RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL SUSTAINABILITY OF THE COUNTY GOVERNMENT OF NAKURU, KENYA

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DECLARATION

Declaration by Student

This research project is my original work and it has not been presented for a degree in any other university.

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HD333-C007-6431/2015	Signature	Date

This research project has been submitted for examinations with my approval as University Supervisor.

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Lecturer, JKUAT	Signature	Date

DEDICATION

I would like to dedicate this research project to my family, my husband and son for their commitment to support my endeavors. God bless you abundantly.

ACKNOWLEDGEMENT

I would wish to acknowledge the efforts of my supervisor Mr. Solomon Ngahu and the school fraternity at large. Also for my family and their consistent help and support. Last but not least to the Almighty God for His unfailing grace and strength.

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ABBREVIATIONS AND ACRONYMS

CICA:	Canadian Institute of Chartered Accountants
EU:	European Union
FY:	Financial Year
IFAC:	International Federation of Accountants
IPSASB:	International Public Sector Accounting Standards Board
LDCs:	Least Developed Countries
MCON:	Municipal Council of Nyeri
NAO:	National Accounting Office
NAO:	National Audit Office
NGOs:	Non-governmental Organizations
RBV:	Resource based view
SPSS:	Statistical Package for Social Sciences
WHO:	World Health Organization

ABSTRACT

Since the inception of county governments in early 2013, several functions have been devolved from the national government. The county governments have since then been in charge of billions of Kenya shillings. Since 2013, most of the county governments have reported budget deficits resulting in their inability to sufficiently fund both recurrent and development expenditure within their jurisdictions. The foregoing has been manifested by some county governments' incapacity to pay suppliers and contractors timely and as such are operating on debt. The present study evaluated the relationship between various financial management practices and financial sustainability focusing on the County Government of Nakuru. Specifically, the study examined how budget management, value management, financial controls and governance and accountability are related to financial sustainability. The study was guided by the agency theory and resource-based theory. The study employed descriptive research design. The study utilized quantitative approach in the collection of data. The study population constituted a total of 84 accountants, finance officers, auditors, revenue officers, and sub-county administrators working with the County Government of Nakuru. A census design was adopted. A set of structured questionnaires was employed to aid in data collection. The research questionnaire was pilot tested in order to determine its validity and reliability before it was used to facilitate collection of data for the main study. The Statistical Package for Social Sciences version 24.0 computer software was used to facilitate data analysis. Data collected from the questionnaires were analyzed using descriptive and inferential statistics. The findings were presented in form of tables and were interpreted and discussed in line with the study objectives. It was found that there existed a weak, positive and not significant relationship between budget management and financial sustainability ($r = 0.091$; $p > 0.05$). Financial controls, value management, and governance and accountability were positively and statistically correlated with financial sustainability ($p < 0.05$). It was revealed that 26.5% variation in financial sustainability of the County Government of Nakuru could be explained by the studied financial management practices. It was concluded that strengthening the stated financial management practices was likely to lead to improved financial sustainability. As a way of improving its financial sustainability, the county government is recommended to minimize its expenditures. The county government is also recommended to enhance its revenue streams so that it can pay creditors, suppliers and workforce without delays.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The bottom line of good government and good business lies in the soundness of the financial management system. This is grounded on the assertion that financial management system facilitates both internal and external stakeholders to have an understanding and control over how an entity plans for and utilizes financial resources (Office of the Auditor-General, 2012). It is stated that there exists four main practices of financial management. These include budget management, financial controls, value management, and also governance and accountability. Each practice is characterized by a set of inter-related activities whose execution is subject to other activities. Budget management entails management of sources of funds and expenditure, and also allocating the aforesaid resources in tandem with organizational priorities and cost effectiveness of the resources.

Financial controls go beyond sheer compliance exercise. Instead, they are also required to factor in strategic understanding of the main organizational uncertainties, and also their potential costs and benefits. Value management is common in public entities and the entire government and encapsulates practices generally known as strategic financial management. The importance of governance and accountability is founded on the fact that in the event that structures and processes are not put in place to make the required decisions, financial performance management is bound to be elusive and exposed to risk. It is further postulated that there should be provision of performance metrics in order to inform making of decisions (Gerton, 2017). According to Pankaj and Hare (2016), conventionally, both internal controls and risk in government are associated with various financial concepts such as accuracy of accounting data and financial statement misstatement.

Financial sustainability can be gauged by an organization’s net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills); and solvency (the relationship of assets and debt or liabilities). Again, this manual promotes a broad, interdisciplinary role for financial management, as one component of overall sustainability (Kamau, 2006). Organizational sustainability is the ability of the organization to secure and manage sufficient resources to enable it to fulfill its

mission effectively and consistently over time without excessive dependence on any single funding source. The objective is to maintain and build the capacity of an organization that is providing a beneficial service in a community.

According to Artis and Marcellino (2000), sustainable finance is about addressing environmental, social, and governance impacts of financial services. In addition, the sustainability element includes a longer term financial dimension and an institutional governance framework. Financial sustainability is key concern as far implementation of devolution strategy is concerned.

1.1.1 Global Perspective of Financial Management Practices and Financial Sustainability

According to Shah and Shah (2006) local authorities in developing countries continue to play a small role in public service delivery with a few notable countries such as a China and Brazil. The role of local authorities in these countries (China and Brazil) has progressively increased. The small role played by the local authorities in developing countries may be as a result of heavy regulation of the local authority activities and inadequacy of financial resources (Smoke, 2001). This implies that local authorities have limited autonomy in expenditure decisions and hardly any in revenue-raising decisions.

According to Watts (2008), Canada, Colombia and the United States assign the right to exploit the fiscal dividend of natural resources to its provinces and states with the aim of promoting their financial sustainability. Watts further observes that other countries are engaged in sharing arrangements between the central and regional governments so as to secure the future of the counties and the country as a whole.

According to Price WaterHouse Coopers (PwC, 2006), the most common characteristics of local government councils in Australia typically which typify financial sustainability constraints include minimal or negative revenue growth, increasing involvement in non-core service provision due to escalating community demands, coupled with a related tendency by some councils to 'step-in' to provide a nontraditional service, a tendency by some councils to run operating deficits creating a need to defer or under spend on renewal of infrastructure, particularly community infrastructure which is often repeated annually creating a backlog, limited access for

some councils to strong financial and asset management skills which are critical to identifying sustainability problems, optimizing renewals expenditure and improving revenue streams, and a small proportion of councils also have limited access to rate revenue due to relatively small annual rate increases and a low initial rating base.

1.1.2 Financial Management Practices and Financial Sustainability in Africa

According to Wunsch (2001) although many African countries have pursued decentralization reforms, these reforms have not managed to bring about effective governance. This study concludes that failure in reforms occurs in four areas which inhibit distribution of substantial resources. These four areas are planning and capital investment, budgeting and fiscal management, personnel systems and management, plus finance and revenue. Schoeman (2011) investigated fiscal performance in terms of own-revenue collection and sustainability of local municipalities in South Africa. This study noted that a large number of municipalities do not comply with the requirement that a "reasonable" amount of current expenditures be financed by means of own resources. Furthermore, local governments finances are featured by substantial variance as far as collection of own income is concerned.

Local authorities have limited range of resources (Holloway, 2003). The greatest dependence is very likely to be on foreign grants, and it is likely that these funds which make up these grants come from central government. Finally, building a constituency and creating viable and sustainable organizations is important for local authorities, since resource mobilization is not simply generating resources for survival from one year to the next. For local authorities in Africa to provide the services required adequately and efficiently, they will need to find new methods and ways of mobilizing more revenues (Tibaijuka, 2005). This will ensure financial sustainability of the local authorities and enable them carry out their mandate effectively. According to Fjelstad, Henjewele, Mwambe, Ngalewa and Nygaard (2004) there is a causal relationship between financial management of local authorities and governance in Tanzania. In Uganda, it is noted that increases in revenues lead to less than proportionate increases in local government expenditures which then lead to credence of the flypaper effect (Sennoga (2004).

According to Ghai (2006), most African countries with centralized systems of governance exhibit several symptoms that are associated with poor or failed

governance. It is further noted that one of the most serious symptoms include the inability to discern between public and private resources since most of the people in positions of leadership exploit public resources for private gain. Ndulo (2006) also asserts that lack of devolution in most African countries with centralized governments leads to limited participation by the citizenry.

1.1.3 Financial Management Practices and Financial Sustainability in Kenya

According to Muli and Rotich (2016), poor financial management practices has significantly contributed to budget implementation crisis in county governments in Kenya. It is stated that, financial management practices actually impact on implementation of budgets by county governments. In the same perspective, some of the financial management practices in respect of county governments include among others, financial planning, budgeting, sourcing of funds, allocation and control of funds (Simon & Muhamed, 2017). According to the author, the aforementioned practices explained 41.1% of financial performance of the County Government of Mombasa. Other financial management practices in relation to county governments include records management and internal monitoring of public funds (Wang'ombe & Kibati, 2016).

