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BUDGETING TECHNIQUES AND QUALITY OF FINANCIAL REPORTING IN NAIROBI CITY COUNTY, KENYA

[1]Brian Tirimba Obonyo, [2]Caroline Kimutai, (PhD)

Department of Accounting and Finance

School of Business, Economics and Tourism

Kenyatta University

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Abstract: **Every economy sector places a premium on financial reporting quality, which draws heavily from other functions within an organization. Nairobi County's financial reporting, however, has reportedly been of low quality due to bad financial choices, ineffective operations, stakeholder mistrust, and lost opportunities. Therefore, this study ascertained how budgeting techniques affects quality of financial reporting of Nairobi City County Government in Kenya. It evaluated influences of incremental, activity based and zero-based budgeting on quality of financial reporting. Theory of budgeting, resource-based view and complexity theories served as theoretical reviews. The study's framework was a descriptive study design. Responses were drawn from one hundred and twenty-two (122) directors, internal auditors, finance officers and accountants of finance and economic planning department of Nairobi City County Government in Kenya. Stratified sampling approach was employed in selecting ninety-three (93) responders who made up sample size with Yamane sample size formula. This study employed a quantitative approach, utilizing structured questionnaires to gather primary data. To ensure the robustness of the findings, the research instruments underwent a rigorous assessment of reliability and validity. Findings unveiled that incremental budgeting insignificantly and positively affect the quality of financial reporting; activity-based budgeting provided a significant and positive effect on the quality of financial reporting while zero-based budgeting unveiled an insignificant positive effect on the quality of financial reporting in Nairobi City County. The study concludes organizations should prioritize the implementation of activity-based budgeting practices to enhance their financial reporting quality effectively. The survey recommends that Nairobi City County should actively promote the adoption of activity-based budgeting practices throughout the organization.**

Keywords: **Incremental Budgeting, Activity-Based Budgeting, Zero-Based Budgeting and Quality of Financial Reporting.**

1. INTRODUCTION

1.1 Background of the Study

The globalization of markets and businesses across greater geographic distances, as well as the insatiable desire for information and openness among stakeholders, communities, market agents, and investors in general, are all dependent on the accuracy of financial reporting (Adeyemo, Omole & Adewumi, 2022). It focuses on the presentation of financial and other pertinent statements to demonstrate the degree to which the investors' goals have been met. Impacts of financial reporting on business performances and its relationship with corporate ownership structure are two of the most common topics that are raised (Martnez, 2019). For most corporate companies, ownership structure has a big impact on the financial reporting quality and can make it challenging to manage earnings (Olawale, 2019).

A key component of financial accountability is having good budgeting skills. Budgeting is a thorough estimate of an organization's revenue and expenditures for a specific time period that includes expectations, gains, and interests (Majani&Gichure, 2019). Because creating a budget takes time and expertise, it is regarded as a specialized job requiring expertise (Xaba &Ngubane, 2019). An integral part of management accounting, the budgeting process is a productive method that enables managements to effectively manage, schedule, and manage (Singh & Yadav, 2021). Companies frequently tie their finances to their plans. However, the study reveals that not all situations and budgets can be used to evaluate efficiency (Sponem & Lambert 2020). According to studies done in the USA, Canada, India, Denmark, and other nations, approximately 90% of businesses in developed and developing nations utilize budgeting to evaluate expected results (Pietrzak, 2019).

Zero-based budgeting aims for increasing reliability and openness by providing a justification for each and every planned spending (Anggadini, 2021). Zero-based budgeting makes sure that financial reporting presents a realistic representation of how resources are distributed and use by closely examining each and every cost (Tran, 2021). Activity-based budgeting provides improved cost management and allocation precision by allocating resources in accordance with the activities that drive expenses (Pitenoei, 2021). A deeper comprehension of cost drivers increases financial reporting accuracy and gives stakeholders more trustworthy information (Rashid, 2020). Depending on previous achievements or anticipated changes, incremental budgeting entails adding or removing a specific percentage or amount from the budget from the prior period (Garcia-Lacalle & Torres, 2021). As a result, stated financial data might not fairly represent the operational reality of the present. The type of budgeting methods used has a big impact on how well financial reports are produced (Muraina&Dandago, 2021).

In the USA, inaccurate information and major misstatements in regulatory reporting have resulted in and lowered the caliber of financial reporting under generally accepted accounting principles (GAAP) (Martinez, 2019). This has been attributed to flawed processes and systems, human error, and fraud. In China, the development of more open system has made political and business developments visible from all angles which could advance financial reporting in the future as China has been battling with poor quality of financial reporting (Tysiac, 2020). The quality of reporting was significantly impacted by China's rapidly developing economy.

