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RELATIONSHIP BETWEEN INTERNAL AUDIT AND EFFECTIVE BUDGET IMPLEMENTATION IN SOUTH RIFT REGION COUNTY GOVERNMENTS

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Implementation of budgetary control measures and reforms is an effective means of achieving county policies but lack of an effective implementation process has resulted in a significant under-utilization of the budget, leading to negative consequences for citizens and impeding the attainment of desired goals and objectives. The purpose of this study was to establish the relationship between internal audit and effective budget implementation in South Rift Region County Governments. The research design which was employed was correlation research design. The population of the study was 294 staff members who were all sampled using census sampling where an overall response rate of 97.97% was actualized which was deemed excellent. The study showed that internal audit processes contribute to the effective implementation of budgetary allocations (M = 3.7965); feedback provided by internal audit identify and rectify discrepancies in budget implementation (M = 3.7930); internal auditors play a crucial role compliance with budgetary regulations and policies (M = 3.7895); the recommendations made by internal auditors improved on the efficiency and effectiveness of budget implementation processes (M = 3.8386); collaborative efforts between internal audit and budgetary departments enhanced transparency and accountability in financial management (M = 3.9614). The findings concludes that internal audit processes contribute to the effective implementation of budgetary allocations. The findings of the study may be used to develop the policies by both national and county governments. It may also assist future researchers in the related area and finally, the outcome of the research contributed to the knowledge gap.

KEY WORD: ***Budgetary controls, Efficient budget implementation, Internal audit***

1.0 INTRODUCTION

Financial control mechanisms are essential components of effective budget implementation within organizations, ensuring the efficient allocation and utilization of financial resources while maintaining transparency, accountability, and compliance with regulations. These mechanisms, such as internal audits and budgetary controls, play a pivotal role in achieving organizational goals and delivering value to stakeholders, particularly in the public sector where the impact on citizens' lives is paramount (Eton et al., 2019). It involves independent assessments of financial transactions, processes, and controls to identify any discrepancies, errors, or instances of fraud or mismanagement of funds (Sebastian, 2018).

In the public sector, the ultimate objective of financial control mechanisms is to make a positive impact on the lives of citizens. Eton et al. (2019) emphasize the importance of public sector management in delivering services and programs that enhance the well-being and quality of life for individuals and communities. Effective financial control mechanisms ensure that public funds are utilized efficiently and transparently, thereby maximizing the value derived from taxpayer dollars. Moreover, transparency and accountability are fundamental principles underpinning financial control mechanisms in the public sector.

By disclosing financial information and adhering to ethical standards, organizations can foster public trust and confidence in their stewardship of public funds. This trust is essential for maintaining social cohesion and legitimacy, as citizens expect their governments to act in their best interests and uphold principles of integrity and fiscal responsibility. Thus financial control mechanisms are indispensable tools for ensuring effective budget implementation and achieving organizational goals, particularly in the public sector. Internal audit and budgetary controls play complementary roles in monitoring financial activities, detecting potential risks, and promoting accountability and transparency. By adhering to sound financial management practices, organizations can fulfill their mission of making a positive difference in the lives of citizens while upholding principles of integrity and accountability (Sebastian, 2018).

1.1 Statement of the Problem

Budgetary planning entails establishing attainable financial goals that are in line with the aims and objectives of an organization. Regularly comparing financial performance to the

budget, spotting deviations, and determining the reasons behind them are all part of monitoring. Financial reporting entails providing pertinent stakeholders with timely and accurate financial information to support well-informed decision-making. Corrective actions entail putting plans in place to deal with budgetary aberrations and stop them from happening again. According to the 2023 Auditor-General's Report on County Governments, expenditures accounted for 85% of the approved total budget, with absorption rates for recurrent and development expenditures of 97% and 63%, respectively. Furthermore, an examination of county governments' financial statements revealed inexplicable variations in collections and payments totaling over Kshs. 20 billion. The unsatisfactory absorption rate in general, the low absorption of development expenditures, and the discrepancies in financial reporting all call into doubt county financial management. Despite the Auditor General's reports of poor financial performance, little attention has been paid to the budgeting process. Similarly, the presence of the Public Finance Management Framework, which guides budgetary changes, has not addressed the issues of disbursement delays, poor prioritization, resource theft, corruption, insufficient human resource capacity, and operational inefficiency. Researchers have identified several characteristics related with poor budget implementation, including a lack of enough finances and ineffective budget preparation procedures. Other issues include institutional weaknesses, inadequate prioritization of funding distribution, internal audit functions and county fiscal accountability, poor revenue collection, the accumulation of outstanding bills, and high and rising wage bills. County governments continue to encounter difficulties in assessing their performance in terms of accountability, transparency, public participation, and service delivery. The purpose of this study is to look at the relationship between internal audit and effective budget implementation in South Rift Region County Governments. The study's findings can have practical implications for the South Rift Region County Governments, as they will provide insights into the effectiveness of financial control mechanisms in budget implementation. This can help the government improve its budgetary processes, enhance financial management, and ensure efficient allocation of resources.

