Budgeting Process, Expenditure Management, Institutional Quality and Financial Accountability among Selected Local Governments in Southwest Nigeria

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ABSTRACT

Financial accountability in the public sector is vital for economic growth, financial stability, service delivery and the gaining of public trust. It is, however, often hampered by poor financial management practices and weak institutions. In Nigerian local governments, fears that inefficiencies in the budgeting process, expenditure management practices and weak institutions may mar the achievement of financial accountability and ultimately stifle grassroots development is widespread. It is on this basis that the study investigates how budgeting process and expenditure management practices affect financial accountability in Southwest Nigeria local governments and also explores the intervening role of institutional quality. Mixed method research was adopted. A sample size of 320 respondents was derived from a population of 1, 896, made up of directors in the local governments and officers on grade level 10 and above in the Office of the Auditor General for Local Governments using stratified sampling technique. Descriptive analysis of data (mean scores and standard deviations) were displayed in tables while further analysis was done with the Partial Least Squire Structural Equation Modeling (PLS-SEM). Qualitative data were analyzed thematically. Findings revealed a statistically significant positive relationship between budgeting process and financial accountability: ($\beta = 0.261$, $t = 6.21$, $p < 0.001$) as well as expenditure management and financial accountability ($\beta = 0.274$, $t = 6.68$, $p < 0.001$). In addition, institutional quality significantly intervenes in the relationship between these elements of financial management practices and financial accountability. Qualitative findings confirmed a flawed, top-down, and politically influenced budgeting process, and expenditure management that prioritized recurrent spending over capital projects with weak performance links. The study concludes that the positive relationship between budgeting process, expenditure management and financial accountability in these local governments is severely curtailed by poor budgeting and expenditure management practices, worsened by political interference. It recommends a holistic institutional and governance reforms, digitalizing financial processes, embedding accountability mechanisms, and enforcing legal frameworks to improve financial accountability.

Key words: financial management, financial accountability, institutional quality, local governments.

BACKGROUND TO THE STUDY

Financial accountability is a crucial element in public sector governance mandate all over the world and it is vital for economic growth, capital market efficiency, financial stability, service delivery and the gaining of public trust. Globally, effective financial management practices promote transparency and efficient public spending (Andersson & Bergman, 2020), particularly at the local government level (Obisanya & Hassan, 2022). Developed countries like Finland and Denmark, with their robust financial frameworks, exemplify high accountability (Transparency International, 2023). Local governments play a pivotal role in grassroots development through the provision of infrastructural facilities and efficient service delivery. However, their ability to fulfill this mandate has often been questioned due to weak financial accountability mechanisms and institutional challenges.

The budgeting process and expenditure management practices are key elements of financial management practices that can be used in aligning fiscal decisions with developmental priorities ((CIPFA, 2021; Cottarelli & Moghadam, 2023) and ensuring fiscal discipline (OECD, 2022). These practices enhance accountability by linking spending to performance outcomes and engaging citizens (Allen, Hemming & Potter, 2021). Despite these, systemic inefficiencies in the budgeting process, expenditure management practices and institutional quality as noted by OECD (2021) significantly impede financial accountability particularly in the public sector. Indeed, the success of these mechanisms hinges on the quality of institution ns charged with oversight activities, since weak institutions can undermine even the best financial management practices in local governments (Andrews, 2013). This study therefore examines the role of institutional quality in the budgeting process and expenditure management practices in achieving financial accountability in local governments, Southwest Nigeria.

Statement of the Problem

Achieving financial accountability in the management of public resources, especially at the local governance level is a major global concern. When budgeting and resource allocation lack transparency and expenditure management is deficient, citizens are left uninformed about how their resources are managed. The budgeting process fails as a planning and control mechanism when it is marred by politicization, lack of public participation, poor regulatory compliance, administrative inefficiencies and undue partisan influences. These issues erode public trust. In the same vein, when the goal of public spending which includes community development, improvement in living standards and public infrastructural development is undermined by irregularities such as official corruption, wasteful spending, expenditures not aligned with budgets, inadequate documentation for spending, inefficient regulatory enforcement, a prioritization of recurrent expenditure over capital expenditure and failure to implement basic safeguards in authorization and monitoring, then the people are sort changed.

Furthermore, the quality of institutional frameworks may significantly worsen the problem. Oversight agencies may lack sufficient autonomy, resources and political will to function properly or deliberately undermine the system. A prime example is the management of the State-Local Government Joint Account (SLGJA) where funds are frequently diverted and mismanaged by state government and its agencies thereby severely compromising the fiscal autonomy of local governments. This lack of financial accountability manifests in the deteriorating state of public infrastructure and poor quality service delivery in healthcare, education, and security. This failure impedes inclusive development and poverty reduction and since existing research has not fully explored the integrated influence of the budgeting process, expenditure management practices and institutional quality on financial accountability of local governments in Southwest Nigeria, this study aims to fill the gap by examining the collective impact of these constructs and assessing how improved institutional quality potentially strengthens the relationships so that financial accountability can be enhanced in Southwest Nigeria local governments.