In Indonesia, there have been concerns about the decline in the standard of financial reporting. According to the audit conducted by the Supreme Audit Agency of the Republic of Indonesia, the financial reports of local governments do not accurately reflect the true state of affairs (Setiawan, 2021). The audit examined a total of 542 financial statements from Indonesian local governments in 2020, revealing the following findings: 89.67% of the financial statements received unworthy recommendations, 9.04% received qualified opinions, 0.37% received adverse opinions, and 0.92% received disclaimers of opinion (SAARI, 2021).

In South Africa, quality of financial reporting has been affected by corporate losses and money shortages in many South African companies and South African businesses conformed to Quarterly Financial Report (QFR) norms due to the great need for high-quality reports (Yasseen, 2020). In Tanzania, the country has adopted Integrated Financial Management Information System (IFMIS), which has increased productivity and cut down on the time required for financial reporting, improving QFR (Chalu, 2019). In Nigeria, according to Wilson, Iheanyi, Okoroafo, and Onyilo (2019), accounting scandals brought on by insufficient corporate governance strategies and the erosion of public confidence in corporate financial statements in Nigeria are the main causes of subpar financial reporting. In Uganda, despite reasonably comprehensive reporting and financial guidelines, ten banks experienced liquidity issues; five of these institutions were shut down and the remaining nine underwent restructuring as a result of central bank involvement. Numerous instances of improper accounting were discovered during the Judicial Commission's investigation into bank closures (Owusu, 2020). The three closed banks that the commission looked at had extremely poor corporate governance, persistent undercapitalization, reckless credit facilities, and persistently lax supervision, it was discovered.

In Kenya, according to performance research, several counties in Kenya have problems with budgeting, spending, and reporting (Infotrak, 2020). This suggests that counties' financial reports will likely be of poor quality. Particularly, Kenyan government has long been deeply concerned with the ongoing poor performance in lack of timely and correct information required for decision-making has negative impacts on financial managements (GOK, 2019). According to department of accountant general examination into fiscal affairs, managements of finances, accounting systems, and function of audits, handling of financial information contains faults (NTP, 2021). Kenyan government focuses on need to develop strategic plans aimed at increasing systems, capacities, and abilities of financial managements within government financial operations units. It also looked at how financial information could be timelier if it were to do so as it would help with budget control (Kinyua, 2019).

1.2 Statement of the Problem

Every economy sector places a premium on financial reporting quality, which draws heavily from other functions within an organization (Murigi & Musau, 2023). Financial reports may be connected to subpar performance in every county in Kenya. When county government was founded at start of 2013, certain responsibilities from national government were transferred (GOK, 2019). Since that time, county administrations have been responsible for overseeing managements of billions of Kenyan shillings, majority of which originates from national treasury. Kenya's pace of economic growth is decided by county governments, which is also in charge of managing community developments programs (Murigi & Musau, 2023). However, since 2013, majority of county administrations have had budget deficits, making it challenging for them to efficiently pay current and future costs in their purview. The challenges have been demonstrated by certain County governments' inability to pay vendors and contractors on schedule, resulting in debt.

According to the Fourth Quarter 2017/2018 Budget Performance Review Report, several counties in Kenya were unable to spend the Ksh 339.6 billion assigned to them in the fiscal year that ended on June 30, 2018. Statistics show that this sum exceeds the Ksh. 75 billion that was not spent in the previous fiscal year. County budgets barely used 814.7 billion of the 1.15 trillion shillings authorized for spending during the fiscal years 2017 and 2018. Even if more resources have been made available for development in order to strengthen the economy, this is still the case. The counties spent Ksh 193.9 billion, or 44.4 percent, of the Ksh 437.1 billion designated for development, according to the report (Controller of the Budget Report, 2019). Due to weak revenue performance, actual spending by the counties was below the amount allotted in the approved budget in the year 2022. The counties spent Ksh. 134.5 billion which is 74.1% of the resources budgeted for the year 2021 and 2022 (NCC Integrated Development Plan, 2022).

Although county governments depend on Kenyan governments for their budgetary allotments, level of accountability has been inadequate, and Office of Auditor General (OAG) has issued multiple audit requests (Kadim &Sunardi, 2022). Nairobi County is not excluded from the list of Kenyan counties that are struggling financially, which supports the need for this study. The financial statements are subject to the qualified opinion of the auditor general's report. The auditor makes a negative opinion and concludes that there are material and ongoing financial statement discrepancies after accumulating enough pertinent audit evidence.

According to a World Bank report from 2021, Kenyan corporations failed to meet important financial reporting standards, including timeliness, comprehension, and accuracy. The report also noted that this could result in unsuitable decision-making and ultimately harm the corporations' effectiveness. National Treasury (2021) claims that counties produce inefficient financial reports as a result of their failure to maintain the standards for quality financial reporting as outlined in the regulations and International Public Sector Accounting Standards (IPSAS). According to Ayim (2019), it was a great idea to install IFMIS in administrative offices in order to push the administration to embrace all new international technologies. Inadequate financial reporting in Nairobi County can be identified by subpar economic judgments, inefficient operations, mistrust among stakeholders, and missed opportunities or revenue. Notwithstanding the introduction of IFMIS, the majority of these criteria were identifiable in numerous Kenyan counties.

