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FINANCIAL MONITORING PRACTICES AND PUBLIC FINANCIAL MANAGEMENT COMPLIANCE OF NAIROBI CITY COUNTY GOVERNMENT, KENYA

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ABSTRACT: Adherence to PFM regulations is vital for guaranteeing accountability, transparency and public resources efficient use. However, Nairobi City County faces persistent challenges in implementing effective PFM practices, as evidenced by low budget utilization rates, discrepancies in financial reporting, misappropriation of funds, and non-compliance with procurement regulations outlined in Auditor General's disclosures. The study aimed to assess how these monitoring practices impact the overall compliance with PFM regulations, particularly in terms of improving accountability, transparency, and the effective allocation of resources. The study explored three key financial monitoring practices; budget implementation, financial reporting and audits and their impacts on PFM compliance. Theories anchoring the research included agency, institutional and public choice theories. Descriptive research design was adopted, where 76 employees in finance and accounting departments of Nairobi City County formed the target populace. Primary data was collected by a questionnaire. Data collected was analyzed by descriptive techniques (mean, median & standard deviation) and inferential statistics (multiple regression). The study found that budget implementation, financial reporting and audit significantly positively affected public financial management compliance of the Nairobi City County government. A significant advantage is concluded when the County invests in better budgetary practices such offering training to financial staff, improvement on reporting systems and making the procurement process transparent. The manner in which the County gives its financial information to the citizens is critical in complying with PFM practices. Audit also strongly correlates with compliance of financial management of the County which ensures that public finances are managed with greater accountability and transparency. The review recommends

investment in training the county's finance staff to enable them acquire the required skills and knowledge. The County should leverage technology through digital platforms to simplify the collection of data and the process of reporting its financial information with accuracy and efficiency. The County is also recommended to strengthen the process of documenting its financial transactions through improvement on IFMIS implementation to ensure recording of each transaction in real time and easy access during audit.

Key words: *Financial monitoring practice, Public financial management compliance, Budget implementation, financial reporting and integrated financial management information system.*

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1.0 INTRODUCTION

1.1. Background of the Study

Adherence to public financial management (PFM) regulations is crucial for several reasons, each contributing to the overall effectiveness, transparency, and accountability of government operations (Nakyeyune, Tauringana, Ntayi & Nkundabanyanga, 2021). According to Libala (2023), compliance with PFM regulations fosters public trust in government institutions, augments financial reports' accuracy and accessibility, allowing stakeholders to understand how public funds are being utilized and help governments prioritize spending based on strategic objectives and community needs, ensuring that resources are allocated effectively. Therefore, the governments can alleviate misallocation and waste of public resources risks by following established guidelines, leading to more efficient use of taxpayer money. PFM compliance in devolved governments globally reflects a diverse landscape shaped by varying degrees of decentralization, governance structures, and economic contexts (Fedelino & Smoke, 2022). Rao (2023) observe that India has a strong legal framework for PFM, including the Constitution of India which establishes fundamental financial governance principles, the Fiscal Responsibility and Budget Management (FRBM) Act that promotes fiscal discipline and the Public Accounts Committee (PAC) which Oversees government spending and accountability. Despite these frameworks, challenges remain in terms of enforcement and adherence to established norms.

Gorgon, Raczkowski and Kraft (2019) observe that Germany's public financial management (PFM) system is robust, featuring a strong legal framework, institutional structures, and practices that promote transparency, accountability, and efficiency in public fund management. Heinemann, Janeba, Schröder and Streif (2022) observe that Germany's budgetary process is structured to emphasize planning, implementation, and oversight. The federal budget, outlining government expenditures and revenue, requires approval from the Bundestag, ensuring democratic scrutiny of budgetary decisions. The debt brake (Schuldenbremse) in the Basic Law enhances fiscal responsibility by limiting new debt accumulation, promoting sustainable financial management and long-term economic stability. In recent years, several African countries have made significant strides in improving their PFM systems, while others continue to face challenges that hinder