According to Lubale (2012), part of the principles of planning and development in county governments include engendering effective resource mobilization for sustainable development, sustainable employment of available resources, and also financial and environmental sustainability. According to Mugambi and Theuri (2014), county governments in Kenya face serious challenges when preparing budgets. Though, county governments adhere to the stipulated procedures during budget preparation and their technical teams have requisite capacity required in budget preparation process, political interference and lack of adequate stakeholder involvements are key challenges.

1.1.4 Devolved Governance in Kenya

Most African countries Kenya included were very much affected by the kind of leadership perpetuated by the colonialists. Most of the colonial masters were more interested in making economic gain than building economic institutions. The divide and rule approach of the colonialists developed ethnic hostility among various ethnic groups as they struggled to control resources that were available (Kimenyi, 2002).

The devolution efforts in Kenya have been done in three major phases. The first phase involved the Majimbo system immediately after independence, the local authorities system, the Constituency Development Fund (Ndulo, 2006) and the current county government system. In the year 2010, Kenya promulgated a new constitutional dispensation that advocated for a devolved system of governance. The main purpose of this important action was to address failures linked to quality of governance such as corruption, economic stagnation, poverty, development inequalities and episodic instability. This led to the establishment of 47 county governments in the country that are charged with the responsibility of providing various services to the local people.

Devolution, as envisaged in the Constitution of Kenya entails sharing of political, administrative and fiscal responsibilities between the national and the county governments (Republic of Kenya, 2010). Political decentralization involved the transfer of political authority to the local level through the establishment of County governments as well as electoral and political party reforms. Administrative decentralization has led to full or partial transfer of functional responsibilities to the County governments. Functions that have been transferred to the County governments include health care services, garbage collection, among others.

The county governments in Kenya were established in the year 2013 after the general election. These county governments took over from the previously existing local governments. Therefore the counties were supposed to advance the work local governments were performing in addition to other functions that were devolved to the county governments. To perform these functions, the county needs to have sustainable financial capacities. However, most of these counties have been expressing lack of sufficient funds to finance their budgets and effectively perform their functions. Granted that the devolved governments do not have control over the use of the revenue they collect within their jurisdictions, their sustainability is more likely to be dependent on the financial management practices. This study, therefore, sought to establish the influence of financial management practices on financial sustainability of Nakuru County Government, Kenya

1.2 Statement of the Problem

Since the inception of county governments in early 2013, several functions have been devolved from the national government. In tandem, the county governments have

since then been in charge of billions of Kenya shillings, the largest part of which is disbursed by the Exchequer. The county governments are envisioned to lead the process of development at the grassroots and spur the rate of economic growth in Kenya. However, since 2013, most of the county governments have reported budget deficits resulting in their inability to sufficiently fund both recurrent and development expenditure within their jurisdictions. The foregoing has been manifested by some county governments' incapacity to pay suppliers and contractors timely and as such are operating on debt. The numerous industrial strikes by staff working with devolved governments as exemplified by recent strike by public health staff in Kenya further put the issue of financial challenges into perspective. This implies that much of the allocated amounts to the counties are barely sufficient to meet all of the county governments' expenditures; a fact that raises the question of their financial sustainability. There is glaring mismatch between the budget estimates and the amounts eventually disbursed to the county governments. For instance, according to the Nakuru County Government Outlook (2017), in 2015/2016 financial year, the budget estimates for the county government of Nakuru was Ksh 13.98 billion whereas the amount disbursed to the county government was Ksh 10.28 billion. In the same breadth, the county government spent a total of Ksh 10.38 billion. The latter assertion justifies why the county government has run into debts. In relation to financial sustainability, debt management, which is one of financial management practices is also put into perspective alongside financial controls, and accountability. The foregoing realization coupled with scarcity of empirical evidence on the same necessitated conducting this study on the relationship between financial management practices and financial sustainability of the County Government of Nakuru in Kenya.

1.3 Objectives of the Study

The study was guided by both the general objective and the specific objectives as illustrated below.

1.3.1 General Objective

The study sought to establish the relationship between financial management practices and financial sustainability of Nakuru County Government, Kenya

1.3.2 Specific Objectives

i. To examine the relationship between budget management and financial sustainability of Nakuru County Government

ii. To determine the relationship between financial controls and financial sustainability of Nakuru County Government

iii. To assess the relationship between value management and financial sustainability of Nakuru County Government

iv. To evaluate the relationship between governance and accountability, and financial sustainability of Nakuru County Government

1.4 Research Hypotheses

H_{01}: There is no statistically significant relationship between budget management and financial sustainability of Nakuru County Government.

H_{02}: There is no statistically significant relationship between financial controls and financial sustainability of Nakuru County Government.

H_{03}: There is no statistically significant relationship between value management and financial sustainability of Nakuru County Government.

H_{04}: There is no statistically significant relationship between governance and accountability, and financial sustainability of Nakuru County Government.

1.5 Significance of the Study

The devolution of governance to the county governments is key determinant in the success of the country. However, this relies heavily on prudential management of financial resources to ensure proper utilization and management. This study seeks to examine the influence of revenue sources on financial sustainability in county governments in Kenya. The study will serve to inform both levels of government on the shortcomings facing the management of financial resources in the county governments. This will help the two levels of government to come up with better policies to aid in management of financial resources in the counties to ensure sustainability and avoid the overreliance of the county governments on the national governments. Further the study will bring to the awareness of the county officials of the loopholes existing in mobilization of financial resources in the county governments. This will aid in proper planning of strategies that will enhance the

mobilization of revenue in the counties. This will help the county in moving towards financial independence and sustainability. The study further aims at contributing to the existing body of knowledge for the sake of future researchers' reference in this area of research.

1.6 Scope of the Study

The study focused on both financial management practices and financial sustainability of County Governments in Kenya paying special attention to the County Government of Nakuru. Therefore, the County Government of Nakuru was taken as the area of study. The choice of this county government was premised on the fact as enshrined in the Constitution of Kenya, 2010, its financial issues are a replica of the situation in the other 47 county governments in Kenya. The study was delimited to five variables. These included budget management, financial controls, value management, and governance and accountability constituting the independent variables whereas the dependent variable was financial sustainability. The study used approximately KShs 110,000. The study was carried out between the months of August 2017 and January, 2018.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature in regard to financial management practices and financial sustainability. The chapter first presents a review of pertinent theories forming the basis of this study. A review of past empirical study is then covered. The researcher will then present a conceptual framework drawn from the empirical literature. Lastly the chapter presents a summary of the reviewed literature and identifies research gaps emanating from the critique of the reviewed local empirical studies.

2.2 Theoretical Review

The study was anchored on two theories, that is agency theory and resource dependency theory of competitive advantage. The theories are presented here below.

2.2.1 Agency Theory

Agency theory addresses the Agency issue in which one party (the principal) delegates work to another (the agent), who performs that work (Jensen & Meckling, 1976). There is an agency relationship when the actions of one individual affect both his welfare and that of another person in an explicit or implicit contractual relationship. The individual who undertakes the actions is the agent and the person whose welfare (utility), measured in monetary terms, is affected by the agent's actions is called the principal (Jensen & Meckling, 1976).

The typical case of agency relationship is the one that exists between an employer (the principal) and his employee (the agent). In an agency relationship, the principal wants the agent to act in the principal's interest. However, the agent is expected to have his own interest and consequently, he may not act in the principal's best interests. An agency relationship is a contract under which one or more persons (the principal), engage another person (the agent) to perform some service on their behalf which involves delegating some decision making Authority to the agent. If both parties to the relationships are utility maximizers, there is a good reason to believe that the agent will not always act in the best interests of the principal (Jensen & Meckling, 1976).

Then, the principal's problem is consequently to design an incentive contract that induces the agent to undertake actions that will maximize the principal's welfare. However, both the principal and agent are confronted with uncertainty. This uncertainty may appear in various ways. First, the principal is uncertain about actions undertaken by the agent and/or information held by the agent. The mainstream-economic theory terms the principal's uncertainty state asymmetric information. There is a state of asymmetric information because the agent holds information that the principal does not have.

Second, uncertainty bears on the outcomes of the agent's actions. An agent is uncertain about the outcomes of his actions. For the principal, this latter phenomenon manifests itself more precisely in the fact that the principal is uncertain about the causality between agent's actions and the outcomes. This state of uncertainty and the resulting state of asymmetric information that exists between the principal and his agent impose certain constraints which complicate the forming of the contract (Artley, 2001; United Nations, 1999; Akaranga, 2010).