Numerous studies have been conducted linking relationships between budgeting techniques and quality of financial reporting. Pokorna (2019) looked into how activity-based budgeting affected the Czech Republic's financial reporting standards. However, the study was done in Czech Repubuic. Wamungu and Twesigie (2023) evaluated impacts of activity-based budgeting procedures and the standard of financial reporting but focused on Rwanda's hospitality industries. Ugwu and Eze (2023) employed use of secondary data to assess effects of incremental budgeting on financial reporting systems of Nigeria. Dost and Shaheen (2021) examined impacts of zero-based budgeting on employee commitment but took place in Pakistan. In Iraq, Alamry, Abbas, Attar and Mashoukor (2020) evaluated effects of budgeting techniques on government spending. Therefore, from the aforementioned gaps and mixed results gotten from various studies, this academic work sought to establishing budgeting techniques effect on the quality of financial reporting of Nairobi City County, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study is to establish effects of budgeting techniques on quality of financial reporting of Nairobi City County, Kenya.

1.3.2 Specific Objectives

The specific objectives of this study are:

i. To assess the effect of incremental budgeting on quality of financial reporting of Nairobi

City County, Kenya

ii. To determine the effect of activity-based budgeting on quality of financial reporting of

Nairobi City County, Kenya

iii. To examine the effect of zero-based budgeting on quality of financial reporting of

Nairobi City County, Kenya

1.4 Research Hypotheses

The study sought to test the following hypotheses:

H_{01}: Incremental budgeting has no significant effect on quality of financial reporting of Nairobi City County, Kenya

H_{02}: Activity-based budgeting has no significant effect on quality of financial reporting of Nairobi City County, Kenya

H_{03}: Zero-based budgeting has no significant effect on quality of financial reporting of Nairobi

City County, Kenya

2. THEORETICAL REVIEW

The Budgeting theory or concept was put forth by Verne Lewis (1952). The theory made one of earliest attempts to incorporate concept of marginal utility into "theory of budgeting." Lewis claims that since "this is the point of balance where further spending or any reason produces an identical return," analysts ought to concentrate on increments of public spending at the margin. According to Lewis (2012), the "relative efficiency of accomplishing a universal objective" can therefore be used to evaluate the relative value of these increments. Politicians are responsible for identifying this shared objective and evaluating the relative efficacy of multiple uses of public funds in pursuing it. By offering different suggestions for each program at various levels of spending, budgeters can help decision-makers. The trade-offs between various applications for more financing can then be seen. Lewis contends that the idea of "relative effectiveness" in relation to a "common objective" successfully gets over the issue caused by the absence of a standard utility metric (Cox and Morgan, 2014).

The concept of the Resource-Based View (RBV) was introduced by Penrose in 1959. Wernerfelt in 1984 emphasized that a firm's success relies on its financial, human, and physical resources. Prahalad and Hamel in 1990 further argued that skills and experience are specific subsets of resources that significantly influence project performance. Resources are viewed as competitive assets by Barney (1991) that can be leveraged to boost rivalry and competition. The resource-based hypothesis (Wernerfelt, 1984) contends that a firm's resources are crucial to its ability to sustain itself, grow, perform well, and maintain stability. Marino (1996) defined resources as a collection of the skills, information, materials, capital, and processes needed to carry out an endeavor, enterprise, or services. Concept of economic rent and notion that a business is a collection of talents serve as basis for this theory. Due to its consistency and holistic relevance, this strategy view is significantly better than other approaches to making strategic decisions. RBV according to Barney (2011), offers essential and important insights into why companies with valuable, uncommon, distinctive, and structured resources may perform better. Its current significance can be attributed not just to its domination in academic publications but also to the fact that it is covered in the top strategic texts, which supports the claim that undergraduates are frequently taught about it and use it as practitioners.

Complexity theory was created by Kiel and Elliott (2013). Complexity theory, which is centered around the investigation of nonlinear dynamic systems, has the potential to provide an effective theoretical structure for balancing the inherently unpredictable nature of enterprises with the creation of unique patterns. The theory was initially developed in the framework of physical and biological research, but it eventually discovered uses within interpersonal, environmentally friendly, and economic structures, which also frequently exhibit nonlinear relationships as well as intricate interactions that change over time. There was a surge in curiosity regarding complexity as it pertains to organizations and strategy in

2013. According to the idea, very straightforward deterministic functions can result in extremely intricate and frequently surprising behavior. As a result, an organization must be flexible in order to apply this principle to strategic planning. Any type of planning regarding strategy should be carried out in a way that allows for the "unexpected," maintaining the organization's sustainability. Nongovernmental and governmental organizations would therefore develop alternate tactics to deal with the unexpected rather than just relying on others. For a sustainable future, public and private organizations must combine these three philosophies in their strategic financial reporting. This theory supports quality of financial reporting which is the dependent variable.