2. LITERATURE REVIEW

Internal auditing is critical for ensuring that an organization's governance, risk management, and control processes are successful. Internal auditing has evolved into an essential function in businesses, laying the groundwork for effective risk management, control, and governance. Internal audit has changed dramatically throughout the years due to shifting stakeholder expectations, evolving technology, and shifting regulatory environments (Eton et al. 2019). Internal audit has its origins in early accounting procedures designed to guarantee the dependability and correctness of financial records. Nonetheless, with the founding of trade associations like The Institute of Internal Auditors (IIA) in the early 20th century, the contemporary notion of internal audit started to take shape. The conventional emphasis on financial controls has given way to a more comprehensive strategy that includes operational effectiveness, compliance, and strategic risk management in the evolution of internal audit.

A number of fundamental ideas form the basis of internal audit and support its goals and purposes. They consist of secrecy, competence, independence, objectivity, and integrity (Nerantzidis et al. 2022). While objectivity compels internal auditors to base their conclusions and recommendations on factual facts, independence guarantees that they maintain an impartial viewpoint throughout their work. For internal auditors to be professional and proficient in their work, they must possess integrity and competency. Maintaining confidentiality is essential to protecting sensitive data that is gathered throughout the auditing process.

Internal auditors evaluate the efficacy of an organization's internal controls and procedures using a variety of approaches. Risk-based auditing, process auditing, compliance auditing, and performance auditing are some examples of these techniques. The goal of risk-based auditing is to concentrate audit efforts on areas that are most concerning by identifying and ranking risks. While compliance auditing makes sure that laws, rules, and internal policies are followed, process auditing assesses the efficacy and efficiency of particular business processes. Performance auditing evaluates the value provided by certain activities or programs as well as the accomplishment of corporate goals (Zeyn, 2018).

Internal audit is crucial, but it has a number of issues that limit its applicability and efficacy. These difficulties could include limited resources, changing legal requirements, disruptions from technology, and reluctance to change inside the company. Internal audit functions may not be able to sufficiently cover every area of risk due to a lack of resources (Gamayuni, 2018). Internal auditors must keep up with new regulatory requirements and modify their methods accordingly. Internal auditors must adapt to technological disruptors like data analytics and artificial intelligence, which present both opportunities and problems. They must also improve their technical proficiency and embrace innovation. The credibility of the internal audit function may be compromised by organizational resistance to change, which can hinder the execution of audit recommendations. To make sure that an organization's governance, risk management, and control mechanisms are working effectively, internal audit is essential. This study offers a thorough analysis of the literature on internal audit, covering the field's history, foundational ideas, approaches, difficulties, and new developments (Putri et al., 2018). Using a wide range of academic papers, books, and trade journals as a source, this review provides insightful information about the concepts and real-world uses of internal audit. It also suggests areas for more study to improve knowledge and application of internal audit in modern organizational settings.

Internal audit has become a vital role in enterprises, providing a solid foundation for efficient risk management, control, and governance. Internal audit has changed dramatically throughout the years due to shifting stakeholder expectations, evolving technology, and shifting regulatory environments. The goal of this review is to present a thorough analysis of the literature on internal audit, emphasizing the issues, methodological approaches, theoretical foundations, and growing trends of the field.

