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# Effects of Budgetary Procedure on the Public Funds' Expenditure in the Kenyan National Treasury

Fredrick Munge Musembi[1*], Ronald Bonuke[1], Japheth Kogei[2]
[1]School of Business and Economics, Moi University, Kenya
[2]Department of Finance and Accounting, Moi University, Kenya
*Corresponding Author Email: fredmush14@gmail.com

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## Abstract

Public expenditure is a central pillar of modern governance and a key instrument through which governments translate policy priorities into tangible social and economic outcomes. Effective public finance management is crucial for ensuring that public resources are allocated efficiently to priority sectors such as health, education, infrastructure, and security, thereby promoting sustainable development and prudence in financial management, as well as ensuring fiscal efficiency and discipline. This study sought to determine the effect of budgetary procedures on public funds expenditure in the Kenyan National Treasury. The study was guided by Agency Theory and public expenditure theory. This study adopted an explanatory research design, targeting a population of 327 finance managers and senior accountants at the National Treasury in Kenya. The study used a census survey; therefore, no sampling was required. Primary data were collected using a structured questionnaire, and data were analyzed in SPSS using both descriptive and inferential statistics. The study findings indicated that budgetary procedures had positive and significant effects on the expenditure of public funds ($\beta$ =0.248, p-value = $0.003 < 0.05$). In conclusion, the study revealed that budgetary procedures have a significant effect on the expenditure of public funds. The findings revealed a statistically significant relationship between budgetary procedures, IFMIS adoption, and public participation in the expenditure of public funds. The findings will be beneficial to policymakers, especially the government, who can better understand the country's emerging economy and ensure that the policies formulated facilitate the government, through its agencies, to tap into the huge global economy and reap its benefits. Further research can be conducted using different factors, such as the impact of capacity building on public funds' expenditure.

**Keywords:** *Budgetary Procedure, Public Funds Expenditure, Kenyan National Treasury*

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## 1. Introduction

Public fund expenditure is critical for economic growth and infrastructure development. Governments use these funds to invest in roads, bridges, schools, and hospitals, fostering economic activity and creating jobs. According to Keynesian economics, increased government spending can stimulate demand and accelerate economic recovery during recessions (Keynes, 2019). Government expenditure addresses social inequalities through welfare programs, unemployment benefits, and social security schemes. A study by the International Monetary Fund (IMF) found that increased public social spending significantly reduces poverty and income inequality (Clements et al., 2021).

A budgetary procedure is the systematic process by which governments or organizations prepare, approve, execute, and monitor a budget. It encompasses all activities related to the formulation of revenue and expenditure plans, the allocation of financial resources, the implementation of budget policies, and the evaluation of fiscal performance. According to the Organization for Economic Co-operation and Development (OECD), budgetary procedures involve "the processes, rules, and institutions through which decisions about public spending, revenue, and debt are made, executed, and monitored" (OECD, 2020).

The Controller of Budget Office conducts audits of the two tiers of government and issues recommendations based on a fair and honest opinion of the performance achieved by every public organization. PFMR intends to ensure accountability, equitable sharing of revenue, public participation, sharing of tax and debt burdens/benefits, prudent and responsible use of public resources, equitable development, effective management of finances, and clear fiscal reporting. Since the introduction of PFM in Kenya, the nation has experienced various changes in budget formulation, procurement, budget execution, public participation, revenue collection, and parliamentary oversight (Wakhungu, 2022). The Kenyan government has undertaken various PFM reforms to enhance PFM effectiveness. Legislation and Acts of Parliament serve as the basis of these initiatives, which are subject to review.

The National Treasury and Economic Planning is the principal government institution responsible for formulating and implementing fiscal and economic policies, managing public finances, preparing and coordinating the national budget, overseeing public debt management, mobilizing financial resources, and coordinating national development planning in Kenya. Established under the Constitution of Kenya and the Public Finance Management Act, the National Treasury plays a central role in promoting macroeconomic stability, efficient allocation of public resources, and sustainable economic growth through prudent financial management and policy coordination across government agencies.

### 1.1 Problem Statement

The expenditure of public funds in Kenya has come under intense scrutiny due to persistent concerns about misallocation, inefficiencies, and corruption, particularly within the National Treasury. Despite efforts to improve public finance management, audit reports have revealed alarming discrepancies. According to the Auditor General’s Report (2023), over KES 145 billion could not be properly accounted for in various ministries, departments, and agencies, with significant portions linked to funds disbursed through the National Treasury. Additionally, Transparency International’s Corruption Perceptions Index (2023) ranked Kenya 126 out of 180 countries, indicating ongoing challenges in ensuring transparent and accountable use of public resources.