2.1 Empirical Review

2.1.1 Budgeting Techniques and Quality of Financial Reporting

In the county governments of Kenya's central region, Nderitu and Jeremiah (2019) studied financial reporting and public sector accounting standards. The researcher employed a descriptive research design and utilized both primary and secondary sources of data. The data collection involved 266 respondents selected through stratified random sampling, using a questionnaire that comprised both closed and open-ended structured questions. The gathered data was evaluated using SPSS. Data analysis techniques involved descriptive and inferential approaches for data interpretation. The findings indicated an improvement in budget information reporting within Kenya's public sector due to financial reporting uniformity. The previous survey encompassed all county governments in Kenya, while the present study specifically focused on Nairobi County.

Victor, Ondiek and Musiega (2023) investigated the nexus concerning the quality of financial reporting and the performance of Kenyan manufacturing firms on the Nairobi Securities Exchange (NSE). The research employed a census approach, analyzing financial statements from all eight NSE-listed manufacturing companies between 2015 and 2021. Utilizing descriptive and inferential statistics, the study revealed a statistically significant positive influence of high-quality financial reporting on the performance of these companies.It is worth noting that the current study adopted a descriptive research design and utilize a stratified sampling approach, whereas the previous study employed a mixed research design and census sampling.

Ojuwa and Mwangi (2023) conducted a study to explore the influence of audit committee independence and expertise on the quality of financial reporting in Kenyan state-owned businesses. The study employed an explanatory research approach to achieve its objectives. The target group consisted of 187 government-owned businesses in Kenya, from which a sample of 127 businesses was selected using stratified random sampling. While a previous study leveraged a quantitative approach with structured questionnaires and SPSS analysis (descriptive and inferential statistics) to demonstrate a positive correlation between audit committee competence and financial reporting quality in state-owned corporations, this current research adopts a descriptive strategy. This study delves specifically into the NCCG (Nairobi City County Government) of Kenya. The previous survey employed an explanatory research design and examined state corporations in Kenya.

2.1.2 Incremental Budgeting and Quality of Financial Reporting

Impacts of incremental budgeting on Nigerian public tertiary institutions financial reporting were evaluated by Adah and Mamman (2019). For the study, descriptive methodology was used. Only senior officials of these institutions from 15 randomly chosen tertiary institutions provided the primary data; however, this was contingent on the officers' availability. Questionnaires were utilized as instrument for data collection, and they were dispersed to 150 potential respondents from universities using purposive sampling technique. Ten employees from each institution were chosen based on their schedule of responsibilities, which primarily involved budgeting and budgetary control. In order to examine data gathered, descriptive and inferential statistics were applied. Findings showed Nigeria's public tertiary institutions were unaffected by incremental budgeting. The aforesaid study was conducted in Nigeria and utilized purposive sampling technique while this surveywasperformed in Kenya and utilize stratified sampling method.

Berendugo, Azubike and Okon (2021) looked at connections between financial reporting and budgeting practices in Nigeria from 1990 to 2020. Secondary set of data was employed. It was determined that in comparison to military regimes, civilian administrations are more likely to engage in economic irresponsibility. The article also highlighted the considerable significance that net foreign assistance revenues highlighted significant long-term widening impacts of expanding government sizes on public debt gaps and contributed to short- and long-term reduction of budgetary shortfall and public debt discrepancies, respectively. Results demonstrated that zero-based is more effective than incremental budgeting method at improving Nigeria's level of fiscal discipline. The previous study was done in Nigeria and made use of secondary data. Therefore, the survey was in Kenya and utilized primary data.

Implications of budgeting techniques and effects on performances of Bidco Company in Kenya were examined by Maundu and Githonga (2021). Research method used was descriptive. Primary data were utilized by researcher. It was gathered using self-administered drop-and-pick questionnaire. Top managers and accountant employees of chosen firm received questionnaires or were given them. Eight (8) respondents made up sample size used in census sampling procedure. Open and closed-ended questions were asked. Results showed that incremental, zero-based, and activity-based budgeting all had significant impacts on employee performances at Kenyan company Bidco. The previous study employed closed and open-ended questions and census sampling method, but the current study used closed-ended structured questionnaires and stratified method of sampling.

Impacts of incremental budgeting procedures and caliber of financial reporting on Rwanda's hotel industries were evaluated by Wamungu and Twesigie (2023). Survey approach was used as design. Population of Nobleza Hotel &ShamiAppart's Hotel completed research questionnaires in full. Data were gathered by the researcher using questionnaires. Population consisted of 60 employees of Nobleza Hotel &ShamiAppart's Hotel. Consequently, 60 respondents using census sampling method would constitute a sample size. To gather all information required, researcher employed primary and secondary data. The acquired quantitative data was analyzed using descriptive and inferential statistics through SPSS. The findingsunveiled a significant positive impact of incremental budgeting on the financial reporting of hotel industries in Rwanda. Previous survey incorporated both primary and secondary data and specifically focused on hotel industries, whereas the present study involved primary data collection and concentrate on NCCG (Nairobi City County Government) in Kenya.