Agency theory may be useful in explaining the financial sustainability situation in the county governments. For instance, the theory could explain how the selfish actions of county government management (agents) affect the welfare of residents (principals). Their actions include how they misappropriate the funds of the county government and also how they make non optimal decisions as far as utilization of financial and non-financial resources are concerned (Muranda, 2006; Kloha, Weissert, & Kleine, 2005)

2.2.2 Resource Dependency Theory

The resource dependency theory was proposed by Pfefer and Salancik (1978). The theory states that an organization should engage in transactions with other actors and organizations in its environment with the object of acquiring resources. The resource dependency theory proposes that actors who lack in essential resources are bound to seek to establish relationships with (that is, depend upon) other with the object of obtaining needed resources. The RDT further postulate that organizations and institutions are viewed as coalition that alert their structure and behavioral patterns in order to acquire and maintain requisite resources. In the same perspective, it is stated that acquisition of external resources needed by an organization is effected through

decreasing the organization's dependence on other and/or by increasing dependence of other entities on it (Medcof, 2001).

The resource dependency theory is founded on some key assumptions (Ulrich & Barney, 1984). Firstly, it is assumed that organizations are comprised of both internal and external coalitions which are result from social exchanges that are created to influence and also control behaviour. Secondly, it is assumed that the environment contains scarce and valuable resources that are essential to the sustainability of an organization. Thirdly, it is assumed that organizations strive to acquire control over resources that maximize the dependence on other entities on themselves. Attaining either of the two objectives, is believed to affect the exchange between organizations, thus affecting their power.

According to Penrose (1959), the bundle of resources an organization possesses limits the potential services that organization is able to extend. This means that sustainability of an organization is dependent on the resources in the possession of an organization. In the same perspective, it is held that an organization is able to expand its physical, human, and also organizational resources over time, and as such, the productive opportunity set of the entity will change accordingly. Moreover, the theory states that the services that resources will yield are subject to the capacities of the workforce using them, whereas the development of the capacities of the said workforce is partly defined by the resources that the staff deal with.

County governments are economic organizations in spite of the fact that they are nominally non-profit making institutions. This view is supported by the fact that they extract capital to pursue their objectives from scarce resources owned by the society such as land, labour and human resources. In relation to resource dependence theory, county governments depend on other institutions (mainly the national government) for them to survive or attain financial sustainability. However, the mentioned dependence has made the devolved governments to lose their organizational power. This is manifested in these devolved units having to function within the financial stipulations of the national government.

2.3 Empirical Review

Empirical studies reviewed touch on financial management practices including budget management, financial controls, value management, and governance and accountability in relation to financial sustainability.

2.3.1 Budget Management and Financial Sustainability

An empirical analysis on budget transparency in local governments was conducted by Caamano-Alegre, Lago-Penas, Reyes-Santias and Santiago-Boubeta (2011). The primary objective of the study was to shed more light on the determinants of budget transparency in the aforesaid governments. The study was conducted in Galicia. Budget transparency was measures using a Likert-type survey. Results from a total of 33 Galician municipalities were employed to test hypotheses on the determinants of budget transparency. The empirical results of the study indicated that debt positively affected transparency. This was attributed to the suggestion that governments are more likely to enhance transparency when inheriting a heavy fiscal burden, that is, high debt, while simultaneously putting in place sound spending policies that translate to low deficit.

An empirical study of one Western Province public department budget in China was carried out by Zhu and Shao (2011). The study summarized the challenges facing budget management and implementation premised on a survey of the public department budget. The problems examined in relation to budget management and implementation included lack of standards for basic expenditure and project expenses, incomprehensive department budgetary plan, weakening constraints on department budget implementation, shirking legislature supervision, and also huge gap margin of per capita basic expenditure budget.

In South Africa, Gadinabokao and Daw (2013) empirically examined the relationship between government spending and economic growth between 1980 and 2011. The study employed econometric techniques to test hypothesis that, increasing government expenditure resulted in increase in economic growth. The relationship between government spending and economic growth was investigated using ordinal least square (OLS) regression techniques. The results of the pertinent analysis indicated that there existed a long-run positive relationship between government

expenditure, which falls within the purview of budgetary policies, and economic growth. It was further revealed that the fiscal illusion occasioned by budget deficits leads to discounting of the actual cost of provision of government services.

A disaggregated analysis of government revenue and expenditure was conducted by Nwosu and Okafor (2014). The study was carried out in Nigeria and factored in time series data from 1970 to 2011. The study employed co-integration techniques and VAR models that encompass Error Correction Mechanism (ECM) as the chosen methods of analysis. The co-integration tests indicated that there existed a long-run relationship between government expenditure and revenues. The study also found that when government expenditure was increased without factoring in a corresponding increase in revenue widened the budget deficit. Resultantly, the government would be obliged to borrow thus increasing indebtedness to lending countries and financial institutions. Ultimately, the budget deficit was likely to be widened even further. In this respect, the study recommends that the government should make deliberate efforts to control inflation of contract sums, with the object of minimizing budget deficit.

An empirical investigation conducted by Okelo, Momanyi, Othuon and Aila (2013) examined the relationship between fiscal deficits and economic growth in Kenya. The study employed both exploratory and causal research designs. Moreover, it utilized time series data for a period of 38 years spanning from 1970 to 2007. The study observed that there existed a positive relationship between budget deficits and economic growth. In tandem, the study recommended that prudent financial management should be ensured besides enhancing revenue collection by the pertinent revenue authority with ultimate object of controlling borrowing.

According to Kamolo (2014) it is inconsistent for county governments to exclusively look to the national government for revenue to establish or maintain programs whose benefits have a local reach. Programs like feeder roads, garbage collection, establishment and maintenance of sewerage systems, keeping the street clean, rural access roads, development of markets and urban centers should be financed by local revenues. County governments need to collect much revenue by way of taxes to face the increasing financial expenditures budgeted by the county and to ensure a balance

between county budgetary allocations and county revenue collection through tax instruments.

2.3.2 Financial Controls and Financial Sustainability

Gomes, Alfinito and Albuquerque (2013) in their research cautioned against the high dependency of local government on transfers and grants from central government. They argued that this exposes the local government entities to financial risk and makes local government vulnerable as the high dependency on transfers and grants discourages local government entities from raising their own revenues. This high dependency also reduces discretion when it comes to making decisions and devising policies. The issue of high dependency was also addressed by the National Audit Office (NAO) (2003) in a study conducted on local authorities in Britain. The NAO found that the reduced government funding of local government exposed local government to financial risk as they were highly dependent on government grants and transfers. The study also noted that with the reduction of funding from central government there was a reduction in service delivery levels. This indicates the clear risks associated with a high dependency on government grants and transfers.

A study conducted in South Africa by Kgabo (2013) examined the effectiveness of internal control mechanisms in monitoring financial resources at the Gauteng Department of Education. The foregoing mechanisms were necessitated by the need to maintain clean financial reports. The effectiveness of internal controls was characterized by five key elements. These included control environment, control activities, risk assessment, information and communication, and monitoring. The study established that government departments were required to develop policies that would facilitate better management of public funds. It was further revealed that it was quite complex to implement internal control policies. In tandem, it was found that various factors determined the foregoing implementation. They included human capital, technological systems, and also involvement of key stakeholders.

Gomez et.al (2013) observed that the size of the local government plays an important role in determining its financial performance. They argued that it is easier to raise revenues from bigger local governments than small governments in terms of size of jurisdiction area and economic scope. This they observed was due to the large tax and revenue base in bigger jurisdiction than the small ones. Therefore, the bigger local

governments are less reliant on transfers and grants from national government as compared to smaller local governments. As a result of this and the available skills base, bigger local governments are more likely to manage revenue and expenditure better. The better management of revenue and expenditure is an important function in the financial performance of local government. This view is also supported by De Visser (2005) who referred to the concept of "critical size". The author argues that the size of the municipality affects the quality and quantity of the tax base and revenue base. He further argues that as a result of their size, bigger municipalities are able to introduce the benefits of economies of scale on their spending side as well.

A local study conducted by Njeru (2003) sought to examine the effects of aid on government fiscal behavior. The study assessed the fiscal response models in an attempt to analyze the effect of aid on various components of government revenue and expenditure. In this respect, the fact that aid is fungible. This implies that aid can be used to fund activities that the recipient government intended to finance in its absence. This has made researchers to examine the extent to which the freed up government resources have been used elsewhere to finance for example, consumption, and debt servicing or tax reductions. This has to some extent been linked with possibilities for creating opportunities for corruption as the freed up resources are not directed to their intended objectives.

Moreover, another study conducted by Wakiriba, Ngahu and Wagoki (2014) evaluated the effects of financial controls on financial management in Kenya's public sector. The study centered on National Government departments in Mirangine Sub-County in the greater Nyandarua County. A descriptive research design was adopted. The study found that there was an effective internal control systems that encapsulated clear separation of roles, supervision, and commitment of the management. It was also established that there were weaknesses in the implementation of financial controls. The foregoing was alluded to lack of extending the internal audit function to all departments.