These inefficiencies undermine public trust, delay service delivery, and constrain development outcomes. Moreover, the 2022/2023 Budget Implementation Review Report by the Controller of Budget indicated that only 62% of allocated development funds were utilized as intended, raising concerns about the effectiveness of public expenditure frameworks (Controller of Budget, 2023). Achieving the ideal expenditure of public funds in Kenya requires a combination of legal reforms, efficient management systems, accountability mechanisms, and a commitment to aligning spending with national development goals.

The Controller of Budgets report (2020 demonstrated that county governments in Kenya have reported poor performance, as revealed by the low levels of absorption of recurrent and development budget estimates recorded at 39.8% and 26.1%, respectively, compared to the expected rate of absorption of 50.0%. Despite challenges in PFM at the county level, discussions with national and county officials indicate a general perception that the devolution process is a success that will make service delivery more responsive to people's needs.

Further, a report from the Office of the Budget Controller disclosed that out of the KES. 119.29 billion, which is provided by the Exchequer for half a year (2014.2015), only KES. 103.7 billion was used; however, some of the expenditures were not accounted for. Recent data from the Controller of Budgets (2020) further indicate persistent issues with budget implementation, with only 48% of the allocated development funds utilized. Therefore, there is a need to establish the effect of budgetary procedures on the public funds' expenditure in the Kenyan National Treasury.

## 2. Literature Review

### 2.1 Theoretical Review

#### 2.1.1 Public Expenditure Theory

Peacock-Wiseman's expense theory. The political theory of public determination, which holds that governments like to spend more money and citizens dislike paying taxes, served as the foundation for their analysis. Even though there may be a discrepancy between what people consider to be a desirable level of public expenditure and the desirable level of taxation and other sources of government revenue within the economy, as income increases, tax revenue and the constant tax rate would rise, allowing public expenditure to show a gradual upward trend. According to Peacock and Wiseman (1961), political instability causes a nation's government spending to fluctuate at regular intervals rather than following a steady trajectory. Peacock and Wiseman suggest that during periods of social, political, and economic turmoil, the nation's government should spend more.

Public expenditure could show a gradual upward trend as income increased because tax revenue and the constant tax rate would rise, even though there might be a difference between what people thought was a desirable level of public expenditure and the desirable level of taxation and other sources of government revenue within the economy. According to Peacock and Wiseman (1961), political instability causes a nation's government spending to fluctuate at regular intervals rather than following a steady trajectory. Peacock and Wiseman propose that the government should increase spending during periods of social, political, and economic unrest.

This argument also highlights the fact that the public sector is expanding both absolutely and relatively at the expense of the private sector's growth. Bird (1971) provides three arguments to support this theory. In other words, large capital expenditures would be required for the government's protective and administrative functions; as the industrial sector expands, more social and cultural goods and services will need to be provided; and government expenditures would be required to manage and finance natural monopolies and guarantee the smooth operation of market forces.

Despite its significance in guiding government spending decisions, public expenditure theory has several drawbacks. In reality, political interests, corruption, and bureaucratic inefficiencies can lead to resource misallocation, despite the common assumption that governments act rationally to maximize societal welfare (Stiglitz & Rosengard, 2015). Additionally, the theory is challenging to implement because the principle of greatest social advantage is difficult to apply due to the complexity and subjectivity involved in evaluating terms such as social benefit and social cost (Dalton, 1923). Furthermore, improper management of increased public spending, particularly in developing economies, can lead to inflation, public debt, and fiscal deficits (Musgrave & Musgrave, 1989).

Additionally, the theory could overlook practical issues such as inadequate administrative capacity, weak institutions, and a lack of accountability. Furthermore, it does not fully address external shocks, such as economic crises or global uncertainties, that can disrupt planned government spending. An important idea in economics, public expenditure theory addresses how government spending is decided, distributed, and justified. When applied to public finance management (PFM) reforms and public funds expenditure, it provides a theoretical framework for understanding how governments can best allocate resources to meet public needs, ensure efficient use of funds, and promote economic growth and equity. The study theory supports the expenditure of public funds.