Research Questions and hypotheses

In line with the identified problems that are hindering the achievement of financial accountability in local governments, the following research questions are formulated to guide the study.

i. How does the budgeting process affect financial accountability of local governments in Southwest Nigeria?

ii. How does expenditure management affect financial accountability of local governments in Southwest Nigeria?

iii. What is the intervening role of institutional quality in ensuring that sound financial management practices that can promote the achievement of financial accountability are enshrined in Southwest Nigeria local government?

Based on the foregoing research questions, the hypotheses, which have been formulated in the null form for the study, are stated as follows:

Ho_1 The budgeting process has no significant effect with financial accountability of local governments in Southwest Nigeria.

Ho_2 Expenditure management does not have significant effect on financial accountability of local governments in Southwest Nigeria.

Ho_3 Institutional quality does not significantly intervene in promoting proper financial management practices that enhances the achievement of effective financial accountability in Southwest Nigeria local governments.

Justification for the Study

This study critically examines how financial management practices, particularly budgeting process and expenditure management practices impact financial accountability in Southwest Nigerian local governments, with a unique focus on the intervening role of institutional quality. It addresses existing weaknesses like lack of due process in budgeting and non-compliance with rules in expenditure management, aiming to provide a nuanced understanding of how these affect the achievement of financial accountability as well the intervening role of institutional quality in this regard. The research offers actionable recommendations for practitioners to improve financial management practices, suggests strategies to address skills gaps among finance personnel, and guides policymakers in formulating effective policies. Additionally, it provides empirical data to bridge knowledge gaps and aid future research on financial management practices, institutional quality and the achievement of financial accountability in local governments.

Scope of the Study

This study aimed at investigating the impact of budgeting process, expenditure management and institutional quality on financial accountability of local governments in Southwest Nigeria. Concepts used in this study include the budgeting process, expenditure management, and financial accountability proxied by financial reporting quality and level of financial transparency. The use of these concepts can be justified due to the fact that they are key elements of financial management practices and financial accountability (CIPFA, 2021). Since they are interconnected, they have proven to be reliable in analyzing financial accountability in local governments (Maina, 2018).

There is a need to examine the effect of budgeting process and expenditure management on financial accountability in the Southwest region of Nigeria due to the fact that financial accountability is a critical concept in public sector governance around the world because it is centered around demanding from public sector officials in leadership positions how they have managed resources in their care. This process of holding to account is especially important in the context of local governments in Southwest Nigeria due to the urgent need to develop the local government areas so that the people living therein can enjoy dividends of democracy.

Geographically, the study is limited to Southwest region of Nigeria and the primary unit of analysis is the selected local government areas (LGAs) and Local Council Development Areas (LCDAs) within the Southwest region of Nigeria.

LITERATURE REVIEW

Conceptual Review

The Budgeting Process

Budgeting is conceptualized as setting goals, reporting achievements and evaluating performance (Olaniyan and Efuntade, 2020), being central to public sector operations by involving stakeholders in resource allocation, planning and ensuring openness (Bisogno and Cuadrado-Ballesteros, 2021). Wechie, Igwe, Davis and Osai (2024) view the budget process as fundamental to financial management practices, shaping fiscal policy,

resource allocation, and financial accountability. Lee and Johnson (2020) describe it as a methodical process for planning, preparing, adopting, implementing and overseeing financial resources. At all government levels, the budgeting process involves formulation, approval, implementation and evaluation/audit stages (Iloh & Nwokedi, 2016; Lee & Johnson, 2020; Adekoya, 2023). Specifically, at the local government level, the executive committee initiates the process, departments prepare estimates, the legislative council approves, the state house of assembly sees to the defense of the draft, and the state governor gives assent (Wardani & Hasibuan, 2024). Implementation then falls to the executive committee, with evaluation and audit conducted by the Auditor General for Local Governments (Eton, Sunday & Nkamusiima, 2023).

Expenditure Management Practices

Public expenditures are government expenses used for securing lives and property, fostering business environments, building infrastructure, paying salaries and providing healthcare, education, and law enforcement (Lee & Min, 2023). Public expenditure management involves the efficient and responsive allocation of government resources (OECD, 2001; Allen and Tomassi, 2001), particularly at the local government level for developmental projects (Ibrahim and Lawal, 2018). Resource allocation typically follows recurrent (personnel and overheads) and capital expenditure (infrastructure) patterns (Tran & Nguyen, 2024). Rahayu and Khoirunnurrofik (2022) emphasize that all expenditures must align with the budget to ensure fiscal discipline, transparency, accountability and value for money, which requires detailed guidelines and effective monitoring (Ebrahim & Kola, 2019). Expenditure control at the local government level, as outlined in the Financial Memoranda (1998), involves various levels of authority (Abubakar, 1995). Bhattarai (2024) also advocates linking expenditure with performance outcomes to enhance accountability and achieve value for money by demonstrating tangible results from allocated funds.