2.1.3 Activity-Based Budgeting and Quality of Financial Reporting

Pokorna (2019) looked into how activity-based budgeting affected the Czech Republic's financial reporting standards. Only large and medium-sized businesses with more than 50 employees were included in sample. To collect primary data, website-based questionnaire was used in the summer of 2013. The Albertina CZ Gold Edition national company database, which includes data from the register of legal entities, was used to compile a list of enterprises with basic identifying information and financial statement data. 6363 firms with valid email addresses were sent invitations to complete questionnaires from the whole basic sample of 9110 businesses. 548 firms returned completed questionnaires, and this group represents the sample chosen using census sampling. Results showed that activity-based budgeting had statistically significant effects on accuracy of financial reporting. The aforementioned study utilized census sampling and took place in Czech Republic whereas the current study utilized stratified sampling and take place in Kenya.

Mayla and Shauki (2019) examined effects of activity-based budgeting on financial statements of PTX cleaning firm in Indonesia. Data were gathered through observation, interviews, and documentation as part of the research's qualitative methodology. So as to establish the budgeting system employed and the calculated product costs, observations were made of the company's business operations, followed by interviews to elicit more detailed information on the observations. Quantitative information was also gathered in the form of financial data pertaining to budgeting and product costing. Descriptive analysis, which creates a summary of data that can reveal information about issues, was used in examining quantitative data. Content and descriptive analyses were used in assessing qualitative data. Study revealed activity-based budgeting had great influences on cleaning firm in Indonesia. The investigation, which was conducted in Indonesia, was concentrated on cleaning services. The new study concentrated on NCCG and be conducted in Kenya.

Ochieng (2019) investigated how activity-based budgeting affects resource-based performances in Western Kenya universities. Research design used in the study was correlational. Survey, which targeted 36 finance management officers, including senior internal auditors and finance officers, was carried out in Western Kenya on 21 Universities. All members of the target demographic were surveyed as part of the census. By using structured questionnaires and secondary data schedules, primary data, which consisted of respondent opinions, and secondary data, were gathered. Data were analyzed using means, standard deviation, correlation, and regression. The results demonstrated that the university's resource-based performance is impacted by the activity-based budget. The current study utilized descriptive research design and stratified sampling, as opposed to prior study's use of census sampling approach and correlational research design.

Wamungu and Twesigie (2023) evaluated impacts of activity-based budgeting procedures and the standard of financial reporting on Rwanda's hospitality industries. This study was conducted utilizing survey method as descriptive research approach. The researcher employed primary as well as secondary data to obtain information. Nobleza and ShamiAppart's Hotel population provided complete answers to investigation's questionnaires. To gather information, the researcher employed the utilization of structured questionnaires. The demographic for this survey, which targeted 60 employees, was made up of Nobleza Hotel &ShamiAppart's Hotel staff. Using census technique of sampling, this resulted in a sample size of sixty (60) participants. Results revealed substantial effects of activity-based budgeting on quality of financial reporting. Quantitative data was assessed utilizing inferential and descriptive statistical methods. Prior study utilized census method of sampling and took place in Rwanda. Current study was performed in Kenya with utilization of stratified method of sampling.

2.1.4 Zero-Based Budgeting and Quality of Financial Reporting

Effects of Zero-based budgeting on performances of SMEs in Yemen were evaluated by Sudashini, Osama, and Salwa (2020). To do this, a quantitative method was applied. Yemen's Sana'a, Taiz, and Hudidah served as the sample's sources. Due to concentration of SMEs in these cities, they were chosen. Convenience sampling was the chosen sample strategy. Owners of the businesses received self-administered questionnaires. Due to their experience responding to inquiries about budgeting process and financial performances of their SMEs, business owners were chosen as respondents. Researchers received total of 200 returned questionnaires with answers. Statistical techniques that are descriptive were used. Results showed zero-based budgeting significantly improved quality of financial reporting. Aforesaid study location was in Yemen and utilized convenience sampling method. The present study location is Kenya and utilized stratified sampling technique.

Effects of zero-based budgeting on accuracy of financial reporting of government spending in Iraq were evaluated by Al-attara, Mashkourb, and Hassan (2021).The scholars in this field used secondary data and two distinct scientific study methodologies. The first strategy is the inductive strategy, which is based on examining the situation in a sub-government unit, researching it, and then analyzing it using the questionnaire list before sending it to the main government. units by drawing on scientific sources like books, research, and studies in order to intellectually and theoretically expand the subject. Regarding the second strategy, it is exemplified by the practical (experimental) strategy that is founded on the idea of a benefit. Once the problem has been defined, the researchers seek a beneficial answer, whether it is a workable way to reach the research's objective or a useful interpretation of the problem.The study findings indicated that the implementation of zero-based budgeting significantly enhanced the financial reporting quality in Iraq. However, it is worth noting that the upcoming study differed from the previous one in several ways. Firstly, the most recent survey collected primary data instead of relying on secondary data. Secondly, the study was conducted in Kenya rather than Iraq.