### 2.1.2 Agency Theory

This theory explains the existence of a contract between management and owners or shareholders. Berle and Means developed it in 1932. The theory captures the conflict that results in agency costs. Its goal is to reduce the knowledge asymmetry that significantly contributes to organizational failures. The theory's primary goal is for the agents to maximize the welfare of potential owners or principals. Several models developed to illustrate the idea describe a substantial progressive conflict in the administration of businesses and organizations (Khalil & Lawaree, 2006).

Agency theory explains the relationship between a principal (such as the government or citizens) and an agent (such as public officials or management) who is trusted to act on the principal's behalf. According to this view, agents may prioritize their own interests over those of the principals, which can lead to issues such as opportunistic behavior, moral hazard, and information asymmetry (Jensen & Meckling, 1976). Agency Theory emphasizes how inadequate oversight and accountability systems can lead government personnel to handle public funds, abuse them, or allocate resources inefficiently. The theory highlights the necessity of robust governance frameworks, transparency, incentives, and control mechanisms such as audits and performance monitoring to align the public's interests with those of agents and address these issues (Eisenhardt, 1989).

The National Treasury is aware that county governments are essential to accomplishing the same goals. Through its National Treasury and Devolution Ministry evaluation reports, the national government provides county governments with requisite, substantial tranches to match the expected production. Public and civil society participation in the budget process is crucial, especially in developing nations, as it provides further insights into legislative inclusion and development (Krafchik, 2003). This helps reduce information asymmetry that may arise when budgetary appropriations or non-essential elements are included in the plans. Public

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involvement, social welfare organizations, and the collective input of experts all affect the choice-agent model (Dirk-Jan Kraan, 2007). The theory supports the budget procedure.

## 2.2 Empirical Review

### 2.2.1 Budget Procedure and Performance of Public Funds Expenditure

Budget reforms describe the dynamics involved in the collection or spending of money. De Jong (2021) defines a budget reform as the process of changing how the government spends and collects payments. Government institutions raise revenues by imposing taxes on citizens and subsequently use the collected revenue to pursue various programs such as defense, education, research and development, and infrastructure. A government budget examines all its sources of income and areas of expenditure. The government can pursue budget reforms for a variety of reasons. In instances where the government expenditures are higher than the taxes collected, reform is necessary to control government debt and balance the budget (de Jong, 2019). Politicians pursue changes in government taxation or expenditure to gain the favour of the constituents.

Su Voon (2023) examined the effect of budget procedures on the performance of public funds expenditure among government agencies using a cross-sectional survey design and regression analysis. The study focused on budget participation, preparation, implementation, and evaluation as key dimensions of budget procedures. The findings revealed that budget participation, together with effective implementation and evaluation procedures, had a significant positive influence on budget performance and improved accountability in the expenditure of public funds, while budget preparation had a positive but insignificant effect. The study concluded that effective and participatory budgeting procedures enhance transparency, efficiency, and the prudent use of public resources in government institutions. The researchers recommended that Malaysian public institutions should strengthen stakeholder participation, improve monitoring and evaluation mechanisms, and enhance implementation controls to ensure better expenditure performance and achievement of government objectives

Tania Ajam (2024) on spending reviews and budget procedures in South Africa found that effective budget procedures, such as performance budgeting, expenditure reviews, and Medium-Term Expenditure Frameworks, significantly improved the performance of public funds expenditure through enhanced fiscal discipline, accountability, and efficient allocation of government resources. The study found that departments that used structured budget monitoring and expenditure evaluation achieved better service delivery outcomes and controlled unnecessary spending, although challenges such as weak implementation capacity, political interference, and rising public debt continued to undermine expenditure efficiency. The findings further revealed that improved budget oversight and transparent reporting strengthened public financial management and enhanced expenditure performance in both national and provincial governments. The study concluded that strong budget procedures are essential for sustainable public expenditure management and improved financial accountability in South Africa. It recommended strengthening institutional capacity, enhancing expenditure monitoring systems, increasing transparency in budget implementation, and improving compliance with performance-based budgeting frameworks to ensure effective utilization of public funds.

Isaboke and Kwasira (2022) examined how the budgeting planning process influences the financial performance of county governments in Kenya, with Nakuru County serving as the case study. The study adopted a descriptive survey research design to systematically collect data on budgeting practices and financial outcomes within the county government structure. A sample size of 80 employees drawn from relevant departments was used to provide representative views on budgeting, planning, and financial management practices. Data were collected using structured questionnaires designed to capture information on budgeting processes, financial capacity, and financial performance indicators. The collected data were analyzed using both descriptive statistics, such as frequencies and percentages, and inferential statistics, including regression analysis, to determine the relationship between budgeting, planning, and financial performance. The findings revealed that financial capacity significantly influenced financial outcomes, indicating that effective budget planning improves resource allocation, expenditure control, and overall financial performance of county governments. The study concluded that strong budgeting planning processes are essential for enhancing financial performance in devolved units of government.