Internal audit has its origins in early accounting procedures designed to guarantee the dependability and correctness of

financial records. Nonetheless, with the founding of trade associations like The Institute of Internal Auditors (IIA) in the early 20th century, the contemporary notion of internal audit started to take shape. The conventional emphasis on financial controls has given way to a more comprehensive strategy that includes operational effectiveness, compliance, and strategic risk management in the evolution of internal audit (Postula, et al., 2020). Several fundamental ideas form the basis of internal audit and support its goals and purposes. They consist of secrecy, competence, independence, objectivity, and integrity. While objectivity compels internal auditors to base their conclusions and recommendations on factual facts, independence guarantees that they maintain an impartial viewpoint throughout their work. For internal auditors to be professional and proficient in their work, they must possess integrity and competency. Maintaining confidentiality is essential to protecting sensitive data that is gathered throughout the auditing process.

Internal auditors evaluate the efficacy of an organization's internal controls and procedures using a variety of approaches. Risk-based auditing, process auditing, compliance auditing, and performance auditing are some examples of these techniques. The goal of risk-based auditing is to concentrate audit efforts on areas that are most concerning by identifying and ranking risks. While compliance auditing makes sure that laws, rules, and internal policies are followed, process auditing assesses the efficacy and efficiency of particular business processes. Performance auditing evaluates how well organizational goals are met and what value particular projects or activities provide (Hutama & Yudianto, 2019).

Internal audit is undergoing various developing trends that are redefining the field as a result of the changing corporate landscape. Increasing emphasis on data analytics and technology-enabled auditing, heightened cooperation with other assurance functions like risk management and compliance, and a focus on offering insights that inform strategic decision-making are some of these trends (Gamayuni, 2018). By utilizing data analytics, internal auditors can effectively identify patterns and assess risks by deriving actionable insights from vast amounts of data. By utilizing synergies and preventing effort duplication, collaboration with different assurance roles improves the overall efficacy of governance and risk management procedures. By offering strategic insights, internal auditors can transcend from a compliance-focused approach and establish themselves as reliable consultants to the board and senior management.

Sarens and De Beelde (2006) investigated the connection between internal audit functions and senior management in large firms across several nations through qualitative research, including interviews with senior management and internal auditors. Their findings demonstrated that internal audits provide vital insights that enable senior management to make informed financial decisions, resulting in more successful budget execution. They observed that a solid working connection between internal audit divisions and senior management is critical for meeting budgetary objectives. However, they stated that more study is needed to quantify the influence of internal auditing on budget execution and to investigate this link in various organizational situations.

Mutua (2012) conducted a case study analysis of companies listed on the Nairobi Stock Exchange, focusing on the role of internal audit in corporate governance. The study found that strong internal audit functions contribute to better budget implementation by ensuring compliance with financial regulations and identifying inefficiencies. Mutua concluded that internal audits are crucial for transparent and effective budgetary practices in African corporations. The study recommended further exploration of the specific challenges internal auditors face in different regulatory environments across Africa.

Ojo (2013) conducted a survey and analysis of internal auditing practices in Nigerian organizations to assess their impact on corporate governance and budget implementation. The findings indicated that effective internal audit practices lead to improved financial management and budgetary outcomes by providing oversight and ensuring adherence to financial policies. Ojo concluded that internal audits are vital for achieving financial discipline and successful budget implementation in Nigeria. The study suggested further research to examine the training and capacity-building needs of internal auditors in Nigeria to enhance their effectiveness.

Kutesa and Byaruhanga (2016) conducted a case study of the National Water and Sewerage Corporation in Uganda to analyze the impact of internal audit functions on financial performance and budget implementation. They found that internal audits play a crucial role in identifying financial discrepancies and ensuring that budgetary allocations are utilized effectively. The study concluded that internal audits promote transparency and accountability in budget implementation within public sector organizations. The authors called for broader research across different public sector organizations in Uganda to generalize the findings and recommendations.

Mwangi and Nyang'wara (2015) conducted a survey and analysis of internal control systems, including internal audit functions, in public institutions of higher learning in Nairobi. They found that effective internal audit practices lead to improved financial performance and better budget implementation by ensuring compliance with financial policies and detecting inefficiencies. The study concluded that internal audits are crucial for enhancing financial management within educational institutions. Mwangi and Nyang'wara suggested further research into the specific challenges faced by internal auditors in educational institutions and the development of targeted training programs.