Dost and Shaheen (2021) examined effects of zero-based budgeting on employee commitment in Pakistan. Exploratory research design was utilized. Regions of Lahore and Islamabad hosted the study. Registered organizations were main emphasis. Data collection involved use of convenient sampling. 350 questionnaires were properly distributed and collected from Lahore and Islamabad once they were finished. For purpose of gathering data, 350 respondents in total were contacted. Of these 350 respondents, 342 provided accurate responses, while 8 surveys were rejected. Total of 342 personnel from public and private enterprises made up research's sample size. Among 342 respondents, 150 were male personnel of technical, information technology, audit & accounting, and human resources departments, and 192 were female. SPSS was used to examine data. Results indicated employee commitment was significantly impacted by zero-based budgeting. Convenience sampling as well as exploratory design method was utilized in prior study. Hence, present study employed the use of stratified sampling and descriptive research design.

In Kenya, performance of Bidco Company was examined by Maundu and Githonga (2021) to identify effects of budgeting approaches. Descriptive methodology was adopted in the investigation. Researcher made use of primary data. Self-administered questionnaire with dropand-pick options was utilized in gathering primary data. Top managers and accountancy staff of the chosen firm were given questionnaires or furnished with them. Census sampling method was used with sample size of eight (8) respondents. There were open and closed-ended questions. Results showed that performances of employees at Kenyan company Bidco were significantly impacted by incremental, zero-based, and activity-based budgeting. In contrast to the study discussed above, which focused on Bidco Company in Kenya and census sampling approach, the current study utilized NCCG in Kenya and closed-ended structured questionnaires.

3. RESEARCH METHODOLOGY

3.1 Research Design

A study research design refers to organizational and systematic framework that a researcher uses to carry out his or her research (Mugenda & Mugenda, 2012). Study design describes general techniques for responding to research question (Saunders, 2016). Descriptive approach is employed, in accordance with Mugenda (2012), to ascertain and record situation status. Descriptive design is a technique for information collecting that involves distributing questionnaires to a sample of people. Thisresearch employed a descriptive research design because includes the characteristics and actions of a thing or phenomena, helps find connections and patterns, and provides a standard by which to compare things.

3.2 Empirical Model

The variables under investigation was examined in this study using a panel regression model.

The equation for the model is:

$QFR = \beta0 + \beta1IB + \beta2ABB + \beta3ZBB + \varepsilon$

Where

QFR = Quality of financial reporting

IB = Incremental Budgeting

ABB = Activity Based Budgeting

ZBB = Zero-Based Budgeting

β_0 = Intercept

t= Time Period

β_1, β_2, β_3= Estimated Parameters ε = Error Term.

3.3 Target Population

Population was defined by Kothari (2011) as entire set of items for whom data was required. As a result, target population consists of a collection of goods that have been purposefully chosen and examined in order to extrapolate results (Kerlinger & Lee, 2007). Target audience for the study was 122 employees working in finance and economic planning department in NCCG according to NCC (2023).

3.4 Sampling Technique and Sample Size

The concept of a sample, as defined by Kothari (2011), refers to a subset of a population that is typically selected from a larger target population. Researchers use sampling techniques to choose a sample from a larger population in order to collect data, as stated by Saunders (2016). This approach acknowledges the constraints of time and resources that make it impractical to study the entire population. Stratified sampling, as described by Cooper (2006), involves dividing the population into relevant and significant categories based on specific characteristics. In this study, a stratified random sample was employed to ensure accurate results for a diverse population. This sampling method is objective and involves dividing the population into strata, which included directors, internal auditors, finance staff, and accountants from the financial and economic planning unit of NCCG. The sample size was determined using the Yamane (1967) formula.

$n = N / (1 + N(e)^2)$ n = is the desired sample size (when population is less than 10,000) N = is the target population e = is the acceptable margin of error estimated at 0.05 (at 95% confidence interval) Therefore, sample size (n) =108/ (1+122(0.0025)

= 1022/1.305 n=93

Table 3.1: Sample Size

Category	Target Population	Sample Size.
Directors of Departments	20	16
Internal Auditors	24	18
Accountants	47	36
Finance Officers	31	23
Total	**122**	**93**

Source: Researcher (2024)

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Regression Results

This section explored the influence of various budgeting techniques on the quality of financial reporting. Utilizing regression analysis, the study unveiled the specific contributions of each budgeting technique to the observed variations in the reporting financial quality. A concise summary of these findings is presented in Table 4.1.

