - 20157  
KABARAK, KENYA  
Email: [kurec@kabarak.ac.ke](mailto:kurec@kabarak.ac.ke)

Tel: 254-51-343234/5  
Fax: 254-051-343529  
[www.kabarak.ac.ke](http://www.kabarak.ac.ke)

OUR REF: KABU01/KUREC/001/13/05/25

Date: 12<sup>th</sup> May, 2025

Newton Karanja Wakanyi  
Reg. No: GMB/ON/0173/01/23  
Kabarak University,

Dear Newton,

**RE: EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON THE BUDGET  
ABSORPTION IN THE COUNTY GOVERNMENT OF NAKURU, KENYA**

This is to inform you that **KUREC** has reviewed and approved your above research proposal. Your application approval number is **KUREC-130525**. The approval period is **12/05/2025 – 12/05/2026**.

This approval is subject to compliance with the following requirements:

- i. All researchers shall obtain an introduction letter to NACOSTI from the relevant head of institutions (Institute of postgraduate, School dean or Directorate of research)
- ii. The researcher shall further obtain a RESEARCH PERMIT from NACOSTI before commencement of data collection & submit a copy of the permit to **KUREC**.
- iii. Only approved documents including (informed consents, study instruments, MTA Material Transfer Agreement) will be used
- iv. All changes including (amendments, deviations, and violations) are submitted for review and approval by **KUREC**.
- v. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **KUREC** within 72 hours of notification;
- vi. Any changes, anticipated or otherwise that may increase the risk(s) or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to **KUREC** within 72 hours;
- vii. Clearance for export of biological specimens must be obtained from relevant institutions and submit a copy of the permit to **KUREC**;
- viii. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal and;
- ix. Submission of an executive summary report within 90 days upon completion of the study to **KUREC**

Sincerely,

  
**Prof. Jackson Kitetu PhD.**  
KUREC-Chairman

Cc Vice Chancellor  
DVC-Academic & Research  
Registrar-Academic & Research  
Director-Research Innovation & Outreach  
Institute of Post Graduate Studies



As members of Kabarak family, we purpose at all times and in all places, to set apart in one's heart, Jesus as Lord.  
(1 Peter 3:15)

Kabarak University is ISO 9001:2015 Certified

# Appendix V: NACOSTI Permit Research

REPUBLIC OF KENYA  
Ref No: 794194

**RESEARCH LICENSE**



**This is to Certify that Mr. NEWTON KARANJA WAKANYI of Kabarak University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nakuru on the topic: EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON THE BUDGET ABSORPTION IN THE COUNTY GOVERNMENT OF NAKURU, KENYA for the period ending : 08/June/2026.**

License No: NACOSTI/P/25/4174457

Applicant Identification Number: 794194

Deputy Director  
NATIONAL COMMISSION FOR  
SCIENCE, TECHNOLOGY &  
INNOVATION

Verification QR Code



NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

**Appendix VI: Evidence of Conference Participation**



## Appendix VII: List of Publication

*IOSR Journal of Economics and Finance (IOSR-JEF)*  
e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 16, Issue 5 Ser. 6 (Sept. – Oct. 2025), Pp 01-07  
www.iosrjournals.org

### **Effect of Financial Reporting Practices on Budget Absorption in the County Government of Nakuru**

Newton Karanja Wakanyi

*Student, Kabarak University, School of Business and Economics*

Stella Korir

*Lecturer, Kabarak University, School of Business and Economics*

Symon Kiprop

*Lecturer, Egerton University, Department of Economics*

#### **Abstract**

Effective budgetary process in the county government is important because it helps the county treasury to estimate revenue and expenditure of the funds received from the national government and funds collected from the county government. However, the budgeting process in the county governments in Kenya has been faced with challenges therefore posing a difficulty in achieving the anticipated development. Therefore, this study sought to determine the effect of financial management practices on budget absorption in the County Government of Nakuru. Specifically, the study sought to determine the effect of financial reporting practices on budget absorption in the County Government of Nakuru. The study was anchored on agency theory. The study adopted descriptive research design with a target population of 80 participants involved in budgeting process. The study adopted census technique to incorporate all the 80 targeted respondents. The study relied on primary data collected through questionnaire. A pilot study was done in Kericho County Government where 8 questionnaires were distributed to officers in the county treasury. Both descriptive and inferential statistics were utilized. Descriptive statistics involved the use of percentages, frequencies, mean and standard deviation. Inferential statistic involved the use of regression analysis. After analysis data was presented in form of a table. The findings revealed a unit increase in financial reporting practices would lead to 0.093 units increase in budget absorption in the county government of Nakuru. The study concluded that there was a positive and statistically significant correlation between financial reporting practices on budget absorption in the county government of Nakuru. From the findings this study recommended that the County Government of Nakuru should strengthen its financial reporting practices by ensuring timely, transparent, and accurate reporting systems that enhance accountability and contribute to improved budget absorption.

**Key Words:** *Financial Reporting Practices, Budget Absorption, County Government of Nakuru.*

Date of Submission: 13-10-2025

Date of Acceptance: 25-10-2025

#### **I. Introduction**

Budget absorption determines the extent to which allocated funds are utilized within a specified period. It is a pivotal aspect of fiscal management, especially within the context of county governments. Efficient budget absorption is essential for the successful execution of planned activities, the achievement of development goals, and the provision of services to citizens. However, the process is often fraught with challenges such as bureaucratic inefficiencies, delays in disbursements, capacity constraints, and political interference. The importance of budget absorption cannot be overstated (Nakitare, 2019). It is a measure of the financial health and administrative efficiency of county governments. High absorption rates indicate that funds are being used as planned, leading to the timely execution of projects and the delivery of services. Effective budget absorption is crucial for several reasons. First, it ensures the effective delivery of services. Numerous services, such as medical care, schooling, infrastructure, and social welfare, fall under the purview of county governments. Efficient use of allocated funds ensures these services are provided effectively to the population (Kipkirui, 2020).

Secondly, efficient budget absorption is essential for achieving development goals. Timely and full utilization of budgets is crucial for the successful implementation of development projects, whether it involves structure roads, enhancing water supply systems, or enhancing public health facilities (Chong & Johnson, 2019).

DOI: 10.9790/5933-1605060107

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