effective financial management. Ruhumuriza (2021) observe that Rwanda has been recognized for its robust PFM reforms, which have fueled the country's expedited economic growth. According to Nwaobia, Ogundajo and Theogene (2023), the Rwandan government has implemented a comprehensive budgeting system that emphasizes performance-based budgeting, enhancing culpability and public resources optimization. Additionally, Rwanda's commitment to transparency is evident in its regular publication of budgetary information and financial reports, which allows citizens to hold the government accountable. Muzividzi (2022) observe that Zimbabwe has struggled with compliance in its PFM practices, particularly in the wake of economic instability and hyperinflation due to the lack of a transparent budgeting process and inadequate financial controls which have led to mismanagement of public funds and corruption. According to Gwiza and Jarbandhan (2022), efforts to reform the PFM system have been hampered by political challenges and a lack of institutional capacity, resulting in ongoing fiscal deficits and a loss of public trust in government institutions. Therefore, PFM compliance in Zimbabwe is a multifaceted issue that encompasses various aspects of governance, accountability, and fiscal discipline.

Ewang (2019) observe that the Kenyan government has strengthened its Public Finance Management (PFM) framework through the PFM Act of 2012, oriented toward fostering clarity, responsibility and public resources prudent use. This legislation establishes a legal and institutional framework to ensure prudent management of public funds and accurate financial reporting. According to Ekiru, Chelogoi and Kitur (2024), a key objective of the Act is to improve transparency by requiring the publication of budgetary information and financial statements, allowing citizens and stakeholders to understand public fund allocation and spending. The Act also emphasizes accountability by defining roles for government entities involved in the budget process, which helps reduce mismanagement and corruption. Additionally, it introduces measures to streamline budget preparation and execution, ensuring timely disbursement of funds for public projects and services, thereby enhancing the efficiency of government programs.

1.1.1 Public Financial Management Compliance

The concept of compliance within PFM is a multifaceted and vital aspect that encompasses adherence to a wide array of laws, regulations, standards, and policies governing the management and administration of public funds (Guthrie, Olson & Humphrey, 2020). Pilcher and Dean (2023) observe that compliance ensures that public entities operate within the legal frameworks established by national and local governments, as well as international standards where applicable. This includes adherence to budgetary laws, procurement regulations, financial reporting standards, and auditing requirements. Therefore, public institutions can maintain a structured approach to financial management that minimizes the risk of misappropriation, fraud, and corruption by following these guidelines.

Schick (2021) highlight the importance of robust institutional frameworks, including legal structures, regulatory bodies, and audit mechanisms, in promoting compliance. Strong institutions can deter corruption and mismanagement, thereby enhancing the integrity of public financial

systems. Fozzard (2023) indicates that political will and leadership play a critical role in PFM compliance. Governments that foreground openness and accountability are more likely to implement effective PFM systems suggesting that higher levels of public engagement and education can lead to greater demand for accountability and compliance in PFM.

Gupta (2020) suggests that higher levels of economic development and education correlate with better compliance outcomes. Societies with greater public awareness and civic engagement are more likely to hold governments' accountable, thereby promoting adherence to financial management standards. Bertot (2022) highlights how open data initiatives can empower citizens to monitor government spending, thereby increasing accountability. In developing a framework for Public Financial management, PEFA (2016), elucidates 7 key pillars that form its framework. Public finance transparency, predictability & control in budget execution (effective use of resources) and external scrutiny through audits and financial report, explaining accountability, form part of these pillars. Therefore, PFM compliance was measured by accountability, transparency and effective use of financial resources as advocated by PEFA (2016).

1.1.2 Financial Monitoring Practices

These are critical for organizations, businesses, and individuals alike, as they provide a framework for assessing financial health, ensuring compliance, and making informed decisions (Soobaroyen & Vinesh, 2019). Levytska, Pershko and Kucherovskii (2022) observe that financial monitoring practices enhance accountability and transparency, ensure compliance with legal frameworks, improve financial performance, support strategic decision-making, strengthen risk management, and promote stakeholder engagement. Therefore, public entities can not only safeguard public resources but also enhance their overall effectiveness and responsiveness to the needs of the communities they serve through investing in financial monitoring systems. The financial practices adopted for this study included; budget implementation, financial reporting, audit and integrated financial management information system.

Dollery and Graves (2019) observe that budget implementation is vital in the broader PFM framework by guaranteeing optimized financial resources' allocation and transparent utilization in accordance with established standards. Holynskyy (2022) observe that adhering to budget execution standards fosters transparency, which is essential for building public trust in government financial management because citizens are more likely to support government initiatives when they see that funds are being used responsibly. Therefore, proper execution of the budget provides a clear trail for audits and oversight mechanisms, enabling external and internal auditors to assess compliance with financial regulations and standards. Budget implementation was measured by resource allocation, monitoring expenditure and financial activity alignment as advocated by Kanda (2023).