2.3.3 Value Management and Financial Sustainability

An empirical evaluation of earned value management (EVM) forecasting accuracy for both time and cost was conducted by Batselier and Vanhoucke (2015). It was noted that EVM technique is crucial in facilitating an effective methodology for obtaining

forecasts for duration taken and cost implication of a given project. The study further found that the accuracy of the most commonly employed EVM time and cost forecasting methods s evaluated on a diverse and qualitative database consisting of real-life projects. The major shortcoming of this study was the fact that it did not address EVM in the context of financial sustainability.

A study conducted by Sufna and Fernando (2015) analyzed factors that affect public value of e-government in Sri Lanka. The study was an empirical analysis based on the Ministry of Public Administration and Home Affairs. The pertinent data were collected during the first quarter of 2014 with the aid of a structured questionnaire. Frequency, correlation and regression analyses were employed to analyze the collected data. According to the study, the concept of public value is a popular way of analyzing the performance of public services. Public entities are averred to create value through efficient operations geared to meeting the desires of the citizenry. The study revealed that 22.3% of Sri Lankan citizens had embraced e-government services. The study results indicated that service delivery was the most significant determinant of public value. On the other hand, it was found that equity, responsiveness, openness, and environment sustainability were not statistically significant in relation to public value.

A study conducted in South Africa by Grobler and Diedericks (2009) empirically analyzed talent management in selected hotel groups in the country. The study sought to shed more light on the use of talent-management practices in some of the leading hotel groups in South Africa. A cluster of 14 representative hotel groups were involved in the survey. The study found that contrary to previous findings, hotel groups in the country practiced to a significant extent, principles that underlie talent management. The study found that effectiveness of talent-management initiatives is subject to formal processes where many stakeholders are involved and also presence of strong nexuses between leadership and talent. Adherence to the foregoing was found to culminate to specific organizational value-based behaviour. In concurrence to Joerres and Turcq's (2007) observations, the study found that applying talent management practices was bound to allow more appropriate investments in people based on talent value.

A local empirical study conducted by Bula and Kireru (2014) evaluated the challenges affecting implementation of talent management in the public sector. The study was a case of Kenya Broadcasting Corporation (KBC). Granted that talent adds to the value of an individual or entity, it is imperative to infer that talent management can be discussed in the same wavelength as value management. The study examined specifically the effect of organizational culture, career management, reward system, and working environment on talent management. The study employed a descriptive survey research design and was delimited to the management employees working with the KBC. The results of the study indicated that organization culture was a crucial challenge that talent management faced. In addition, career management, reward system and working environment were found to impact on talent management in the organization.

2.3.4 Governance and Accountability, and Financial Sustainability

Oplotnik and Brezovnik (2004) proposed certain principles that local government should follow in order to achieve optimal financial performance. Amongst others, they suggested that a large portion of revenues for local government should come from own resources as it “supports accountability, stimulates councilors and increases interest in local activities”. They further referred to the “golden rule” which states that local government should never incur deficits in the financial statements in order to incur costs (especially current costs). The same rule, however, allows prudent borrowing for capital expenditure purposes. It is recognized that revenues are not enough to cover capital funding required for capital projects within local government; therefore the ability of local government to raise debt is very important in order to finance capital projects. The third principle proposed relates to the importance of local government to adhere to legislation when spending, doing financial planning and organizing local services.

A study by Cocker and Adams (2012) looking at challenges of managing local government in Nigeria found that it has not been doing well due to, amongst others, dwindling revenue base of local government, lack of autonomy, and corruption. The authors argued that the biggest problem facing local government in Nigeria is the problem of poor financial performance. They attributed the poor financial performance in local government to dependency on statutory allocation (concurring

with the previously stated authors in this paper) and deliberate evasion by local citizenry to pay their rates and taxes, resulting in inadequate revenue to meet operational and capital expenditure. The study also found the following challenges in attaining good financial performance within Nigerian local government: lack of autonomy in management of financial resources, lack of qualified staff, lack of proper account keeping, lack of good account management and significant amounts of local government funds unaccounted for (this speaks to compliance and governance), political interference, corruption, and a lack of transparency and accountability.

An empirical case study conducted by Hendriks (2017) examined the effect of intergovernmental fiscal relations policies on accountability in provincial governments in South Africa. The study was delimited to the Northern Cape Provincial Government. The study was premised on the argument that if a country's policies fail to make provision for adequate own-revenue sources such as provincial taxes and related levies for provincial governments, citizens are likely to hold the national government to account given that it the one to whom they remit their taxes. The study found that the devolved governments in South Africa are unable to enough own-revenue, which increases their dependency on disbursements from the national government in order for them to deliver services and goods to the citizens. It was also observed that the concept of accountability was undermined due to the fact that, it was not always easy to directly link the government entity charged with the said service to funding.

Mwega (2009) did a study on how foreign aid has been erratic in terms of commitments and unpredictable in terms of both the timing and the volume of funding. The study observed that donors may use aid to advance a political agenda driven by the political concerns of their domestic electorates which vary over time. Also, donor procedures for disbursement may be so cumbersome that even when funds are committed, there may be long and unpredictable lags before governments are able to utilize these resources. Volatile or unpredictable aid flows do little to bolster good governance, coherent government expenditure, or the development of sound institutions accountability in recipient countries hence the need for specific donor coordination with a view to committing long-term, predictable flow of resources.

2.3.5 Financial Sustainability

Burger (2001) defines fiscal sustainability as whether or not the current courseof fiscal policy can be sustained without public debt exploding or imploding. Thus, in order to be sustainable, revenue should match expenditures from an inter-temporal perspective. However, given its dependence on grants, local government sustainability does not seem to be an issue. Although grants and expenditures are debated in great detail and outstanding municipal consumer debt also receives attention, the fiscal sustainability of a local government is not discussed in public documents. Grants are based on the equitable-share formula and budgeted for by national and provincial government given the status quo as far as own funding is concerned. The question is then what the fiscal sustainability implications would be of a rule that prescribes a minimum level of dependence on own funds (to protect the national budget) despite the increasing demand for municipal services in years to come. Such a scenario is simulated by means of a cap on grants used to finance current expenditures (maximum of 50 percent) based on the performance of almost half of category B municipalities included in the analysis.

According to International Public Sector Accounting Standards Board (IPSASB) (2011) a government equipped with an understanding of the implications of its present decisions for its future ability to meet service requirements may be more careful in its decisions, more proactive in mitigating financial risks and more disciplined as a provider of public goods and services. It should be noted, however, that not all local governments may find long-term sustainability analysis useful. There may be no users of this information in entities with limited revenue raising powers, no powers to incur debt, and very narrow decision-making powers over levels of service delivery (IPSASB, 2011).

Schoeman (2006) argues that municipal fiscal sustainability in South Africa is under pressure. From a sample of 27 municipalities; it was found that the average revenue collection period is in the range of 150 days and that the lag is on the increase. This translates directly into liquidity problems, increased short-term loans, deficits and the accumulation of long-term debt. Another key finding of the paper is that the number of debtors in the sample and the provision for bad debt are on the increase as well. Even though operating revenue increases, expenditure growth exceeds revenue

growth. As a result the dependence on short-term loans and government grants are on the increase in many cases.

The International Public Sector Accounting Standards Board (IPSASB) views fiscal sustainability as “the ability of an entity to meet service delivery and fiscal commitments both now and in the future” (IPSASB, 2011). It posits that an assessment of fiscal sustainability requires a broad range of data. “These data include financial and non financial information about current economic and demographic conditions, assumptions about national and global trends such as productivity, the relative competitiveness of the national or local economy and expected changes in demographic variables such as age, longevity, gender, income, educational attainment and morbidity” (IPSASB, 2011).

Gomes, Alfinito and Albuquerque (2013), in their paper which analyses local government performance in Brazil, corroborated the idea that financial sustainability is associated with financial performance. In their opinion it is important, that when assessing local government performance it is also important to assess the institution’s sustainability, flexibility and vulnerability. The paper suggests that in order to attain financial performance, local government needs to manage debt to adequate levels (facilitating affordability to repay this debt), and manage infrastructure and assets towards long-term economic and social sustainability.

2.4 Conceptual Framework

A conceptual framework is a diagrammatic illustration of study variables and their presumed relationships. According to McGaghie, ordage and Shea (2001), a description of the conceptual framework facilitates identification or study variables and also clarifies relationships among the aforesaid variables. This study conceptualizes a framework establishing a causal relationship between the independent and the dependent variables as shown in Figure 2.1.