Institutional Quality

Institutions are conceptualized as the rules, policies and organizational frameworks governing societal affairs (North, 1990), with institutional quality referring to the strength and effectiveness of these governing structures, especially in public sector activities (The World Bank, 2023). Acemoglu and Robinson (2012) define it as the efficacy and integrity of institutions overseeing government financial management. According to the World Bank (2023), institutional quality is shaped by legal and regulatory frameworks including the efficiency of agencies implementing the policies of governments (IMF, 2022). With regard to local government financial management, Adekoya (2023) defines "institution quality" as the efficacy, efficiency, accountability, and transparency of organizations monitoring financial activities. Rose-Ackerman (1999) suggests that institutional quality can either strengthen or weaken accountability by influencing anti-corruption measures; while the OECD (2022) emphasizes that oversight institutions must possess integrity and capacity to foster accountability

Financial Accountability

Financial accountability, as defined by the World Bank (2003), is the obligation of public resource custodians to report on their management and use. Omolaye (2015) extends this to local governments, emphasizing the need for stewards to account for resource usage to ensure objectives were met, not violated or manipulated. Igboke and Raj (2023) further assert that public officials demonstrate accountability by providing vital information on public finances, encompassing fund raising and utilization, procured goods/services and the efficiency and efficacy of achieving public administration goals.

Theoretical Framework

This study is underpinned by Stewardship Theory, which emphasizes long-term sustainability, collective responsibility and trust in public resource management, as highlighted by Krah and Mertens (2023). The theory posits that managers, acting as stewards, prioritize organizational success and public interest over personal gain and it is particularly relevant for elected local government representatives. Donaldson and Davis (1991) assert that well-structured budgeting and expenditure management foster transparency and citizen participation, encouraging prudent resource management and enhancing financial accountability. Davis,

Schoorman and Donaldson (1997) further suggest that public officials, as stewards, gain a sense of achievement from effective resource application, leading to selfless actions and a focus on collective well-being. Ultimately, Mothupi, Musvoto and Lekunze (2022) underscore how this theory provides a framework for understanding how transparent budgeting process and sound expenditure management practices enhance accountability and sustainable public resource management for citizens' benefit.

Empirical Review

Review of empirical literature reveals that robust budgeting processes and expenditure management practices generally enhance financial accountability in local governments, with studies across diverse contexts (e.g., Pebrianti & Aziza, 2018; Ibrahim & Lawal, 2018; Scott, 2019; Lee & Min, 2023; Su, Nur, & Nurul, 2024; Tran & Nguyen, 2024) highlighting positive links between clear budget targets, citizen participation, and improved spending. Conversely, other researchers (e.g., Ibrahim & Lawal, 2018; Lulaj, 2019; Ejumudo & Ejumudo, 2020; Rahayu & Khoirunurrofik, 2022; Eton, Sunday & Nkamusiima, 2023; Ezeigwe, 2023; Wechie et al., 2024; Masu-Gombe & Alkali, 2024; Bhattarai, 2024) identifies significant shortcomings, such as inadequate controls, political interference, corruption, and budget deviations, which undermine financial accountability, particularly in less developed economies.

Despite these findings, there is a noticeable gap in empirical studies specifically confirming the critical interplay between budgeting process, expenditure management and institutional quality in achieving financial accountability. Existing literature in this area in Nigeria often focuses on isolated issues like poor budgeting, corruption in public spending or ineffective oversight activities without comprehensively analyzing how these factors collectively impact financial accountability, especially with institutional quality as an intervening variable. While some studies (e.g., Awor, Okuna, & Mwesigwa, 2024; Castro, Guccio, Romeo, & Vidoli, 2025) suggest that low institutional quality hinders accountability, explicit empirical analysis of how institutional quality intervenes in the relationship between budgeting process, expenditure management and financial accountability is scarce and this gap was bridged in this study. This study also addresses a significant geographical gap by focusing specifically on Southwest Nigerian local governments, an area where such comprehensive investigations are rarely found in the literature.

Research Paradigm and Design, Population and Sample Size

Research Design

The philosophical position adopted in this study is the pragmatic world view that is routed in ensuring that the researcher uses all available methods to address the research problem with the aim of developing new knowledge (Creswell, 2013). The pragmatic research paradigm that was employed in this study made use of the mixed method approach by combining both quantitative and qualitative methods to provide a comprehensive understanding of how the budgeting process, expenditure management practices and institutional quality interact to influence financial accountability in local governments, Southwest Nigeria. The quantitative component examines the relationships between the variables using survey, while the qualitative component offer deeper insights into the mechanisms at play through interviews.

Both quantitative and qualitative data were collected. The stratified sampling technique was used to determine the sample size of 320 respondents based on a population of 1,896 for quantitative data while for qualitative data, a sample of 18 respondents and one financial management expert was used.