Kamau and Muturi (2013) conducted a case study focusing on the University of Nairobi to identify factors affecting budget implementation, with a particular focus on internal audit functions. They found that internal audit functions significantly influence budget implementation by providing oversight and ensuring financial accountability. The study concluded that strengthening internal audit practices can lead to more effective budget execution in Kenyan public institutions. Kamau and Muturi recommended further exploration of the impact of internal audit functions in other public sector institutions to develop comprehensive best practices.

Chepkorir (2010) conducted a case study of the Bomet County Government to investigate the role of internal audit in budget

implementation. The findings revealed that internal audits help identify budgetary discrepancies and ensure funds are used as intended. The study concluded that enhancing internal audit functions can improve budget implementation outcomes by promoting transparency and accountability in the county government's financial management practices. Chepkorir suggested further research to assess the specific capacity-building needs of internal auditors in county governments and the development of standardized audit procedures.

3.RESEARCH DESIGN

A correlation research design was used in this investigation. This choice was based on the ability of correlation research to establish statistical patterns between two seemingly interconnected variables, as noted by Sekaran (2000).

The target population consisted of employees working in the management, Audit and finance departments of the County Government. This included a total of 294 staff members, including those in finance roles and departments. A census survey was used in this study. A census gives a reliable assessment of the population with no sampling error, benchmark data for future studies, and more specific information on small subgroups within the population (Kothari, 2004).

Questionnaire was used as the primary data source. Open and closed ended questions were preferable for obtaining qualitative and quantitative data. Respondents were given appropriate time to complete the questionnaires. The questionnaires used a five-point Likert scale: Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D), and Strongly Disagree (SD), with values ranging from 5 to 1.

4. FINDINGS

The study sought to establish the relationship between internal audit and effective budget implementation in South Rift Region County Governments. Respondents were asked to rate the extent to which they agreed with the statements on the relationship between internal audits on budget implementation. Their responses were in a Likert scale SA- Strongly Agree (5), A-Agree (4), UD-Undecided (3), D-Disagree (2), & SD-Strongly Disagree (1). The findings are in Table 1.

Table 1:

Internal audit and Effective Budget Implementation

Statements	SD	D	UD	A	SA	M	SD
Internal audit processes contribute to the effective implementation of budgetary allocations.	28 (9.8%)	27 (9.5%)	6 (2.1%)	138 (48.4%)	86 (30.2%)	3.7965	1.24498
The feedback provided by internal audit identify and rectify discrepancies in budget implementation	22 (7.7%)	20 (7.0%)	6 (2.1%)	184 (64.6%)	53 (18.6%)	3.7930	1.06940
Internal auditors play a crucial role compliance with budgetary regulations and policies	25 (8.8%)	22 (7.7%)	11 (3.9%)	157 (55.1%)	70 (24.6%)	3.7895	1.15881
The recommendations made by internal auditors improve the efficiency and effectiveness of budget implementation processes	24 (8.4%)	17 (6.0%)	16 (5.6%)	152 (53.3%)	76 (26.7%)	3.8386	1.13921
Collaborative efforts between internal audit and budgetary departments enhance transparency and accountability in financial management.	20 (7.0%)	28 (9.8%)	2 (0.7%)	128 (44.9%)	107 (37.5%)	3.9614	1.18764

Source:Research Data (2026)

The findings in Table 1 revealed that majority of the respondents who were 138 (48.4%) agreed as well as 86 (30.2%) respondents who strongly agreed that internal audit processes contribute to the effective implementation of budgetary allocations. The respondents show were 28 (9.8%) strongly disagreed and 27 (9.5%) respondents disagreed that internal audit processes contribute to the effective implementation of budgetary allocations while 6 (2.1%) respondents were undecided. The findings implied that internal audit processes contribute to the effective implementation of budgetary allocations for it had a mean of 3.7965 and a standard deviation of 1.24498. The findings concur with Kutesa and Byaruhanga (2016) study of the National Water and Sewerage Corporation in Uganda who analyzed the impact of internal audit functions on financial performance and budget implementation and found that internal audits play a crucial role in identifying financial discrepancies and ensuring that budgetary allocations are utilized effectively.