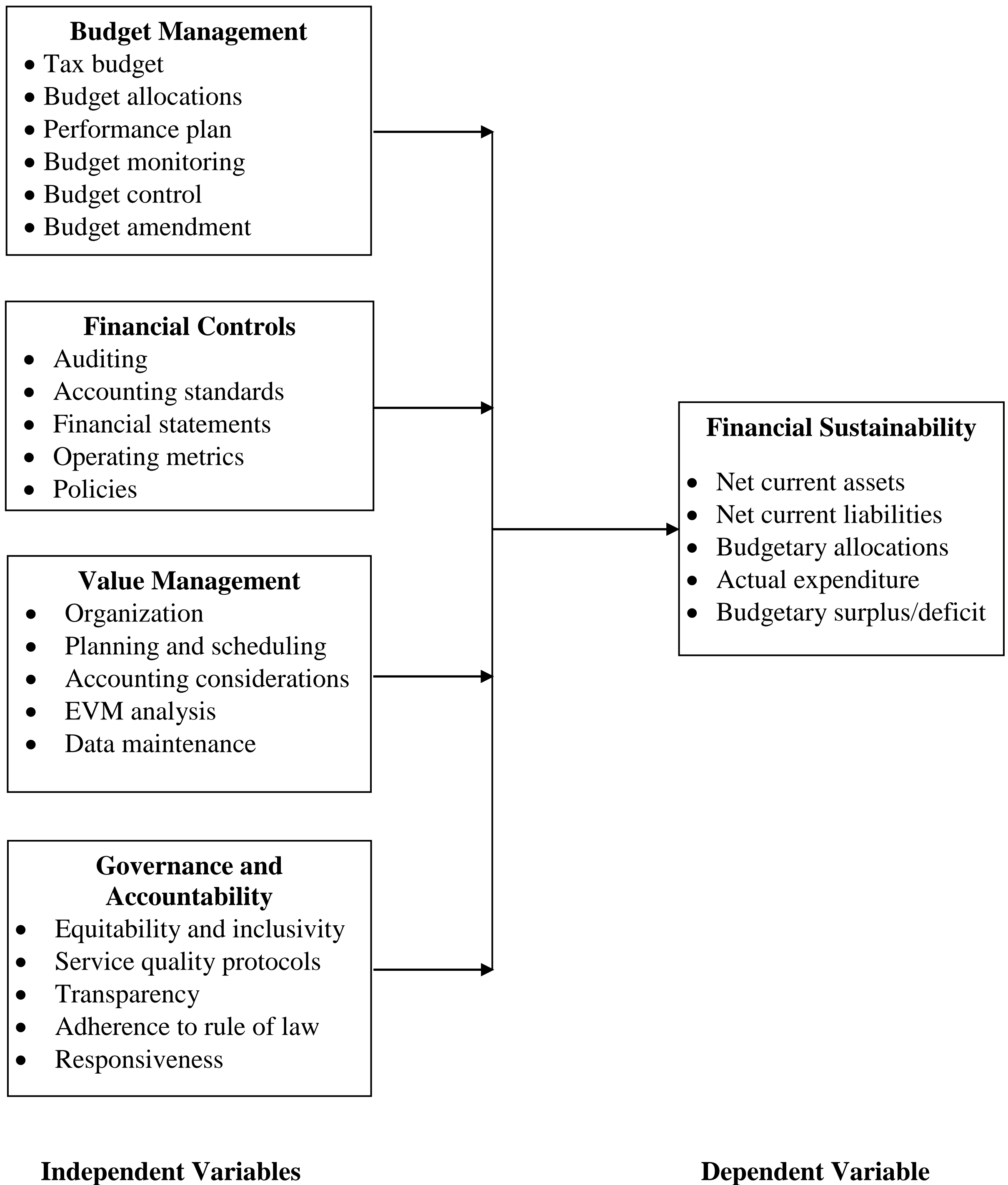

Figure 2.1: Conceptual Framework

According to the conceptual framework shown in Figure 2.1, there are two distinct types of variables. These are independent and dependent variables. The independent variables include budget management, financial controls, value management, and governance and accountability. Financial sustainability is the dependent variable. Each of these variables is operationalized using a set of measurable indicators. Budget management is characterized by tax budget, budget allocations, performance pan, budget monitoring, budget control and budget amendment among other parameters. Some of the financial controls in respect of county governments include internal audit trails, accounting standards, financial statements, operating metrics, and also relevant financial policies. Value management is operationalized by organization, planning, scheduling and budgeting, accounting considerations, EVM analysis, and also data maintenance. The parameters for governance and accountability in county governments include among others, equitability and inclusivity, service quality protocols, transparency, adherence to the rule of law, and responsiveness. Lastly, financial sustainability is characterized by net current assets and liabilities, budgetary allocations, actual expenditure and budgetary surplus or deficits emanating from the variance between budgetary allocations and actual expenditure.

2.5 Summary of Reviewed Literature

The reviewed studies indicated that debt positively affected transparency because governments more likely to enhance transparency when inheriting a heavy fiscal burden. It has been found that there existed a long-run positive relationship between government expenditure, which falls within the purview of budgetary policies, and economic growth. The fiscal illusion occasioned by budget deficits leads to discounting of the actual cost of provision of government services. It is also indicated that there existed a long-run relationship between government expenditure and revenues. It is further observed also found that when government expenditure was increased without factoring in a corresponding increase in revenue widened the budget deficit. A review of a local study noted that there existed a positive relationship between budget deficits and economic growth. Moreover, it is indicated that county governments need to collect much revenue by way of taxes to face the increasing financial expenditures budgeted.

In respect of financial controls, it is noted that high dependency of local government on transfers and grants from central government exposes the local government entities to financial risk. It has been established that government departments were required to develop policies that would facilitate better management of public funds. Another reviewed study indicated that it is easier to raise revenues from bigger local governments than small governments in terms of size of jurisdiction area and economic scope. It is observed that the freed up government resources have been linked with possibilities for creating opportunities for corruption as the freed up resources are not directed to their intended objectives. Moreover, a local study has established that there were weaknesses in the implementation of financial controls national government departments in Kenya.

It is noted that EVM technique is crucial in facilitating an effective methodology for obtaining forecasts for duration taken and cost implication of a given project. It is reported that the concept of public value is a popular way of analyzing the performance of public services. Public entities are averred to create value through efficient operations geared to meeting the desires of the citizenry. It was found that effectiveness of talent-management initiatives is subject to formal processes where many stakeholders are involved. According to a local study, it is imperative to infer that talent management can be discussed in the same wavelength as value management. It is indicated that organization culture was a crucial challenge that talent management faced.

In relation to governance and accountability, it is reported that some of the key challenges facing local governments include dwindling revenue base of local government, lack of autonomy, and corruption. Another regional study observed that the concept of accountability was undermined due to the fact that, it was not always easy to directly link the government entity charged with the said service to funding. A reviewed local study noted that volatile aid flows do little to bolster good governance, coherent government expenditure, or the development of sound institutions accountability in recipient countries hence the need for specific donor coordination with a view to committing long-term, predictable flow of resources.

The issues raised by past studies is what the fiscal sustainability implications would be of a rule that prescribes a minimum level of dependence on own funds. It is noted

that not all local governments may find long-term sustainability analysis useful. It has been observed that though operating revenue increases, expenditure growth exceeds revenue growth. As a result the dependence on short-term loans and government grants are on the increase in many cases. It is noted that an assessment of fiscal sustainability requires a broad range of data which include financial and non-financial information about current economic and demographic conditions, assumptions about national and global trends such as productivity, the relative competitiveness of the national or local economy and expected changes in demographic variables such as age, longevity, gender, income, educational attainment and morbidity. It is reported that in order to attain financial performance, local government needs to manage debt to adequate levels.

2.6 Research Gaps

The research gaps are identified after an objective critique of local studies and in relations to the study objectives. An empirical study conducted by Okelo et al (2013) observed that there existed a positive relationship between budget deficits and economic growth. This study, however, did not clearly address the aspect of budget management given that budget deficit is only a part of the budget management. Moreover, the study did not focus on county governments. A later study by Kamolo (2014) emphasized the need for county governments to collect much revenue by way of taxes in order to address the increasing financial expenditures budgeted by the county government. This study did not address budget management in relation to financial sustainability.

A study by Njeru (2003) examined the effect of aid on government fiscal behaviour. The study noted that there were possibilities for creating opportunities for corruption because the freed up resources were not directed to their intended objectives. This study fell short of being explicit in respect of financial controls in devolved governments. A study by Wakiriba et al (2014) found that hat there were weaknesses in the implementation of financial controls. However, this study centred on national government departments as opposed to county governments. In addition, these two studies did not address the aspect of financial sustainability in county governments in Kenya.

A local empirical study carried out by Bula and Kireru (2014) examined the challenges affecting implementation of talent management in the public sector in Kenya. The results of the study indicated that organization culture, career management, reward system and working environment were some of the challenges that affected talent management in the aforementioned sector. The study, however, did not specifically address the subject of value management. Moreover, talent management was not linked to financial sustainability besides the fact that the study did not centre of devolved governments.