Model Specification

To achieve the purpose of this study, model used by Mong'are and Atheru (2023) was adopted and modified. After modification, the following models were formulated for the study:

MODEL 1:   Budgeting Process (BP)

The budgeting process (BP) was proxy by indicators that include Budget Formulation, Budget Implementation and Budget Monitoring & Evaluation to arrive at the following model that shows statistical relationship between budgeting process and financial accountability in local governments, Southwest Nigeria.

$$FAC = \beta_0 + \beta_1 BF_i + \beta_2 BI_i + \beta_3 BM_i + \varepsilon_i. \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.1)$$

Model 2: Expenditure Management Practices (EM)

Expenditure Management Practices (EM) was proxy by indicators that include Aligning Expenditure with Budgets, Statutory/Regulatory Provisions Compliance and Linking Expenditure with Performance Outcomes to arrive at the following model that shows statistical relationship between expenditure management and financial accountability in local governments, Southwest Nigeria.

$$FAC = \beta_0 + \beta_1 AEB_i + \beta_2 RPC_i + \beta_3 LEP_i + \varepsilon_i. \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.2)$$

The intervening effect of Institutional Quality on Budgeting Process, Expenditure Management Practices and Financial Accountability was tested with the following model: ε_i

$$FAC = \beta_0 + \beta_1 BPi + \beta_2 EMi + (\beta_3\ BPi*IQi + EMi*\ IQi) + \varepsilon_i. \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.3)$$

Where:

FAC = Financial Accountability

BF_i = Budget Formulation for Local Government i

BI_i = Budget Implementation for Local Government i

BM_i = Budget Monitoring & Evaluation for Local Government i

AEB_i = Aligning Expenditure with Budgets for Local Government i.

RPC = Statutory/Regulatory Provisions Compliance for Local Government i

LEP_i = Linking Expenditure with Performance Outcomes for Local Government i

IQi = Institutional Quality for Local Government i.

BPi*IQi = Interaction of Institutional quality with budgeting process

EMi* IQi = Interaction of Institutional quality with expenditure management

$\beta_1, \beta_2, \beta_3$ = Parameters to be Estimated

$\varepsilon.$ = Error Term

Source and Methods of Data Collection

Data for the study was collected by using primary method of data collection. The research instrument used for collecting quantitative data was the structured questionnaire while semi-structured interview was used for collecting qualitative data.

Method of Data Analysis and Estimation Techniques

Both descriptive and inferential statistical analytical methods were employed for the analysis of quantitative data collected. Descriptive statistics include the use of frequency counts, mean scores, minimum and maximum values and standard deviations to show the socio-demographic characteristics of respondents to the questionnaire. Preliminary diagnostic tests of normality, linearity and multi-collinearity were also carried out on the data. The inferential statistics employed for analyzing quantitative data is the Partial Least Square-Structural Equation Model (PLS-SEM). The qualitative data collected were analyzed by using thematic-NVIVO analytical method.

Data Analysis, Interpretation and Discussion of Findings

Demographic Profile of the Respondents

Demographic data from 320 respondents in financial and institutional roles within Southwest Nigerian local governments revealed a predominantly male workforce (62.3%). The participants were highly educated, with over 91% possessing at least a university degree (47.1% graduate, 44.8% postgraduate). Professionally, the respondents displayed diverse and relevant backgrounds, including members of the Institute of Chartered Accountants of Nigeria (ICAN) (31.8%), Association of National Accountants of Nigeria (ANAN) (27.6%), and Chartered Institute of Taxation of Nigeria (CITN) (20.1%). A significant portion (42.9%) held senior or middle-level officer positions, indicating their active involvement in decision-making and operational functions, aligning with the study's focus. The duration of service further enriched the data, showcasing a well-balanced mix of early-career and seasoned professionals, with over half having more than 10 years of experience, ensuring informed perspectives.

Descriptive Statistics

The descriptive statistics of the variables show the minimum and maximum scores, mean values and standard deviation of the study constructs and their respective items.

Financial Accountability

The respondents' views on financial accountability are shown in Table 4.1 based on the questions from FAC-1 to FAC-8.

Table 4.1 Descriptive Statistics for Financial Accountability

Item	N	Minimum	Maximum	Mean	Std. Dev.
FAC-1	320	1	5	2.85	0.92
FAC-2	320	1	5	3.12	0.87
FAC-3	320	1	5	2.67	0.95
FAC-4	320	1	5	2.91	0.89
FAC-5	320	1	5	2.43	1.01
FAC-6	320	1	5	2.35	0.98
FAC-7	320	1	5	2.58	0.93
FAC-8	320	1	5	2.21	1.04

Source: Author's Computation, 2025

Table 4.1 details descriptive statistics for the eight financial accountability items (FAC-1 to FAC-8), rated on a 1 to 5 scale, revealing varied perceptions among respondents in South-West Nigeria. All items utilized the full response scale, with FAC-2 exhibiting the highest mean score of 3.12 (standard deviation: 0.87), indicating strong agreement and consistency. FAC-4 (mean: 2.91) and FAC-1 (mean: 2.85) also showed favorable perceptions. Conversely, FAC-8 had the lowest mean score of 2.21 and the highest standard deviation of 1.04, reflecting lower agreement and dispersed opinions. FAC-5 (mean: 2.43) and FAC-6 (mean: 2.35) also indicated weaker perceptions. Most items had mean scores below 3.00, suggesting moderate to low perceptions of financial accountability, with standard deviations ranging from 0.87 to 1.04, implying moderate response spread and highlighting potential implementation gaps in local governments.