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.506[a]	.256	.223	.42691

Source: Field Survey (2024)

The outcome yielded a connection concerning budgeting techniques and the quality of financial reporting. The correlation between budgeting techniques and financial reporting quality is moderate, with an R-squared value of 0.256 suggesting that 25.6% of the changes in financial reporting quality are explained by budgeting techniques. According to Wooldridge (2013), in numerous disciplines, especially within the social sciences and economics, various unobserved variables can significantly influence phenomena, resulting in low R-squared values. Furthermore, (Harrell, 2015) noted that a low R-squared should not be interpreted as an indication of a model's ineffectiveness or invalidity however, the significance of individual predictors should take precedence over R-squared alone. Incremental, activity-based, and zero-based budgeting combined significantly explain the financial reporting quality changes in the county, as displayed.

Table 4.2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.270	3	1.423	7.810	.000[b]
	Residual	12.393	68	.182		
	Total	16.663	71			

Source: Field Survey (2024)

Table 4.2 reveals an F-value of 7.810 suggesting a robust fit for the regression model, implying that the independent variables effectively capture a substantial portion of the variance observed in the dependent variable. The associated significance level (p-value) of 0.000 suggests that the predictors (incremental, activity-based, and zero-based budgeting) have a significant impact on the quality of financial reporting. These findings imply that the budgeting techniques collectively affect the quality of financial reporting. Both the F-value and significance level point to the substantial explanatory power of the predictors on financial reporting quality. Furthermore, the survey investigated the individual effects of the predictors on financial reporting quality; detailed results are presented in Table 4.3.

Table 4.3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.122	.415		5.120	.000
	IB	.140	.101	.185	1.381	.172
	ABB	.220	.097	.337	2.270	.026
	ZBB	.048	.109	.055	.440	.662

Source: Field Survey (2024)

As per the results, the intercept coefficient is 2.122 with a significance level of 0.000, suggesting that the intercept is significant. This implies a non-zero baseline level of financial reporting quality not accounted for by the predictors in the model. The standardized coefficient for incremental budgeting is 0.185 with a significance level of 0.172, indicating no significant impact on financial reporting quality. This implies that a unit increase in incremental budgeting would amount in an increase in the quality of financial reporting by 0.185 units. Conversely, the coefficient for activity-based budgeting is 0.337 with a significance level of 0.026, suggesting a notable positive effect on financial reporting quality. This signifies that as activity-based budgeting increase by one unit, financial reporting quality would increase by 0.337 units. Increasing activity-based budgeting could lead to an improvement in financial reporting quality in the county. The coefficient for zero-based budgeting is 0.055, with a significance level of 0.662. The outcome demonstrates that a unit increase in zero-based budgeting would amount in an increase in financial reporting quality by 0.055 units. These findings suggest that zero-based budgeting has an insignificant impact on the quality of financial reporting, indicating that improvements in zero-based budgeting do not substantially enhance the quality of financial reporting in the county.

4.2 Discussion of Findings

This section of the survey discussed the findings in view of the hypotheses which were judged using 0.05 percent level of significance. The hypotheses of non-significance were tested to determine the effect of incremental, activity-based and zero-based budgeting on financial reporting quality. Furthermore, the findings were compared to existing findings from reviewed literature to show whether there is convergence or divergence in the findings.

4.2.1 Incremental budgeting has no significant effect on financial reporting quality

The survey primarily focused on investigating the impact of budgeting techniques on the quality of financial reporting in Nairobi City County, Kenya. Drawing from the objective of the survey the null hypothesis posits that incremental budgeting has no significant effect on financial reporting quality. The survey findings indicated an insignificant (p-value = 0.172 > 0.05) influence of incremental budgeting on financial reporting quality, resulting in the acceptance of the null hypothesis. This suggests that relying on incremental budget adjustments may not significantly enhance or diminish the precision, comprehensiveness, transparency, or punctuality of financial data disclosed by the county. This result may be attributed to the lack of adequate incentives or mechanisms offered by the incremental budgeting approach, potentially limiting the improvement in financial reporting quality. The output agrees with Adah and Mamman (2019) unveiled that Nigeria's public tertiary institutions were unaffected by incremental budgeting. Berendugo, Azubike and Okon (2021) unfolded that zero-based is more effective than incremental budgeting method at improving Nigeria's level of fiscal discipline. The outcome is at variance with Maundu and Githonga (2021) who exposed that incremental budgeting had significant impacts on employee performances at Kenyan company Bidco. Wamungu and Twesigie (2023) also yielded a significant positive impact of incremental budgeting on the financial reporting of hotel industries in Rwanda.The different results may be attributed to the diverse contexts in which these studies were conducted, along with the varying perspectives of the stakeholders in the study regions.