A study conducted by Mwega (2009) analyzed how foreign aid has been erratic in terms of commitments and unpredictable in terms of both the timing and the volume of funding. The study noted that donors may use aid to advance a political agenda driven by the political concerns of their domestic electorates which vary over time. The study further revealed that unpredictable aid flows do little to bolster good governance, coherent government expenditure, or the development of sound institutions accountability in recipient countries. The study, nonetheless, did not address the issue of governance and accountability in respect of county governments. Neither did it examine how the both governance and accountability affect financial sustainability. The identified research gaps in respect of budget management, value management, financial controls, and governance and accountability in relation to financial sustainability in county governments will be address forthwith.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the procedure that were followed to carry out the entire study. It majorly address the research design, the population, the census design, research instrument, pilot test, data collection, procedure, and data processing and analysis. In addition, the chapter spells out how the study findings were presented.

3.2 Research Design

A research design is a blue print for fulfilling the objectives of the study. Although there are numerous research designs, the study employed descriptive research design. This is because the design is well structured with clearly stated research questions. Descriptive research design was adopted as it enabled the researcher to generalize the findings to the study population. The study utilized quantitative approach in the collection of data. According to Kothari (2009), the approach enables data to be systematically collected and analyzed in order to provide a descriptive account of the questions under study.

3.3 Target Population

A population is a complete group of entities sharing some common set of characteristics (Kothari, 2004). A target population is the complete group of specific population elements relevant to the research project. A study population is a sub-set of the target population (Cooper & Schindler, 2003; Zikmund, 2003). The target population for this study constituted accountants, finance officers, auditors, revenue officers, and sub-county administrators working with county governments in Kenya whereas the study population encompassed 64 such employees working with the County Government of Nakuru as outlined in Table 3.1.

Table 3. 1: Distribution of Study Population

Department	No of Employees	Proportion in %
Accountants/finance officers	37	44.05
Auditors	13	15.48
Revenue officers	23	27.38
Sub-County Administrators	11	13.09
Total	**84**	**100.00**

3.4 Census Design

According to Kothari (2004) the size or the number of the study population is the major determining factor of the unit of analysis. In the event the study population is significantly small (N < 100), all the constituents of the study population should comprise the unit of analysis. In this respect, therefore, which is also in tandem with the present study (N = 84), a census design was adopted. In addition to tallying with the aforestated criteria, the choice of census design was premised on the fact that it enhanced the generalization of findings to the study population since it eliminated both the sampling error and sampling bias.

3.5 Research Instrument

The study employed a set of structure questionnaires as the tool for collecting primary data. According to Kothari (2006), a questionnaire is the best tool for the researcher who wishes to acquire the original data for describing a population. Questionnaires enable a researcher to reach a large sample within a short time. The questionnaire was composed of short structured close-ended statements constructed on 5 point Likert scale.

3.6 Pilot Testing

A pilot study is a minor study that is conducted before the main study with the objective of assessing both the study feasibility and the suitability of the data collection tool. A pilot test is further stated to be a small scale trial run of all procedures planned for use in the main study (Monette et al., 2002). The latter is

examined through determination of both validity and reliability of the research instrument. The pilot study was conducted among randomly selected finance, auditors, accountants, and revenue officers working with the County Government of Kericho. The respondents in this minor study were 9 which was approximately 10% of the unit of analysis (Kothari, 2004). The participants in the pilot study were excluded from participating in the main study.

3.6.1 Validity Testing

According to Brains and Manheim (2011), validity is the extent to which a concept, conclusion, or measurement is well-founded and corresponds precisely to the real world. In other words, the validity of a measurement tool such as a questionnaire is said to be the degree to which that tool measures what it claims to measure. The study determined the content validity of the research instrument. Given that the content validity cannot statistically be determined (Kimberlin & Winterstein, 2008), the researcher sought the expert opinion of University supervisors.

3.6.2 Reliability Testing

Reliability is said to be the extent to which a measurement gives results that are consistent. When reliability is upheld, then the research instrument should collect similar data when administered to different sampled populations exhibiting related characteristics. The study employed the Cronbach alpha (α) coefficient to test the reliability of the research instrument. The Cronbach's reliability coefficient above 0.70 in the questionnaire were considered as an indication that the items on the questionnaire are reliable. As shown in Table 3.1, all the study variables were found to be reliable since they returned alpha coefficients greater than 0.7.

Table 3.2: Reliability Statistics

Study Variable	Number of Test Items	Cronbach's Alpha
Debt management	6	0.79
Financial controls	6	0.84
Value management	5	0.82
Governance and accountability	7	0.78
Financial sustainability	8	0.80

3.7 Data Collection Procedure

The researcher first sought the authorization from the Jomo Kenyatta University of Agriculture and Technology to proceed with data collection. The researcher then made a pre-visit to the field of research to familiarize with field and also book appointments with the relevant officers for data collection. During the pre-visit the researcher sought permission from the county government to be allowed to collect the data from the county officials. The researcher used drop-and-pick technique in distributing the questionnaires among the respondents and collecting the filled ones.

3.8 Data Analysis

The questionnaires collected from the respondents were ascertained to ensure that only the sufficiently and appropriately filled ones were considered for the study. This was done in order to eliminate incomplete data and minimize outliers in the eventual findings. The Statistical Package for Social Sciences (SPSS) version 24.0 computer software was used to facilitate data analysis. Data collected from the questionnaires were analyzed using descriptive and inferential statistics. In particular, descriptive statistics encompassed, frequencies, percentages, means and standard deviations while inferential statistics will constitute Pearson's product moment correlation coefficient and multiple regression analysis. The findings were presented in form of tables and were interpreted and discussed in line with the study objectives. The following multiple regression model was adopted.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where:

Y	=	Financial Sustainability
B_0	=	Constant
X_1	=	Budget management
X_2	=	Financial controls
X_3	=	Value management
X_4	=	Governance and accountability
$\boldsymbol{\varepsilon}$	=	Error term
$\beta_1, \beta_2, \beta_3, \beta_4$	=	Régression coefficients

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter covers the results of data analyses, related interpretations and discussions. It starts by spelling out the questionnaire return rate. This is followed by the demographic findings presented using measures of distribution. The descriptive and inferential statistics are then presented, interpreted and discussed in line with the objectives of the study.

4.2 Questionnaire Return Rate

Questionnaire return rate, otherwise referred to as response rate, is the number of questionnaires that are filled and returned as a proportion of the total number of questionnaires administered to the respondents. In this study, the researcher issued a total of 84 questionnaires. From this number, 73 were filled and collected from the respondents. This translated to 86.9 per cent return rate. The response rate was considered adequate and resulted from the fact that the questionnaires were administered by the researcher who explained the importance of the respondents to take part in the study.

4.3 Demographic Findings

The study analyzed various demographic factors including age, education level, and position at the place of work. The results in this regard are presented in Table 4.1, Table 4.2, and Table 4.3 in that order.

Table 4.1: Distribution of Respondents according to Age

	Frequency	Percentage
26-35 years	30	41.1
36-45 years	29	39.7
46-55 years	14	19.2
Total	**73**	**100.0**

The study according to the results shown in Table 4.1, found that most (41.1%) of the staff working with the County Government of Nakuru and in respect of departments

associated with finance were aged between 26 to 35 years. A further 39.7% of the staff were aged between 36 to 45 years. Only 19.2% were found to be aged between 46 and 55years. The results indicated that majority of the staff working the County Government were youthful and middle aged. At the same time, it was found that the County Government hardly recruited persons aged 25 years and below. This could have been attributed to its emphasis on hiring experienced staff as opposed to fresh graduates from institutions of higher education.

Table 4.2: Distribution of Respondents by Education Level

	Frequency	Percentage
Degree	37	50.7
Masters	30	41.1
Diploma	6	8.2
Total	**73**	**100.0**

It was revealed (in Table 4.2) that 50.7% of the county government staff that participated in the study had Bachelor's degree while an additional 41.1% had Masters Degree. The remaining staff (8.2%) were diploma holders. The results underpinned the relatively high academic qualifications of finance staff and related employees working with the County Government of Nakuru.

Table 4.3: Distribution of Respondents by Position

	Frequency	Percentage
Finance Officer	14	19.2
Revenue Officer	49	67.1
Sub-County Administrator	10	13.7
Total	**73**	**100.0**

The study also analyzed the various positions held by the participants in this study. Most of the respondents (67.1%) held the position of finance officers while there were only 10 sub-county administrators. This could have been explained by the fact that accountants worked at the headquarters of the County and also across the 11 sub-

counties. On the other hand, the 11 sub-counties were headed by one administrator each.

4.4 Descriptive Statistics and Discussions

The study analyzed various propositions regarding financial management practices and financial sustainability of the County Government of Nakuru. The views of the staff working with the County Government were presented on a Likert scale. According to the scale, 1(SD), 2(D), 3(U), 4(A), and 5(SA) represented strongly disagree, disagree, undecided, agree, and strongly agree respectively.

4.4.1 Budget Management

The study sought to understand how management budget as a one of financial management practices was implemented. The views of County Government staff on this practice are summarized in Table 4.4.