Financial reporting ensures that public entities comply with established accounting standards and regulations, such as International Public Sector Accounting Standards (IPSAS) or national accounting frameworks which are essential for maintaining the integrity of public financial management (Babayanju, Animasaun & Sanyaolu, 2017). Ball (2021) observe that regular

financial reporting helps identify potential financial risks and vulnerabilities within public entities empowering management to adopt forward-looking strategies that curb risks and uphold fiscal resilience. Therefore, in times of financial distress or economic downturns, accurate financial reporting provides essential information that aids in crisis management and recovery planning. Deorri and Poda (2023) in examining public financial reporting practices on accountability elucidated budget practices, staff competencies, regulations, IFMIS and financial statements as measures of financial reporting practices. In this breadth, this review indicated financial reporting through regulatory compliance, risk management and stakeholder confidence.

Maclean (2021) observe that auditing holds public officials and organizations accountable to their financial decisions and actions which fosters a culture of responsibility among public servants, anchoring decision-making in principles that advance the common good. According to Ekiru, Chelogoi and Kitur (2024), audits contribute to transparency in public financial management by making financial information accessible and understandable to stakeholders, including citizens, government officials, and oversight bodies. Therefore, transparent financial reporting helps in building government institutions' trust and assurance. Chiuri (2023) in evaluating internal audit practices relationship with Nairobi City County Government financial performance, measured internal audit by financial analysis tools, auditors' professional competence, audit standards compliance and staff independence. From these indicators of financial integrity, strengthened governance and capacity building was employed.

Nairobi County is an ideal case study for examining financial monitoring practices and public financial management (PFM) compliance due to its strategic role as Kenya's capital city and economic hub. Nairobi contributes significantly to the country's GDP, and its financial decisions and governance structures have far-reaching impacts on both the national and county levels. Given the city's central role in Kenya's development, the effectiveness of its public finance management system is crucial for the overall economic stability of the nation. The significance of Nairobi County in shaping national policies on public finance management further solidifies its importance as a focal point for studying financial monitoring practices and their impact on compliance.

1.2. Statement of the Problem

PFM implementation in Kenya's Nairobi City County, has raised significant concerns about public service delivery efficiency. Reports indicate low budget utilization rates, sometimes below 70%, leading to underfunded projects. There is a notable gap between planned and actual expenditures, with some departments exceeding budgets by over 20% while others are underfunded. Audit reports highlight issues like fund misappropriation, inadequate documentation, and non-compliance with procurement regulations, with over 50% of transactions failing to meet financial management guidelines. Additionally, more than 60% of audit recommendations remain unaddressed, indicating a lack of accountability. Outdated and unintegrated financial management systems hinder accurate tracking of expenditures and revenues, resulting in discrepancies in financial reporting. Efforts to digitize these processes have been slow and faced challenges, leaving many departments reliant on error-prone manual methods (Nairobi City County report, 2024).

Although the county has established budgetary frameworks and receives regular audit feedback, poor financial monitoring, evident in weak expenditure tracking, delayed digitization and low responsiveness to audit recommendations, continues to impair public financial management. This study therefore investigates how nature and effectiveness of financial monitoring systems influence efficiency in PFM processes.

Various studies have been undertaken to ascertain financial monitoring practices impacts on PFM compliance; Mutai et al. (2017) examined PFM impacts on Kericho County's performance, finding that involvement from the Auditor General, Controller of the Budget, and National Treasury aids in monitoring resource use for optimal performance, but noted a contextual gap. Nokisho and Ndungu (2020) examined performance appraisal assessments in Laikipia County, revealing that public finance procurement practices directly affect county performance, indicating that improvements could enhance outcomes, yet also identified a contextual gap. Mong'are and Atheru (2023) investigated public financial management practices in selected County Governments, showing that budget implementation and regular reviews improve compliance and performance, but pointed out a conceptual gap. Therefore, this review endeavored to ascertain financial monitoring practices on Kenya's Nairobi County PFM compliance.

1.3. Objectives of the Study

General Objective

The general objective was to examine the influence of financial monitoring practices on public financial management compliance in Nairobi City County Government, Kenya.