Budgeting Process

The respondents' views on Budgeting Process are shown in Table 4.2 based on the questions from BP-1_1 to BP-3_3. The mean score for Budgeting Process ranges from 2.35 to 2.89, with standard deviations of 0.91 and 1.05, respectively.

Table 4.2 Descriptive Statistics for Budgeting Process

Item	N	Minimum	Maximum	Mean	Std. Dev.
BP-1_1	320	1	5	2.78	0.94
BP-1_2	320	1	5	2.35	1.02
BP-1_3	320	1	5	2.61	0.97
BP-2_1	320	1	5	2.89	0.91
BP-2_2	320	1	5	2.47	1.05
BP-2_3	320	1	5	2.52	0.98
BP-3_1	320	1	5	2.64	0.93
BP-3_2	320	1	5	2.41	1.01
BP-3_3	320	1	5	2.56	0.96

Source: Author's Computation, 2025

Expenditure Management

The respondents' views on Expenditure Management are shown in Table 4.3 based on the questions from EM-1_1 to EM-3_3. The mean score for Expenditure Management ranges from 2.45 to 3.68, with standard deviations of 0.99 and 1.14, respectively.

Table 4.3 Descriptive Statistics for Expenditure Management

Item	N	Minimum	Maximum	Mean	Std. Dev.
EM-1_1	320	1	5	3.52	1.08
EM-1_2	320	1	5	2.87	1.14
EM-1_3	320	1	5	3.31	1.05
EM-2_1	320	1	5	3.68	0.99
EM-2_2	320	1	5	2.45	1.22
EM-2_3	320	1	5	2.63	1.18
EM-3_1	320	1	5	3.12	1.07
EM-3_2	320	1	5	2.89	1.11

EM-3_3	320	1	5	2.97	1.09

Source: Author's Computation, 2025

Preliminary Tests

Normality Test

This test is typically used to determine whether the data collected for the study is normally distributed; thus, in this regard, the researcher used Skewness and Kurtosis statistics. As seen in table 4.4 below, all Skewness and Kurtosis values for each research variable are within Kline's (1998) recommended range of -3 to +3. The scores on each variable are assumed to be normally distributed in many parametric statistics (in example, follow the shape of the normal curve). This investigation's findings as shown in Table 4.4 show that results are fairly normally distributed.

Table 4.4 Test of Normality

Construct	N	Skewness	Std. Error	Kurtosis	Std. Error
Budgeting Process (BP)	308	-0.52	0.139	0.73	0.277
Expenditure Management (EM)	308	1.24	0.139	1.87	0.277
Financial Accountability (FA)	308	-0.21	0.139	-0.32	0.277

Source: Author's Computation, 2025

Test of Multicollinearity

Table 4.5 showed that correlation assessment for multicollinearity and indicates low collinearity among the variables. Therefore, all variables were retained and subjected to further analysis in the study.

Table 4.5 Correlation among the Independent Variables

Variable	BP	EM	FA
BP	1		.
Sig.	-		.
N	308		
EM	.387**	1	
Sig.	.000	-	
N	308	308	
FA	.511**	.687**	1
Sig.	.000	.000	-
N	308	308	308

Source: Author's Computation, 2025

Assessment of the Measurement Model

This study assessed the measurement model to determine the validity and reliability of the measurement items. The individual item loadings, internal composite reliability, convergent validity and discriminant validity were examined. Construct validity is measured through convergent and discriminant validity (Hair et al., 2016). According to Hair et al. (2016), item indicators outer loadings should be 0.708 or greater. Most of the indicators loaded above 0.708 and as such, all constructs have their CR above 0.7. Therefore, CR is confirmed satisfactory. The convergent validity for this study was established using the Average Variance Extracted (AVE) obtained from the SmartPLS 3.3.0 algorithm as suggested by Hair et al. (2017). In order to prove that the latent variable explains more than half of its indicator's variance, Hair et al. (2017) suggested that an AVE value of 0.5 and higher should be achieved. For this study, all the constructs' AVE values are greater than the 0.5 minimum thresholds.

The Structural Model

The second part of the assessment is the structural model, applied when the measurement model assessment is satisfactory. As described by Hair et al. (2019), five key criteria form the assessment for the structural model in PLS-SEM. These include examining the collinearity, coefficient of determination (R^2), effect sizes (f^2), the relevance of the path coefficients, the statistical significance, and the predictive relevance (Q^2 and PLSpredict). Hair et al. (2017) recommended that it is essential to test for collinearity before proceeding with other structural relationship assessments. The Variance Inflation Factors (VIF) was used to assess multicollinearity among the variables, and the result is shown in Table 4.7. Therefore, it is established that collinearity issues do not exist among the constructs as all the values of the VIF are below the threshold of 3.3 (Hair et al., 2019).