Table 4.4: Descriptive Statistics for Budget Management

	N	SA	A	U	D	SD	Mean	Std. Dev.
The county government has a sound tax budget	73	41.1	53.4	4.1	0	1.4	4.33	.688
The budget is subject to amendments during its implementation	73	39.7	43.8	13.7	1.4	1.4	4.19	.828
The county government has a clear financial performance plan	73	30.1	56.2	2.7	11.0	0	4.05	.880
The budget allocations are agreed upon by all stakeholders	73	32.9	42.5	11.0	12.3	1.4	3.93	1.032
There is an effective system for budget control	73	19.2	56.2	17.8	5.5	1.4	3.86	.839
The budget implementation is closely monitored	73	23.3	50.7	9.6	16.4	0	3.81	.981

The study found that 53.4% of the respondents agreed that the county government of Nakuru has a sound tax budget while 41.1% of the respondents strongly concurred

with the statement. It was also revealed that while 43.8% agreed, another 39.7% strongly admitted that the budget is subject to amendments during its implementation. According to the findings, most of the respondents (56.2%) admitted that the county government has a clear financial performance plan. It was further established that, on average, respondents at least agreed (mean > 4.00) that the county government has an effective tax budget, which is subject to amendments during its implementation; and that it has a clear financial performance plan. In regard to these assertions, the respondents' views were highly similar (std dev < 1.000).

According to 75.4% of the respondents, the budget allocations are agreed upon by all stakeholders. However, there were significant dissenting opinions in this regard (std dev > 1.000). It was further found that 56.2% of the respondents admitted that there is an effective system for budget control. Moreover, 50.7% of the participants agreed that the budget implementation is closely monitored.

4.4.2 Financial Controls

The study evaluated issues touching on financial controls in the County Government of Nakuru. The results illustrating the views of the participating staff regarding financial controls are as shown in Table 4.5.

It was found that respondents were generally in agreement that the is distinct segregation of duties between the revenue collection from various sources such as parking, land rates and business permits (mean = 4.18); the senior finance managers in the county government are accountable to deliver timely and accurate financial statements (mean = 4.08); and that the stated managers are required to deliver timely and precise operating metrics such as revenue collected (mean = 3.99). In respect of the stated propositions, the respondents held largely similar views (std dev < 1.000).

A total of 75.3% of the respondents either agreed or strongly agreed that the county government has put in place effective internal audit trails for all financial transactions within its purview. Though there was significant variation (std dev = 1.010) in the views of the respondents regarding the assertion that the county government has adopted an accounting standard with knowledge staff who are accountable and responsible for its implementation, there was a general agreement with the statement

(mean = 3.92). Moreover, the study established that majority of the respondents either agreed (49.3%) or strongly agreed (23.3%) that there are knowledgeable staff mandated with implementation of finance policies.

Table 4.5: Descriptive Statistics for Financial Controls

	N	SA	A	U	D	SD	Mean	Std. Dev.
There is distinct segregation of duties between the revenue collection from various sources such as parking, land rates and business permits	73	41.1	43.8	11.0	0	4.1	4.18	.933
The senior finance managers in the county government are accountable to deliver timely and accurate financial statements	73	20.5	68.5	9.6	1.4	0	4.08	.595
The senior finance managers are required to deliver timely and precise operating metrics such as revenue collected	73	21.9	64.4	5.5	6.8	1.4	3.99	.825
The county government has put in place effective internal audit trails for all financial transactions within its purview	73	31.5	43.8	15.1	6.8	2.7	3.95	.998
The county government has adopted an accounting standard with knowledge staff who are accountable and responsible for its implementation	73	31.5	42.5	13.7	11.0	1.4	3.92	1.010
There are knowledgeable staff mandated with implementation of finance policies	73	23.3	49.3	19.2	6.8	1.4	3.86	.902

4.4.3 Value Management

The views of the selected employees working with the County Government of Nakuru were sought in relation to the aspect of value management. A summary of the stated views is outlined in Table 4.6.

Table 4.6: Descriptive Statistics for Value Management

	N	SA	A	U	D	SD	Mean	Std. Dev.
The county government spells out guidelines for basic requirement for planning, scheduling, and time-phased budgets for all tasks	73	35.6	49.3	6.8	5.5	2.7	4.10	.945
The county government has clear guidelines the focus on organizing work at the county	73	26.0	52.1	12.3	9.6	0	3.95	.880
Earned value management analysis is effected to address the variance between the budgeted and expended amount	73	27.4	39.7	21.9	11.0	0	3.84	.958
The county government has clear accounting considerations that facilitate capturing actual costs expended which are consistent with the way activities are planned and budgeted	73	24.7	46.6	16.4	11.0	1.4	3.82	.977
The county government ensures that there is effective revision and data maintenance particularly when there is constantly changing baseline	73	19.2	45.2	17.8	15.1	2.7	3.63	1.048

It was found that on average (mean = 4.10) that the county government spells out guidelines for basic requirement for planning, scheduling, and time-phased budgets for all tasks. The study further noted that 52.1% of the respondents admitted that the county government has clear guidelines the focus on organizing work at the county while an additional 26.0% strongly agreed with the statement. Though a total of 67.1% of the respondents at least admitted that earned value management analysis is effected to address the variance between the budgeted and expended amount, 21.9% of the respondents were noncommittal.

In general, the respondents were found to agree that the county government has clear accounting considerations that facilitate capturing actual costs expended which are

consistent with the way activities are planned and budgeted (mean ≈ 4.00). Moreover, 45.2% of the respondents agreed that the county government ensures that there is effective revision and data maintenance particularly when there is constantly changing baseline. In respect of this assertion, respondents held significantly varying opinions (std dev = 1.048).

4.4.4 Governance and Accountability

In line with the fourth specific objective, the study sought the views of selected staff working with the County Government of Nakuru in relation to governance and accountability. Table 4.7 shows the relevant results.

The results of descriptive analysis indicated that 39.7% of the respondents agreed while an additional 34.2 strongly agreed that the county government ensures that there is optimal equitability and inclusivity particularly when making financial decisions. In the same perspective, cumulatively, 85.0% of the respondents held the view that financial decisions made by the county government are consistent with relevant county legislations and common laws. It was generally agreed (mean ≈ 4.00) that county government ensures that there is effective and efficient use of financial resources, and ensures that there are service quality protocols during decision making; and also that, it is accountable to the county's constituents by reporting, explaining and being answerable to the queries arising from the financial decisions it makes on the constituents' behalf. In regard to the stated assertions, it was clear that, the views of the respondents were largely similar (std dev < 1.000).

However, the study revealed that, though majority (54.8%) of the respondents at least concurred that the financial decision-making process is largely transparent, there was a general indecisiveness regarding this assertion (mean = 3.40), a fact that was further supported by the significant variation of the respondents' opinions regarding the same (std dev = 1.090). Equally, the largest proportion of the respondents (34.2%) were undecided whether the county government always try to serve the needs of the entire community while balancing the competing interests in a timely, appropriate and responsive manner. Expectedly, there was a general indecisiveness regarding this statement (mean = 3.40), and respondents held diverse opinions in this respect (std dev = 1.102).

Table 4.7: Descriptive Statistics for Governance and Accountability

	N	SA	A	U	D	SD	Mean	Std. Dev.
The county government ensures that there is optimal equitability and inclusivity particularly when making financial decisions	73	34.2	39.7	17.8	6.8	1.4	3.99	.965
The financial decisions made by the county government are consistent with relevant county legislations and common laws	73	24.7	60.3	1.4	13.7	0	3.96	.904
The county government ensures that there is effective and efficient use of financial resources	73	20.5	57.5	13.7	8.2	0	3.90	.819
The county government ensures that there are service quality protocols during decision making	73	21.9	50.7	13.7	12.3	1.4	3.79	.971
The county government is accountable to the county's constituents by reporting, explaining and being answerable to the queries arising from the financial decisions it makes on the constituents' behalf	73	16.4	39.7	30.1	13.7	0	3.59	.925
The financial decision-making process is largely transparent	73	15.1	39.7	16.4	27.4	1.4	3.40	1.090
The county government always try to serve the needs of the entire community while balancing the competing interests in a timely, appropriate and responsive manner	73	16.4	31.5	34.2	11.0	6.8	3.40	1.102

4.4.5 Financial Sustainability

The views and/or perceptions of the respondents regarding financial sustainability of the County Government of Nakuru were sought and analyzed. The results obtained from the analysis are shown in Table 4.8.