Specific Objective

- i. To ascertain the effect of budget implementation on financial management compliance of Nairobi City County, Kenya.
- ii. To establish the effect of financial reporting on financial management compliance of Nairobi City County, Kenya.
- iii. To determine the effect of internal audit financial management compliance of Nairobi City County, Kenya.

2.0 REVIEW OF LITERATURE

2.1 Theoretical Review

2.1.1 Institutional Theory

Institutional theory is primarily attributed to Meyer and Rowan (1977), who established how institutions shape organizational behavior and structure through social norms, values, and beliefs. Meyer and Rowan (1977) argued that organizations are not solely driven by technical efficiency

or economic considerations; rather, they are deeply influenced by their operational social context. They posited adoption of formal structures and practices by organizations not only to achieve their goals but also to gain legitimacy and acceptance within their institutional environment. This legitimacy is vital as it helps them secure resources, attract stakeholders, and ensure their survival in a competitive landscape. Richard, Meyer and Rowan (2012) emphasize the role of social norms, values, and cultural contexts in shaping institutions. Scott identifies three pillars of institutions: regulative (rules and laws), normative (values and norms), and cultural-cognitive (shared beliefs and symbols). They contend that organizations often embrace formalized frameworks to appear legitimate, even when such frameworks offer little in terms of operational efficiency. Douglass and Ostrom (2017) focus on the strategic behavior of individuals within institutions. North emphasizes the importance of institutions in reducing uncertainty and transaction costs, thereby facilitating economic exchange. On the other hand, they explore how communities can self-organize to manage common-pool resources, challenging the notion that only top-down governance can solve collective action problems.

The theory is relevant to public financial management variable as it provides nuanced reflections into compliance of PFM within Nairobi City County. Therefore, by understanding the role of institutions, legitimacy, external pressures, stakeholder involvement, and adaptive capacity, policymakers and practitioners can develop strategies to enhance compliance. Fostering a culture of accountability and transparency, while addressing the challenges identified, will be crucial for improving PFM practices and ultimately building public trust in the financial management of the County. As Nairobi City County navigates its compliance journey, leveraging the principles of institutional theory can guide its efforts toward more effective and responsible governance.

However, there are several critiques to institutional theory. Institutional theory has been criticized for lacking a truly critical edge in recent scholarship. First, Willmott (2015) and Lok (2019) argue that despite addressing societal problems, institutionalists rarely pursue structural change or challenge systems of domination. Second, the theory still centers too heavily on individual agency, sidelining how power operates invisibly and systemically, a concern emphasized by Hamann et al. (2020) who call for deeper engagement with contextual power. Third, newer critiques warn that institutional researchers reduce complex grand challenges into technical micro-interventions, often reinforcing dominant narratives instead of challenging them. These studies underscore the need for institutional theory to move beyond legitimacy-focused models and engage more directly with inequality, context, and hegemonic power.

2.1.2 Agency Theory

Jensen and Meckling are known for formalizing agency theory in 1984, introducing the concept of agency costs arising from conflicts between principals and agents. They emphasized the need to align agents' interests with those of principals through mechanisms like performance-based compensation and monitoring, arguing that effective governance can reduce agency costs. Fama and Jensen (1987) expanded on this by exploring contracts and governance in addressing agency issues, highlighting the "separation of ownership and control" and its potential inefficiencies if

mismanaged. Their work underscores the importance of board structures and external monitoring to ensure agents upholding their fiduciary duties. Baker, Gibbons, and Murphy (2002) explored the role of relational contracts in agency theory, emphasizing that while formal contracts are important, informal agreements and long-term relationships significantly influence agent behavior. They argue that a supportive social environment encourages agents to maintain their reputation and pursue future opportunities, thereby aligning interests. Similarly, Laffont and Martimort (2009) expanded agency theory by examining information asymmetry in complex contexts like public economics. They focused on designing contracts that incentivize agents while addressing risks from hidden actions and information, highlighting the need for careful contract design to ensure agents act in the principals' best interests, especially when monitoring is costly or impractical.