### 2.2.2 Public Funds Expenditure

Public fund expenditure refers to spending by the government, the Social Security Administration, local governments, and organizations affiliated with them. Operating expenses, redistribution expenses, and investment expenses are the three main categories into which public fund expenditures can be divided. Operating expenses ensure the smooth operation of public services, including hiring existing employees, paying for upkeep, and purchasing supplies (Smith, 2022).

According to Brunson (2019), Liberia's civil war caused PFM institutions to fail, systems to malfunction, and human capacity to decline, resulting in a near-total lack of protocols for managing public resources. However, in response, the Liberian government passed a PFM Act in 2009 and established a PFM steering group to oversee and coordinate the nation's PFMR strategy. In Nigeria, the term "public funds expenditure" refers to the use of public funds for administrative functions, infrastructure development, public service delivery, and the implementation of economic and social policies aimed at enhancing the welfare of the populace and advancing the country. To promote economic growth and improve living conditions, the Central Bank of Nigeria defines public expenditure as government spending on areas such as public administration, education, healthcare, transportation, security, and agriculture (Central Bank of Nigeria, 2022).

In a similar vein, the World Bank notes that when government resources are effectively managed and monitored, public fund expenditure improves accountability, transparency, efficiency, and fiscal sustainability (World Bank, 2021). Reforms like the Fiscal Responsibility Act, Treasury Single Account (TSA), Integrated Payroll and Personnel Information System (IPPIS), and Government Integrated Financial Management Information System (GIFMIS), which were implemented to improve financial accountability and lessen corruption in the public sector, regulate the use of public funds in Nigeria.

The allocation and distribution of financial resources by governments or public institutions to support public goods, services, and initiatives targeted at accomplishing economic, social, and developmental goals is referred to as the expenditure of public monies. These expenses, which are allocated to sectors including infrastructure, education, healthcare, national security, and welfare programs, are funded by a variety of sources, including taxes, borrowing, and grants. The International Monetary Fund (IMF) defines public expenditure as "all financial transactions made by the government to fulfill its responsibilities, ranging from operating expenses to investments in public infrastructure and services" (IMF, 2019).

### 2.3 Conceptual Framework

A conceptual framework is a visual or written product that explains graphically or in narrative form the main concepts, factors, or variables to be studied and the assumed relationships between the identified variables. Figure 1 presents the conceptual framework of the study. It shows the relationship between independent and dependent variables. Public funds expenditure is the dependent variable measured by the degree of spending, the effectiveness of the internal control system, the timeliness of audited financial information, and the quality of fiscal data. The independent variable was Budgetary Procedure, measured by administrative procedure and Implementation Management of spending, as shown in Figure 1.