The findings showed that the feedback provided by internal audit identify and rectify discrepancies in budget implementation as agreed by 184 (64.6%) respondents and strongly agreed by 53 (18.6%) respondents. The respondents who were 22 (7.7%) strongly disagreed and 20 (7.0%) respondents disagreed while 6 (2.1%) were undecided that the feedback provided by internal audit identify and rectify discrepancies in budget implementation. The findings implies that feedback provided by internal audit identify and rectify discrepancies in budget implementation for it had a mean of 3.7930 and a standard deviation of 1.06940. The findings agree with Chepkorir (2010) case study of the Bomet County Government on the role of internal audit in budget implementation who found that internal audits help identify budgetary discrepancies and ensure funds are used as intended.

The findings showed that internal auditors play a crucial role in compliance with budgetary regulations and policies as agreed by 157 (55.1%) respondents and strongly agreed by 70 (24.6%) respondents. The respondents who were 25 (8.8%) strongly disagreed and 22 (7.7%) respondents disagreed that internal auditors play a crucial role in compliance with budgetary regulations and policies while 11 (3.9%) respondents were undecided. The findings implies that internal auditors play a crucial role compliance with budgetary regulations and policies for it had a mean of 3.7895 and a standard deviation of 1.15881. The findings concur with Mwangi and Nyang'wara (2015) study of internal control systems, including internal audit functions, in public institutions of higher learning in Nairobi who found that effective internal audit practices lead to improved financial performance and better budget implementation by ensuring compliance with financial policies and detecting inefficiencies.

Majority of the respondents who were 152 (53.3%) agreed and 76 (26.7%) respondents strongly agreed that the recommendations made by internal auditors improved on the efficiency and effectiveness of budget implementation processes. The respondents who were 24 (8.4%) strongly disagreed and 17 (6.0%) disagreed that the recommendations made by internal auditors improved on the efficiency and effectiveness of budget implementation processes while 16 (5.6%) respondents were undecided. The findings showed that the recommendations made by internal auditors improved on the efficiency and effectiveness of budget implementation processes for it had a mean of 3.8386 and a standard deviation of 1.13921. The findings stress on the conventional emphasis on financial controls as a way to a more comprehensive strategy that includes operational effectiveness, compliance, and strategic risk management in the evolution of internal audit as per Postula, et al., (2020).

The findings showed that the collaborative efforts between internal audit and budgetary departments enhance transparency and accountability in financial management as agreed by 128 (44.9%) respondents and strongly agreed by 107 (37.5%). The respondents who were 28 (9.8%) disagreed and 20 (7.0%) respondents strongly disagreed that the collaborative efforts between internal audit and budgetary departments enhance transparency and accountability in financial management and 2 (0.7%) respondents were undecided. The findings implies that collaborative efforts between internal audit and budgetary departments enhanced transparency and accountability in financial management for it had a mean of 3.9614 and a standard deviation of 1.18764. The findings concur with Kamau and Muturi (2013) who conducted a case study focusing on the University of Nairobi to identify factors affecting budget implementation, with a particular focus on internal audit functions and found that internal audit functions significantly influence budget implementation by providing oversight and ensuring financial accountability.

5. CONCLUSION

The findings showed that internal audit processes contribute to the effective implementation of budgetary allocations (M = 3.7965); feedback provided by internal audit identify and rectify discrepancies in budget implementation (M = 3.7930); internal auditors play a crucial role compliance with budgetary regulations and policies (M = 3.7895); the recommendations made by internal auditors improved on the efficiency and effectiveness of budget implementation processes (M = 3.8386); collaborative efforts between internal audit and budgetary departments enhanced transparency and accountability in financial management (M = 3.9614).

The findings concludes that internal audit processes contribute to the effective implementation of budgetary allocations; feedback provided by internal audit identify and rectify discrepancies in budget implementation; internal auditors play a crucial role compliance with budgetary regulations and policies; the recommendations made by internal auditors improved on the efficiency and effectiveness of budget implementation processes; collaborative efforts between internal audit and budgetary departments enhanced transparency and accountability in financial management.

The study recommends that county government should adheres to internal audit processes and feedback since it contributes to the effective implementation of budgetary allocations for it identify and recommends rectification of discrepancies in budget hence efficiency and effectiveness of budget implementation processes through collaborative efforts which enhances transparency and accountability in financial management.

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