The relationship between agency theory and financial monitoring is crucial for compliance with public financial management standards in Nairobi City County Government. Effective financial monitoring aligns the interests of agents and principals, reducing the risk of mismanagement and corruption by ensuring agents know their actions are overseen. Strong financial systems deter self-serving behaviors like fund misappropriation, while regular audits and performance assessments safeguard against misconduct. Additionally, effective monitoring enhances public and stakeholder engagement in budgeting and financial management, encouraging accountability and advocacy for community interests. However, agency theory has been widely critiqued for its narrow assumptions and limited applicability in complex governance contexts. First, it overemphasizes economic rationality and self-interest, often ignoring cultural and institutional influences. Yusuf (2016) highlights this limitation in emerging economies where relational norms shape decision-making more than contractual incentives. Second, the theory tends to reduce the corporation to a purely financial entity, overlooking its broader social responsibilities in that it blinds governance frameworks to externalities like inequality and environmental harm. Third, by focusing almost exclusively on managerial opportunism, agency theory sidelines other critical governance concerns such as stakeholder engagement and systemic risk.

2.1.3 Public Choice Theory

Public choice theory, developed by Buchanan (1965) which is an interdisciplinary framework that integrates economic theory into political analysis to examine the mechanics of public decision-making and how they can be influenced by individual incentives. Scholars have approached public choice theory from various perspectives, leading to a rich and diverse discourse. Instead, Buchanan (1965) argued that they are motivated by self-interest and personal incentives. Tullock (1969) examines decision-making in democratic institutions, highlighting the role of individual preferences and the bargaining process among diverse interests. This theory reveals the potential for government failure, suggesting that political outcomes may not align with societal interests and prompting a critical look at government interventions. Niskanen (1971), focuses on the behavior of bureaucrats within the public choice framework and argues that bureaucrats are motivated by their own interests, which often leads to the expansion of their agencies and budgets, regardless of the actual needs of the public. Niskanen's (1971) insights into bureaucratic behavior underscore the

potential for inefficiency and waste in government operations. Ostrom (1991) presents case studies illustrating capacity of local communities to autonomously coordinate for sustainable stewardship of common resources. Her work emphasizes vitality of local knowledge, social norms, and the role of institutions in facilitating cooperation among individuals. Also, she indicates that public choice theory underscores the potential for decentralized governance and vitality of comprehending social and cultural contexts in which public decisions are made.

The theory is relevant to the financial monitoring practices. Effective financial monitoring can create accountability and promote compliance with Public Financial Management (PFM) regulations. When monitoring is seen as fair and transparent, it fosters adherence among public officials; however, perceived bias can reduce compliance. Public choice theory underscores the need for clear incentives to encourage ethical behavior. The political environment of the Nairobi City County Government can significantly impact financial monitoring and compliance as political figures may misuse regulations for personal gain. Understanding these dynamics is crucial for assessing monitoring effectiveness. If leaders exhibit a myopic focus on current earnings, neglecting future fiscal integrity, compliance with PFM regulations may suffer. Therefore, financial monitoring systems should be designed to mitigate political influences and strengthen accountability.

2.2. Empirical Review

2.2.1 Budget Implementation and Public Financial Management Compliance

Cheboi (2019) explored budget implementation and Kenya's Elgeyo Marakwet County financial performance. Utilizing descriptive research, the examination targeted all 79 county accounting officers through census. Primary data gathering was carried out using standardized questionnaires, which were distributed via a drop-and-pick method. Amassed data was evaluated by SPSS version 23, applying both descriptive and inferential statistics, aiming to assess how factors like resource availability, budget planning, audit processes and staff capacity influenced financial performance. Results indicated strong consensus among respondents on these factors, with findings demonstrating that effective budget planning, sufficient resources, capable staff and robust audit processes significantly and positively affected financial outcomes. Nonetheless, the examination identified certain conceptual and contextual limitations, notably its focus on financial performance rather than PFM compliance within Elgeyo Marakwet County.

Odhiambo (2022) ascertained budgetary compliance impacts on Kenya County Governments' performance using descriptive research across all 47 counties. Secondary data from the Office of the Auditor General and county annual reports from 2017 to 2021 were evaluated via inferential and descriptive statistics, including regression analysis. R-square value of 0.2472 was evidenced, indicating that 24.72% of performance variations were linked to the study's four variables. The model was statistically significant (p -value = 0.000). The study found that revenue transfer and local revenue collection positively influenced county performance, while budgetary compliance and recurrent spending did not.