4.2.2 Activity-based budgeting has no significant effect on financial reporting quality

The survey examined the impact of activity-based practices on the quality of financial reporting in the Kenyan county. Drilling from the objective, the null hypothesis asserts that activity-based budgeting has no significant effect on financial reporting quality. The survey output noted a significant (p-value = 0.026 < 0.05) linkage concerning activity-based budgeting and the quality of financial reporting leading to the rejection of the null hypothesis. This suggests that the use of activity-based budgeting practices leads to improvements in the accuracy, completeness, transparency, and timeliness of financial information reported by the county. The outcome could be linked to the details provided by the activity-based budgeting in understanding of the costs and resource requirements associated with specific activities. By allocating resources based on activity levels, it promotes a more accurate reflection of the financial impact of different activities in the budgeting process. This increased granularity enhanced the precision and reliability of financial reporting. The output is consistent with Pokorna (2019) indicated that activity-based budgeting had statistically significant effects on accuracy of financial reporting. Mayla and Shauki (2019) revealed activity-based budgeting had great influences on cleaning firm in Indonesia. Ochieng (2019) demonstrated that the university's resource-based performance is impacted by the activity-based budget. Wamungu and Twesigie (2023) revealed substantial effects of activity-based budgeting on quality of financial reporting.

4.2.3 Zero-based budgeting has no significant effect on financial reporting quality

A study in the county examined how switching to zero-based budgeting impacted the quality of their financial reporting. The null hypothesis regarding zero-based budgeting connotes that zero-based budgeting has no significant effect on financial reporting quality. The results showed that zero-based budgeting insignificantly (p-value = 0.662 > 0.05) affect the quality of financial reporting resulting in the non-rejection of the null hypothesis. This implies that relying on a zero-based budgeting approach may not significantly improve or deteriorate the accurateness, wholeness, transparency, or suitability of financial information reported by the county. The outcome could be attributed to the ineffective or inefficient executed and implementation of zero-based budgeting in Nairobi City County. The survey findings disagreed with Sudashini, Osama, and Salwa (2020) who showed zero-based budgeting significantly improved quality of financial reporting. Al-attara, Mashkourb, and Hassan (2021) indicated that the implementation of zero-based budgeting significantly enhanced the reporting financial quality in Iraq. Dost and Shaheen (2021) indicated employee commitment was significantly impacted by zero-based budgeting. Maundu and Githonga (2021) showed that performances of employees at Kenyan company Bidco were significantly impacted by zero-based budgeting. The reason the results varied could be due to the different circumstances surrounding each survey.

5. CONCLUSION

This study in Nairobi City County, Kenya investigated the impact of various budgeting techniques on the quality of financial reporting. The analysis yielded key findings regarding the influence of specific budgeting approaches. Notably, the research revealed a statistically insignificant positive effect of incremental budgeting on reporting quality. Based on this finding, the study concludes that incremental budgeting plays a negligible role in Nairobi City County's financial reporting accuracy, completeness, transparency, or timeliness.

Building upon the investigation of incremental budgeting, the study further explored the influence of activity-based budgeting (ABB) on financial reporting quality in Nairobi City County, Kenya. Aligning with this objective, the survey results revealed a significant and positive effect of ABB on reporting quality. Therefore, the study concludes that ABB plays a critical role in enhancing the quality of financial reporting within the county. This suggests that the use of activity-based budgeting practices leads to improvements in the precision, entirety, transparency, and properness of financial information reported by the county.

This study in Nairobi City County, Kenya assessed the impact of zero-based budgeting (ZBB) on the quality of financial reporting. The survey results, pertinent to this objective, revealed a positive but statistically insignificant effect of ZBB on reporting quality. Consequently, the study concludes that ZBB implementation has a negligible influence on the accuracy, completeness, transparency, or timeliness of financial information reported by the county. This implies that relying on a zero-based budgeting approach insignificantly improved or deteriorates the accuracy, completeness, transparency, or timeliness of financial information reported by the county.

6. RECOMMENDATIONS

Based on the analysis of the key factors' effects, the study offers specific recommendations to address the observed outcomes. The survey recommends Nairobi City County should focus on strengthening the financial reporting framework by implementing robust accounting standards and regulations. This includes adopting internationally recognized reporting standards, such as International Financial Reporting Standards (IFRS), and ensuring adherence to these standards across all financial reporting activities. A well-defined framework can encourage transparency, accuracy, and completeness in financial reporting, regardless of the budgeting approach used.

Nairobi City County should actively promote the adoption of activity-based budgeting practices throughout the organization. This can be achieved through targeted awareness campaigns, training programs, and workshops to educate financial staff and decision-makers about the benefits and implementation strategies of activity-based budgeting. Encouraging the use of this budgeting approach can further enhance the quality of financial reporting.

Nairobi City County should establish a robust system for monitoring and evaluating financial reporting processes. Regular audits and assessments should be conducted to identify any weaknesses or areas for improvement. This will help address any shortcomings in financial reporting quality and provide insights into the effectiveness of different budgeting methods.

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