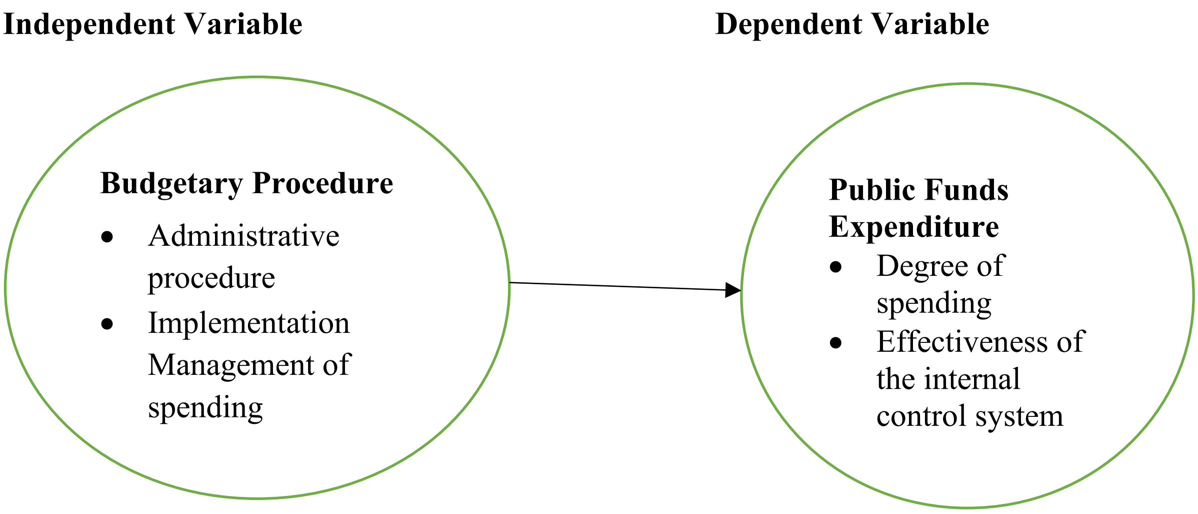


**Figure 1: Conceptual Framework**

## 3. Methodology

Research design can be defined as the outline, scheme, or plan for answering research questions, or the arrangement of conditions for research data collection and the analysis of collected data to achieve the study objective (Kothari, 2014). This study employed an explanatory research design. Explanatory research is a methodological approach aimed at exploring research questions that have not been thoroughly examined before. The study's target population comprised 327 senior accountants and finance managers at Kenya's National Treasury and CBK (2023). There is no need for sampling because the study used a census survey. Of the 327 research participants, 288 participated effectively by completing the questionnaires and returning them as expected. This resulted in an 88% response rate, an excellent outcome. The data analysis techniques included descriptive and inferential statistics.

**Table 1: Response Rate**

| | | (%) |
|---|---|---|
| Response | 288 | 88% |
| Non-Response | 39 | 12% |
| Total | 327 | |

According to Payne (2016), a pilot study is a mini version of a full-scale study executed as planned for the intended study but on a smaller scale. According to Cooper and Schindler (2011), a pre-test should range from 1% to 10%, depending on the sample size. Reliability is how well a test measures what it should (Tavakol & Dennick, 2011) or the degree to which measures are free from error. For the study, Cronbach's alpha coefficient value was computed. Table 2 shows the results, indicating that the budgetary procedure had a reliability of 0.932, and the expenditure of public funds had a reliability of 0.814. Cooper and Schindler (2010) argue that a Cronbach's alpha coefficient of 0.7 or greater is regarded as an indication of reliability. This study adopted a coefficient of 0.7 as the reliability benchmark.

**Table 2: Test of Reliability of Questionnaire**

| Factor | Number of Items | Cronbach's Alpha score | Conclusion |
|---|---|---|---|
| Budgetary procedure | 5 | 0.932 | Reliable |
| Expenditure of public funds | 5 | 0.814 | Reliable |

## 4. Results and Discussion

### 4.1 Descriptive Statistics

#### 4.1.1 Descriptive Statistics on Budgetary Procedure

Table 3 results show that there is efficient and effective execution of the budget at the Ministry (mean=3.22, standard deviation= 1.102). There is timely and accurate accounting and reporting at the Ministry (mean = 3.56, standard deviation = 1.109). The Ministry ensures value for money for all implemented projects (mean = 4.00, standard deviation = 0.856). There is a high budget absorption rate at the Ministry (mean = 4.11, standard deviation = 0.721). The budget document is comprehensive (mean = 3.91, standard deviation = 1.332). The budget reflects the policy objectives (mean = 3.61, standard deviation = 1.227).

**Table 3: Budgetary Procedure**

| | Mean | Standard Deviation |
|---|---|---|
| There is efficient and effective execution of the budget at the Ministry. | 3.22 | 1.102 |
| There is timely and accurate accounting and reporting at the Ministry. | 3.56 | 1.109 |
| The Ministry ensures value for money across all implemented projects. | 4.00 | .856 |
| There is a high budget absorption rate at the ministry. | 4.11 | .721 |
| The budget document is comprehensive. | 3.91 | 1.332 |
| The budget reflects the policy objectives | 3.61 | 1.227 |

### 4.1.2 Descriptive Statistics on Expenditure of Public Funds

Table 4 results show that there is efficient delivery of public services (mean=4.07, standard deviation= 1.004), and there is minimization of financial costs of budgetary management (mean=4.24, standard deviation=0.685). Resource allocation reflects expenditure policy priorities (mean = 4.31, standard deviation = 0.681). Aggregate expenditure is controlled to ensure it is affordable and aligned with macroeconomic constraints (mean = 4.26, standard deviation = 0.701). Audited financial information is provided on time (mean=3.78, standard deviation= 0. 834).