Abdallah (2018) descriptively evaluated budgeting process effects on Kenya's Kwale County financial performance. The study surveyed all 13 county departments, amassing primary data from County Executive Committee members and Chief Officers via a structured questionnaire. Secondary financial performance data was gathered by Department of Finance and Economic Planning. Cronbach's alpha confirmed questionnaire's reliability at 0.985. Data analysis was conducted using IBM SPSS Statistics version 21, employing correlation and Chi-square tests. Respondents generally agreed that the budgeting process positively influences financial performance, particularly regarding target achievement, program-based budgeting, budgetary control, and county legislation. However, the research reveals notable gaps, conceptually and contextually, given its exclusive focus on Kwale County's financial outcomes.

2.2.2 Financial Reporting and Public Financial Management Compliance

Osman (2017) studied factors affecting compliance with IFRS among firms on Nairobi Securities Exchange by descriptive research. The review included 64 listed firms as of December 31, 2016, employing a census approach and collecting data from 2012 to 2016. Regression analysis revealed firm size's significant negative correlation with disclosure index, while profitability had an insignificant negative connection. Leverage showed a positive but insignificant correlation, and firm age evidenced a substantial positive correlation. However, time scope of 2012-2016 presents results that may not be generalizable in the intended 2020-2024-time scope due to differing regulatory environments. Deorri and Poda (2023) examined public financial reporting practices and Kenya's State-Owned Enterprises (SOEs) accountability. Their review highlights the critical role of SOEs in providing essential services like health and education, but reveals significant accountability issues, including fraud and misappropriation of funds, which hinder service delivery and damage reputations. The study also notes inadequate financial reporting practices leading to mismanagement and financial losses among many SOEs. However, it acknowledges a methodological gap due to its reliance on secondary data. Rugutt, Naibei, and Cheruiyot (2019) explored financial reporting reforms and specific Kenyan County Governments performance. Utilizing descriptive research, it focuses on the whole target population of 184 treasury personnel (census) from the County Governments of Bomet, Kericho, Nakuru, and Narok. Data amassing was via semi-structured, self-administered questionnaires. Data analysis involved both descriptive and inferential statistical techniques. Results indicated that financial reporting reforms substantially impacted Kenya counties' financial performance. Nonetheless, the research unveils a contextual gap since Nairobi City County was not amongst Counties studied. A methodological gap is also identified since census will be employed instead of stratified sampling.

2.2.3 Internal Audit and Public Financial Management Compliance

Abubakar and Omwenga (2021) studied the internal audit function's impact on Kenya's Lamu county financial performance using a descriptive framework. 30 employees from five departments in the Ministry of Finance, Budget, and Planning were sampled. Data were analyzed with SPSS version 23, using frequency counts, percentages, standard deviations and means and presented in tables. Multiple linear regression assessed financial performance (dependent variable) relationship

with factors like audit function, risk management, financial reporting, and cash management (explanatory variables). The findings revealed that Lamu County had an effective internal audit unit that conducted timely audits, with results communicated to top management. However, the study focused on performance of Lamu County, Kenya thus presenting a contextual gap. Mbaruk (2022) examined the link between internal audit practices and Kenya's Mombasa County Government financial performance. Using a descriptive framework, the review targeted 108 employees, including internal auditors and finance personnel, and employed stratified sampling to select 85 respondents. Semi-structured questionnaire and secondary audited financial reports amassed data. To enhance validity and reliability, expert opinions were incorporated. Descriptive statistics and Pearson correlation analysis were used, revealing variables' notable positive correlation. However, limitation to Mombasa County exhibited contextual gap. The study of financial performance instead of PFM compliance also presents a conceptual gap.

3.0 RESEARCH METHODOLOGY

This study adopted a descriptive research design, which, according to Nassaji (2019), enables effective comparison of variables and identification of relationships useful for making predictions and conclusions. The target population comprised employees from Nairobi City County's Department of Finance and Economic Planning, including divisions such as Finance and Accounting, Economic Planning, IFMIS, Procurement, Audit, Revenue, and Compliance. A stratified random sampling method was used to ensure proportional representation across departments, guided by Kothari's (2004) sample size determination framework. A total of 76 respondents participated through questionnaires. Quantitative data were analyzed using descriptive statistics (mean and standard deviation) and inferential statistics, including correlation and multiple regression analysis, to assess the influence of financial monitoring practices on public financial management compliance. The regression model applied was: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$,

where Y = compliance, X_1 = budget implementation, X_2 = financial reporting, and X_3 = internal audit.