Table 4.6 Result of the Collinearity Assessment (Variance Inflation Factor)

Predictor Variable	Tolerance	VIF	Status
BP	0.724	1.381	Acceptable
EM	0.492	**2.033**	Acceptable

Source: Author's Computation, 2025

Path Coefficients Results for Model 1 (M1)

Table 4.7 Moderated Regression Analyses (Budgeting Process → Financial Accountability with IQ Intervention)

Predictor	B	SE	t-value	p-value	95% CI Lower	95% CI Upper
Direct Effects						
BF	0.261	0.042	6.21	<0.001***	0.179	0.343
BI	0.233	0.047	4.96	<0.001***	0.141	0.325
BM	0.152	0.051	2.98	0.003**	0.052	0.252
IQ	0.287	0.039	7.36	<0.001***	0.211	0.363
Interaction Terms						
BF × IQ	0.118	0.036	3.28	0.001**	0.047	0.189

BI × IQ	0.094	0.040	2.35	0.019*	0.015	0.173
BM × IQ	0.063	0.043	1.47	0.143	-0.021	0.147
Model Summary						
R²	0.538					
Adjusted R²	0.524					
F-statistic	38.72***					

Source: Author's Computation, 2025

A moderated regression analysis was conducted to examine the influence of Institutional Quality (IQ) on the relationship between Budgeting Process components (Budget Formulation (BF), Budget Implementation (BI), and Budget Monitoring (BM)) and Financial Accountability in local governments, Southwest Nigeria as depicted in Table 4.7. The model explained a substantial 52.4% of the variance in financial accountability (R^2 = 0.538, adjusted R^2 = 0.524, F-statistic = 38.72, $p < 0.001$), confirming its overall fit.

Directly, Budget Formulation (β = 0.261, $p < 0.001$), Budget Implementation (β = 0.233, $p < 0.001$), and Budget Monitoring (β = 0.152, $p < 0.003$) all demonstrated a significant positive influence on financial accountability, suggesting that improved practices in these areas enhance accountability. Regarding the moderating effects of Institutional Quality, both the interaction between Budget Formulation and Institutional Quality (BF × IQ) (β = 0.118, $p = 0.001$) and Budget Implementation and Institutional Quality (BI × IQ) (β = 0.094, $p = 0.019$) were statistically significant. This indicates that strong institutions enhance the positive impact of budget formulation and implementation on accountability. However, the interaction between Budget Monitoring and Institutional Quality (BM × IQ) was not statistically significant (β = 0.063, $p = 0.143$), implying that institutional quality does not significantly intervene in the relationship between budget monitoring and financial accountability.

Figure 4.1 Structural Path Model for Model 1: Budgeting Process
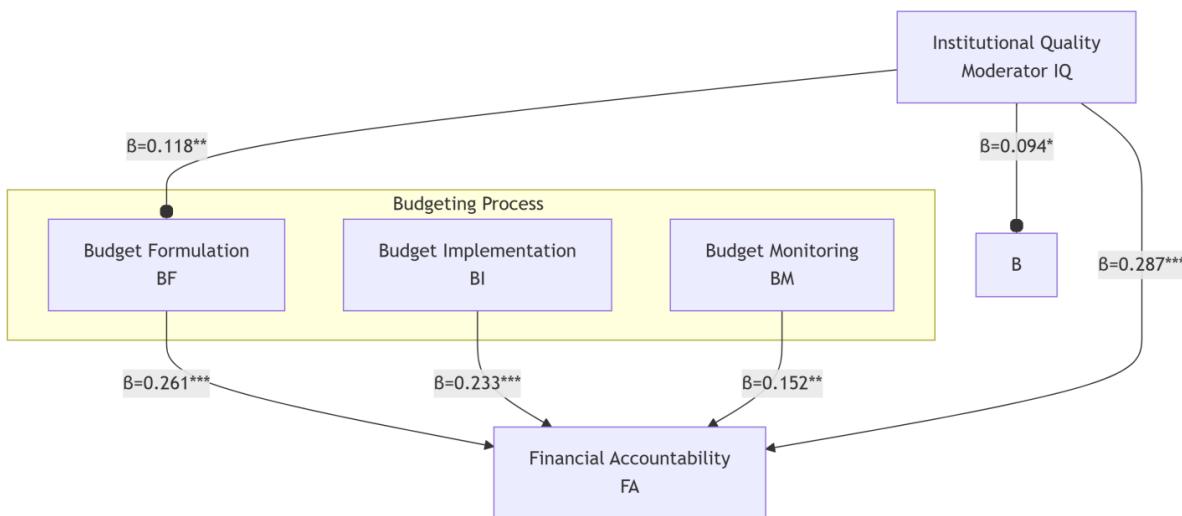
Source: Author's Computation, 2025

The structural path model in Figure 4.1 illustrates both the direct and moderating effects of Institutional Quality (IQ) on the relationship between components of the Budgeting Process and Financial Accountability in local governments across Southwest Nigeria. The visual model confirms that institutional quality not only drives financial accountability directly but also amplifies the effects of specific budgeting practices, particularly formulation and implementation, while its influence on monitoring remains limited.