**Table 4: Expenditure of Public Funds**

| | **Mean** | **Standard Deviation** |
|---|---|---|
| There is efficient delivery of public services | 4.07 | 1.004 |
| There is minimization of the financial costs of budgetary management | 4.24 | .685 |
| Resource allocation reflects expenditure policy priorities | 4.31 | .681 |
| Aggregate expenditure is controlled to ensure that it is affordable and in line with macroeconomic constraints | 4.26 | .701 |
| Audited financial information is provided on time | 3.78 | .834 |

### 4.2 Correlation Analysis

A correlation coefficient is used to indicate the strength of the linear relationship between the study variables (Smith, 2010). Pearson correlation analysis was carried out to show the relationship between the variables. A correlation coefficient value (r) in the range of 0.1 to 0.29 is considered weak, 0.3 to 0.49 is considered moderate, while 0.5 to 1.0 is considered strong, according to O'Brien (2007. The results presented in Table 5 show that budgetary procedures

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are positively and significantly associated with expenditure of public funds, as shown by r=0.624 and p=0.000<0.05.

**Table 5: Correlation Statistics**

| | Expenditure of public funds | Budgetary procedure |
|---|---|---|
| Expenditure of public funds | 1 | 0.624** |
| Budgetary procedure | 0.624** | 1 |

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

### 4.3 Regression Analysis

The results in Table 6 revealed that budgetary procedure had a positive correlation with the expenditure of public funds, up to 0.624 (R = 0.624). The results reveal that the budgetary procedure caused a variation of 38.9% (R2 = 0.389; adjusted R2 = 0.385) in public expenditure. This implies that the remaining 61.1 % of the change was caused by other factors not included in this model.

**Table 1: Model Summary**

| Model | R | R Square | Adjusted R-Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .624[a] | .0.389 | .385 | .23780 |

a. Predictors: (Constant), expenditure of public funds _mean

The analysis of variance was conducted to determine the significance of the model. Table 7 indicates that the F statistic of 378 and the p-value of 0.000<0.05, implying that the model was significant in explaining the variance caused by expenditure of public funds.

**Table 7: ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 23.109 | 1 | 23.109 | 378.836 | 0.000 |
| | Residual | 17.540 | 286 | 0.061 | | |
| | Total | 40.649 | 287 | | | |

a. Dependent Variable: expenditure of public funds

b. Predictors: (Constant) budgetary procedure

Table 8 coefficients showed that budgetary procedure has a significant positive effect on the expenditure of public funds, with a standardized beta coefficient (β = 0.248, p = 0.003). This indicates that the budgetary procedure resulted in a 0.248 increase in public expenditure. Consequently, the null hypothesis was rejected.

**Table 8: Regression Coefficient Analysis**

| Model | | Unstandardized Coefficients B | Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 2.235 | 0.317 | | 7.050 | 0.000 |
| | Budgetary procedure | 0.253 | 0.079 | 0.248 | 3.202 | 0.003 |

a. Dependent Variable: Expenditure of public funds

### 4.4 Discussion

The objective of the study was to establish the effects of budgetary procedures on public funds expenditure in the Kenyan National Treasury. The findings of the study pointed out that budgetary procedures positively and significantly affected the expenditure of public funds, $\beta = 0.248$, p-value $= 0.003 < 0.05$. The findings concurred with Siregar and Susanti (2021), who studied the determinants of budget forecast errors in the planning process and their impacts on budget effectiveness. The study used secondary data from the Indonesian local government. The study findings showed that expenditure growth, revenue growth, and government complexity affect budget forecast errors. Higher revenue growth translates to higher budget forecast errors. The study suggests that budget errors work against the economy. The study suggested that governments should carefully project income and expenditure budgets. The government agencies should also coordinate effectively to work within budget guidelines. Monitoring of the expenditure budgets is critical and must be adhered to at all times.

## 5. Conclusion

The study established that budgetary procedures have a positive effect on public funds expenditure in Kenya, particularly within the National Treasury. The study found that the Ministry ensures value for money for all projects implemented, and that budget absorption is high.

## 6. Recommendations

The findings revealed a statistically significant relationship between budgetary procedure, IFMIS adoption, and public participation in the expenditure of public funds. The findings will be beneficial to policymakers, especially the government, who can better understand the country's emerging economy and ensure that the policies formulated facilitate the government, through its agencies, to tap into the huge global economy and reap its benefits. Further research can be conducted using different factors, such as the impact of capacity building on public funds' expenditure.

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