4.0 RESEARCH FINDINGS AND DISCUSSION

4.1. Response Rate

The overall response rate was derived from 62 questionnaires administered across key offices, including Finance and Economic Planning, Chief Officer, CEC Finance and Director. Table 1 provides a consolidated responses summary.

Table 1: Response Rate

Category	Frequency	Percentage
Returned questionnaires	59	95.2%
Unreturned questionnaires	3	4.8%
Total	62	100

Source: Research Data (2025)

Findings illustrated in Table 1 indicate attainment of 95.2% response rate because 59 questionnaires were returned. The non-response rate stood at 3.2% due to 3 questionnaires not returned. As noted by Saunders, Lewis, and Thornhill (2021), a response threshold of 70% or above is generally regarded as analytically robust, providing adequate grounds for meaningful interpretation. Therefore, in light of this recommendation, the attained response rate met threshold for analytical adequacy and draw conclusions.

4.2. Descriptive Statistics Results

Table 2: Descriptive Statistics

Descriptive Statistics	Mean	Std Dev
Budget Implementation	4.07	0.94
Financial Reporting	3.98	1.02
Internal Audit	4.15	0.85
Public Financial Management Compliance	2.99	2.01

Source: Research Data (2025)

The outcomes in Table 2 indicate an aggregate mean score of 4.07 and a standard deviation of 0.94, signifying broad consensus among respondents regarding the effect of budget implementation on public financial management compliance in Nairobi City County. A majority (71.6%) agreed with the statements, 3.2% were neutral, and 25.1% disagreed. The findings suggest that effective budget implementation enhances the management of public financial compliance. These results support Cheboi's (2019) findings in Elgeyo Marakwet County, which demonstrated that effective budget planning, adequate resources, competent staff, and sound audit systems positively influenced financial performance. For financial reporting, Table 4.2 shows a mean score of 3.98 and a standard deviation of 1.02, indicating general agreement among respondents, with 78.1% agreeing, 3.7% neutral, and 18.3% disagreeing. Respondents perceived that accurate financial reporting enhances compliance. This aligns with Osman (2017), who found that firm size negatively correlated with disclosure levels among Nairobi Securities Exchange-listed companies. Regarding the internal audit, Table 4.2 records a mean of 4.15 and a standard deviation of 0.85, showing strong agreement (84.6%) that effective auditing improves compliance. This supports Abubakar and Omwenga (2021), who found that timely and well-communicated audits improved financial performance in Lamu County.

4.3 Inferential Statistics Results

The presents inferential statistical analyses, specifically correlation and regression results, used to determine the relationship between financial monitoring practices and public financial management compliance in Nairobi City County.

Table 3: Correlation Analysis

Variables		Budget Implementation	Financial Reporting	Internal Audit	Public Financial Management Compliance

Budget Implementation	Pearson Correlation	1			
	Sig. (2-tailed)	-			
	N	59			
Financial Reporting	Pearson Correlation	0.152	1		
	Sig. (2-tailed)	0.201	-		
	N	59	59	59	
Internal Audit	Pearson Correlation	0.206	0.114	1	
	Sig. (2-tailed)	0.062	0.081	-	
	N	59	59	59	
Public Financial Management Compliance	Pearson Correlation	0.785	0.823	0.719	1
	Sig. (2-tailed)	0.002	0.001	0.003	-
	N	59	59	59	59

Source: Research Data (2025)

Table 3 indicates strong and positive correlations among the study variables. Budget implementation had a Pearson correlation coefficient of $r = 0.785$ with a p-value of 0.002, showing a significant positive relationship with public financial management compliance. This implies that effective budget implementation enhances compliance by ensuring prudent allocation and utilization of financial resources. Financial reporting also demonstrated a strong positive correlation ($r = 0.823$, $p = 0.001$), suggesting that transparent and accurate reporting improves accountability and compliance. Similarly, internal audit showed a significant positive relationship ($r = 0.719$, $p = 0.003$), indicating that robust auditing mechanisms strengthen compliance through detection and prevention of financial irregularities.

4.4. Multiple Regression Analysis

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.875	0.766	0.701	0.003

Source: Research Data (2025)

Table 4 shows an adjusted R^2 of 0.701, meaning that 70.1% of the variation in public financial management compliance is explained by the three predictor variables: budget implementation, financial reporting, and internal audit. The remaining 29.9% is attributed to other factors not captured in the model.