Path Coefficients Results for Model 2 (M2)

Table 4.8 Moderated Regression Analyses (Expenditure Management → Financial Accountability with IQ Intervention)

Predictor	B	SE	t-value	p-value	95% CI Lower	95% CI Upper
Direct Effects						
AEB	0.274**	0.041	6.68	<0.001	0.194	0.354
RPC	0.358***	0.047	7.62	<0.001	0.266	0.450
LEP	0.167*	0.044	3.80	<0.001	0.081	0.253
IQ	0.301***	0.035	8.60	<0.001	0.232	0.370
Interaction Terms						
AEB × IQ	0.104*	0.033	3.15	0.002	0.039	0.169
RPC × IQ	0.142**	0.038	3.74	<0.001	0.068	0.216
LEP × IQ	0.058	0.031	1.87	0.062	-0.003	0.119
Model Statistics						
R²	0.619					
Adjusted R²	0.607					
ΔR² (Interaction)	0.048**					
F-statistic	51.33***					

Source: Author's Computation, 2025

A moderated regression analysis (Table 4.8) assessed how Institutional Quality (IQ) influences the relationship between Expenditure Management (EM) components and Financial Accountability (FAC). The model demonstrated a strong fit, explaining 61.9% of the variance in financial accountability ($R^2 = 0.619$, adjusted $R^2 = 0.607$, F-statistic = 51.33), with IQ significantly adding to its explanatory power (change in $R^2 = 0.048$, $p < 0.01$). Aligning Expenditure with Budgets (AEB) ($\beta = 0.274$, $p < 0.001$), Regulatory Provisions Compliance (RPC) ($\beta = 0.358$, $p < 0.001$), and Linking Expenditures with Performance Outcomes (LEP) ($\beta = 0.167$, $p < 0.001$) all significantly and positively influenced financial accountability.

Regarding intervening effects, IQ significantly strengthened the positive relationship between AEB and FAC ($\beta = 0.104$, $p < 0.002$) and RPC and FAC ($\beta = 0.142$, $p < 0.001$). However, the interaction between IQ and LEP was not statistically significant ($\beta = 0.058$, $p = 0.062$), suggesting a weak or inconclusive intervening effect of IQ on performance-linked spending and accountability.

Figure 4.2 Structural Path Model for Model 2: Expenditure Management
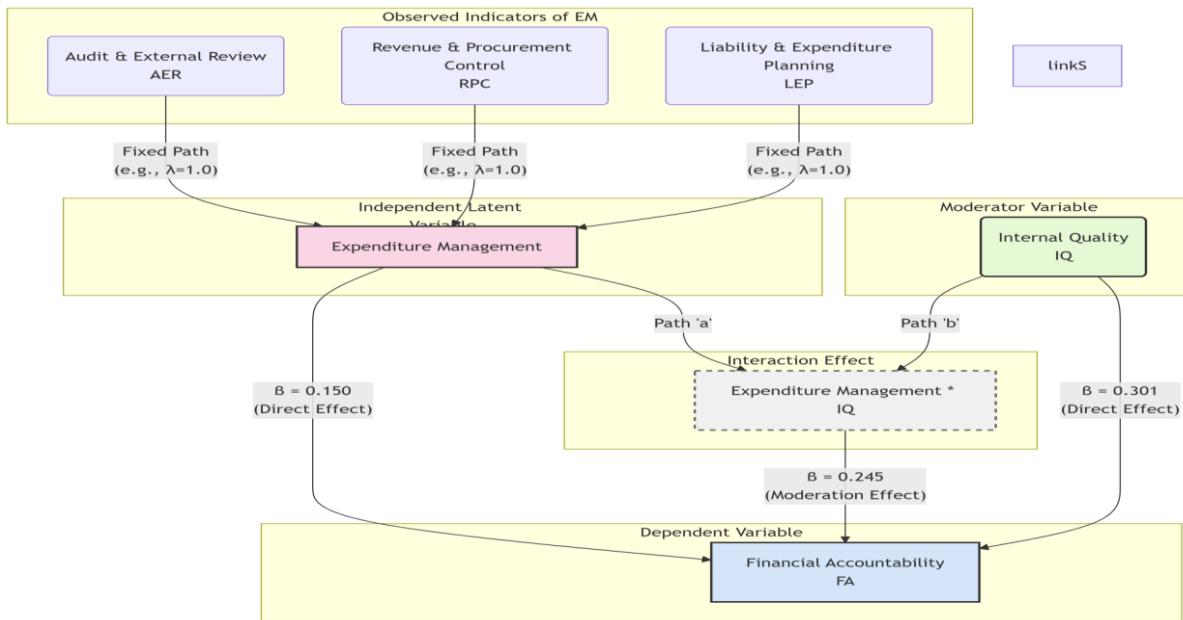
Source: Author's Computation, 2025

The structural path model (Figure 4.2) illustrates that Institutional Quality (IQ) strengthens the positive relationship between expenditure planning and compliance with Financial Accountability (FAC). However, IQ does not significantly improve the effectiveness of performance-based budgeting in enhancing accountability. Therefore, to improve accountability, strategic efforts should prioritize both institutional reform and the enhancement of performance tracking mechanisms and the enforcement of expenditure rules.