Table 5: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	91.485	3	30.495	42.158	0.002
	Residual	39.784	55	0.723		
	Total	131.269	58			

Source: Research Data (2025)

As shown in Table 5, the F-value of 42.158 and a significance level ($p = 0.002 < 0.05$) confirm that the regression model is statistically significant. This indicates that the combined effect of financial monitoring practices meaningfully predicts variations in public financial management compliance within Nairobi City County Government.

Table 6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.623	0.185	-	3.368	0.003
	Budget Implementation	0.791	2.047	0.362	0.386	0.001
	Financial Reporting	0.706	3.162	0.415	0.223	0.003
	Internal Audit	0.724	2.006	0.551	0.361	0.002

Source: Research Data (2025)

Outcomes outlined in Table 6 underscore that public financial management compliance of the Nairobi City County government would be 0.623 in the absence of the effects of budget implementation, financial reporting, and internal audit. Regression coefficients indicate that a unit improvement in budget implementation, financial reporting, and internal audit would improve Nairobi County's public financial management compliance by 0.791, 0.706, and 0.724 units, respectively.

Regression Equation:

$$Y = 0.623 + 0.791X_1 + 0.706X_2 + 0.724X_3 + \varepsilon$$

Where:

- Y = Public financial management compliance
- X_1 = Budget implementation
- X_2 = Financial reporting
- X_3 = Internal audit
- ε = Error term

4.5 Budget Implementation

The study ascertained that budget implementation positively and significantly affected Nairobi County's public financial management compliance, as indicated by ($\beta = 0.362$, $t = 0.386$, $p = 0.001$). The finding agrees with Odhiambo (2022) who ascertained that budgetary compliance impacts Kenya County Governments' performance. The study found that revenue transfer and local revenue collection positively influenced county performance.

4.6 Financial Reporting

The research indicated that financial reporting positively and significantly affected Nairobi County's public financial management compliance, as evidenced by ($\beta = 0.415$, $t = 0.223$, $p = 0.003$). This pattern mirrors that reported by Rugutt, Naibei, and Cheruiyot (2019) who explored financial reporting reforms and specific Kenyan County Governments' performance. The results indicated that financial reporting reforms significantly impacted Kenya counties' fiscal performance.

4.7 Internal Audit

The review revealed internal audit's positive and significant impact on public financial management compliance by the Nairobi City County government, as shown by ($\beta = 0.551$, $t = 0.361$, $p = 0.002$). The finding concurs with Mbaruk (2022) who examined the link between internal audit practices and Kenya's Mombasa County Government financial performance. The examination established a strong correlation between internal audit practices and Kenya's Mombasa County Government financial performance.

5. CONCLUSION

The study concludes that Nairobi City County can significantly enhance public financial management compliance by strengthening budgetary practices, improving financial reporting systems, and ensuring transparency in procurement processes. Effective budget implementation promotes accountability, better service delivery, and improved living standards for residents. Transparent financial communication with citizens is also crucial, as accurate and timely reporting enhances decision-making, optimizes resource use, and fosters public trust. A robust reporting system enables the identification of irregularities, minimizes fraud, and cultivates a culture of accountability and civic engagement. Furthermore, the study establishes that internal auditing strongly correlates with financial compliance, ensuring that public resources are managed responsibly. Effective audit management minimizes the risk of misappropriation and supports adherence to legal and regulatory frameworks.

6. RECOMMENDATIONS OF THE STUDY

The study recommends that Nairobi City County invest in continuous training for finance staff to enhance their skills in budgeting, reporting, and ethical financial management. Adoption of e-budgeting platforms is encouraged to improve transparency, reduce delays, and streamline fund

allocation. The County should establish a robust monitoring and evaluation framework with clear key performance indicators to enhance accountability and performance tracking. Public participation should be strengthened through community forums, town halls, and digital platforms to incorporate citizen input in budgeting decisions. The County should also leverage technology for data collection and financial reporting, ensuring accuracy and real-time access to information through improved IFMIS implementation. Frequent internal and external audits are recommended to ensure compliance with financial regulations. Additionally, establishing independent audit committees and using data analytics tools can help detect inconsistencies early, promote transparency, and enhance confidence in public financial management systems.

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