Coefficient of Determination

Table 4.9 Coefficients of Determination (R^2) for the Models

Model	Financial Accountability (R^2)
Model 1 (BP)	0.421
Model 2 (EM)	0.563
Full Model (BP + EM)	0.682

Source: Author's Computation, 2025

Table 4.9 illustrates the explanatory power of budgeting processes and expenditure management on financial accountability in Southwest Nigerian local governments. Individually, the budgeting process (Model 1) explains 42.1% of the variance, while expenditure management (Model 2) demonstrates a stronger explanatory power at 56.3%. However, the integrated full model, combining both independent variables, significantly increases the explanatory power to 68.2%, offering a more robust and holistic explanation for variations in financial accountability.**4.9**

DISCUSSIONS AND IMPLICATIONS OF FINDINGS

This research, focusing on Southwest Nigerian local governments, investigated the impact of the budgeting process and expenditure management on financial accountability, with institutional quality acting as an intervening variable. Contrary to the initial hypothesis, the budgeting process (specifically budget formulation and implementation) was found to have a significant positive effect on financial accountability. While budget

monitoring showed a weaker positive relationship, the overall hypothesis that budgeting would have no significant effect was rejected. Importantly, institutional quality significantly enhanced the impact of budget formulation and implementation on accountability. These findings align with various previous studies.

Similarly, the initial hypothesis that expenditure management would not significantly affect financial accountability was also rejected. Aligning expenditures with budgets, regulatory provisions compliance, and linking expenditures with performance all demonstrated a strong and positive effect on financial accountability. The study also found a significant interaction between institutional quality and the alignment of expenditure with budgets and regulatory compliance, indicating that better institutional mechanisms strengthen this positive relationship. These results are consistent with some prior literature, although others have noted a lack of accountability in local government spending.

However, qualitative analysis revealed challenges in practice. The budgeting process in Southwest Nigeria local governments is often characterized by a top-down approach, limited stakeholder participation, repetitive budgeting, and political interference. Expenditure management issues include inconsistent rule implementation, a prioritization of recurrent expenditure over capital spending, poor capital project execution, and weak performance-based budgeting.

These findings are collectively supported Stewardship Theory, which emphasizes that managers, such as elected local government representatives, should prioritize organizational success and public interest over personal gain. A well-structured budgeting process and expenditure management practices, coupled with transparency and citizen participation, can foster prudent resource management and enhance financial accountability.

The implications of these are that institutional quality is the prerequisite for achieving financial accountability and improved service delivery in local governments since it amplifies the budgeting process and expenditure management practices. This means that financial accountability is achieved when a robust institutional framework enforces strict budget alignment, monitors spending and holds administrators (stewards) accountable for expenditure that demonstrably translates into improved service delivery.

CONCLUSION

This study provides significant insights into the interplay between budgeting process and expenditure management practices on financial accountability in local governments, Soutest Nigeria and the extent to which institutional quality can intervene in the relationship. Findings of the study showed that the budgeting process and expenditure management practices have significant positive effect on financial accountability; meaning that the two financial management practices support the achievement of financial accountability in local governments, Southwest Nigeria. Importantly, Institutional Quality (IQ) significantly and positively played a crucial intervening role in the enhancement of Financial Accountability both directly and by strengthening the effects of budget formulation and implementation, aligning expenditure with budgets, regulatory provisions compliance and linking expenditures with performance outcomes, although its impact on budget monitoring is limited.

Findings also showed limited stakeholder participation in the budgeting process, repetitive budgeting and recurrent spending being prioritized over capital expenditure, poor capital project execution and inconsistent rules implementation in expenditure management, weak performance-based budgeting, political interference and executive dominance in the budgeting process and expenditure management practices.

RECOMMENDATIONS

The budgeting process needs to shift from its current top-down, politically dominated approach to one that actively encourages public participation. This would allow citizens to have a direct say in resource allocation. Additionally, the study recommends institutionalizing inclusive and evidence-based planning, backed by robust capacity building for planning officers. To address the issues associated with expenditure management, it is recommended that non-compliance with financial rules be met with effective sanctions so as to deter

future violations. Furthermore, to foster fiscal discipline and ensure capital expenditures achieve tangible developmental outcomes, performance-linked budget execution tools should be enforced, along with appropriate penalties for unauthorized budget transfers.

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