Table 4.8: Descriptive Statistics for Financial Sustainability

	N	SA	A	U	D	SD	Mean	Std. Dev.
The county government takes long period before paying its creditors and suppliers	73	24.7	41.1	15.1	11.0	8.2	4.18	4.877
The actual expenditure of the county government has been increasing for the past 4 years	73	34.2	54.8	5.5	5.5	0	4.18	.770
The county governments limits its borrowing capacity to avoid sinking into debt	73	9.6	39.7	39.7	5.5	5.5	4.11	.609
The county government has recorded increased net current assets for the past 4 years	73	35.6	47.9	1.4	15.1	0	4.04	.992
The budgetary allocations have been on an upward trajectory since 2013	73	37.0	38.4	12.3	6.8	5.5	3.95	1.129
The county government's expenditure per capital has consistently increased in the past 4 years	73	20.5	47.9	21.9	9.6	0	3.79	.881
Over past 4 years, the county government has recorded a decline in net current liabilities	73	19.2	35.6	24.7	13.7	6.8	3.47	1.156
The county government delays paying salaries and wages to the workforce on its payroll	73	15.1	38.4	12.3	15.1	19.2	3.15	1.381
The county government mostly runs on debt	73	13.7	30.1	12.3	35.6	8.2	3.05	1.246
The county government is presently operating on a budgetary surplus	73	8.2	21.9	37.0	24.7	8.2	2.97	1.067

As shown in Table 4.8, it was revealed that majority of the respondents agreed that the county government takes long period before paying its creditors and suppliers (Agree = 41.1%; mean = 4.18); the actual expenditure of the county government has been increasing for the past 4 years (Agree = 54.8%; mean = 4.18); the county

government limits its borrowing capacity to avoid sinking into debt (Agree = 39.7%; mean = 4.11); and also that the county government has recorded increased net current assets for the past 4 years (Agree = 47.9%; mean = 4.04). The views of the respondents in respect of the aforementioned statements were largely similar (std dev < 1.000).

The budgetary allocations have been on an upward trajectory since 2013 according to the majority of the respondents (Agree = 38.4%; Strongly Agree = 37.0%). However, their opinions varied significantly (std dev = 1.129). The views of the majority (Agree = 47.9%; Strongly Agree = 20.5%) were that the county government's expenditure per capital has consistently increased in the past 4 years. There was significant variations in the views of the respondents regarding the assertion over the past 4 years, the county government has recorded a decline in net current liabilities (std dev = 1.156); the county government delays paying salaries and wages to the workforce on its payroll (std dev = 1.381); the county government mostly runs on debt (std dev = 1.246); and that it is presently operating on a budgetary surplus (std dev = 1.067).

4.5 Inferential Statistics and Discussions

This section presents the results of Pearson’s correlation and multiple regression analysis. Results illustrate the relationship between the independent variables, as characterized by financial management practices, and the dependent variable represented by financial sustainability.

4.5.1 Relationship between Financial Management Practices and Financial Sustainability

The relationship between the various financial management practices and financial sustainability of the County Government of Nakuru was analyzed. The practices in the context of this study included budget management, financial controls, value management, and governance and accountability. The study as shown in Table 4.9 indicated that there existed a weak, positive and not significant relationship between budget management and financial sustainability of the County Government of Nakuru ($r = 0.091$; $p > 0.05$). The results indicated that the relationship linking the two variables was not substantive but marginal. These results were slightly in agreement with the findings of a study conducted in South Africa where it was revealed that

there existed a long-run positive relationship between government expenditure, which falls within the purview of budgetary policies, and economic growth (Gadinabokao & Daw, 2013). This is premised on the argument that economic growth and sustainability are directly proportionate.

Table 4.9: Budget Management and Financial Sustainability

		Financial Sustainability
Budget Management	Pearson Correlation	.091
	Sig. (2-tailed)	.442
	N	73

According to the correlation results shown in Table 4.10, the relationship between financial controls and financial sustainability of the County Government of Nakuru was positive, weak and statistically significant ($r = 0.305; p < 0.05$). The correlation results meant that strengthening financial controls could have led to enhanced financial sustainability of the County Government, while weakening the controls could have resulted in compromising the financial sustainability of the devolved government. The findings herein were in tandem with Gomez et al (2013) assertion that financial risks (linked to poor financial controls) were associated with overdependence on government funding and transfers (lack of financial sustainability).

Table 4.10: Financial Controls and Financial Sustainability

		Financial Sustainability
Financial Controls	Pearson Correlation	.305**
	Sig. (2-tailed)	.009
	N	73

**. Correlation is significant at the 0.01 level (2-tailed).

It was further found as shown in Table 4.11 that, the relationship between value management and financial sustainability was positive, moderately strong and statistically significant at 0.05 level of significance ($r = 0.418; p < 0.05$). In other words, improving value management practices was bound to improve financial

sustainability of the County Government of Nakuru. Poor value management was likely to reverse the gains of financial sustainability.

Table 4.11: Value Management and Financial Sustainability

		Financial Sustainability
Value Management	Pearson Correlation	.418**
	Sig. (2-tailed)	.000
	N	73

**. Correlation is significant at the 0.01 level (2-tailed).

The study examined how governance and accountability related to financial sustainability of the County Government of Nakuru. The study established that the said relationship as shown in Table 4.12, was positive, weak and statistically significant at 0.05 level of significance ($r = 0.310$; $p < 0.05$). The results meant improving governance and accountability is likely to result in improved financial sustainability. Poor governance and weakened accountability is equally likely to negate financial sustainability of the County Government. This finding is in line with the views made by Oplotnik and Brezovnik (2004) where it was revealed that in order to achieve optimal financial performance (related to financial sustainability), there ought to be prudent borrowing for capital expenditure purposes, the local government ought to adhere to legislation when spending, doing financial planning and organizing local services. The results of this study were further supported by an empirical case study conducted by Hendriks (2017), which found that the concept of accountability was undermined, while at the same there was increased dependency on disbursements from the national government, a fact that negated the financial sustainability of the devolved governments.

Table 4.12: Correlation between Governance and Accountability and Financial Sustainability

		Financial Sustainability
Governance and Accountability	Pearson Correlation	.310**
	Sig. (2-tailed)	.008
	N	73

**. Correlation is significant at the 0.01 level (2-tailed).

4.5.2 Influence of Financial Management Practices on Financial Sustainability

The data collected were subjected to multiple regression analysis with the view of determining the extent to which financial management practices under study influenced financial sustainability of the County Government of Nakuru. The results of the analysis as shown in Table 4.13 indicated that the relationship between all the studied financial management practices (budget management, financial controls, value management, and governance and accountability) and financial sustainability was positive and strong (R = 0.515). As indicated in Table 4.14, this relationship was found to be statistically significant at 0.05 level of significance ($p < 0.05$). The findings meant that strengthening the stated financial management practices was likely to lead to improved financial sustainability of the devolved government. The results of the coefficient of determination ($R^2 = 0.265$) as shown in Table 4.13 implied that 26.5% variation in financial sustainability of the County Government of Nakuru could be explained by the studied practices. Similarly, 73.5% variation in financial sustainability could have been attributed to other parameters that were not part of the present study.

Table 4.13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.515[a]	.265	.222	.36040

a. Predictors: (Constant), Budget Management, Financial Controls, Value Management, Governance and Accountability

According to the test of significance results shown in Table 4.14, it was indicated that the regression model was statistically significant ($F = 6.144$; $p < 0.05$), therefore, relevant for adoption by the study.

Table 4.14: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.192	4	.798	6.144	.000[a]
	Residual	8.832	68	.130		
	Total	12.024	72			

a. Predictors: (Constant), Budget Management, Financial Controls, Value Management, Governance and Accountability

b. Dependent Variable: Financial Sustainability

The results of regression analysis shown in Table 4.15 were used to substitute and interpret the following empirical (regression) model.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

$$Y = 2.357 + 0.208X_1 + 0.253X_2 + 0.285X_3 + 0.017X_4$$

The model when interpreted indicated that in order for financial sustainability to improve by a single unit ($Y = 1$), the County Government of Nakuru was required to improve budget management by 0.208 unit, strengthen financial controls by 0.253 unit, improve value management by 0.285 unit, and also ensure governance and accountability are strengthened by 0.017 unit. This was bound to be the case after holding other factors constant (2.357). According to the study results, it was found that value management was the most important financial management practice, and as such, the county governments in Kenya are recommended to put more emphasis on the same. The fact that debt management is crucial in respect of financial sustainability of county governments reinforces earlier findings by a study conducted by Gomez et al (2013). The study which was conducted in Brazil, found that financial sustainability is associated with financial performance, and that in order to attain financial performance, local government needs to manage debt to adequate levels. This implies that debt management was linked to financial sustainability.

Table 4.15: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	2.357	.360		6.541	.000
Budget Management	.208	.093	.321	2.247	.028
Financial Controls	.253	.099	.319	2.543	.013
Value Management	.285	.102	.494	2.797	.007
Governance and Accountability	.017	.114	.029	.150	.881

a. Dependent Variable: Financial Sustainability

The results of the t-statistics as shown in Table 4.15 facilitated testing of null hypotheses. The first null hypothesis (H_{01}) stated that: There is no statistically significant relationship between budget management and financial sustainability of the County Government of Nakuru. According to the results of the t-statistics ($t = 2.247$; $p < 0.05$), it was noted that indeed there existed a significant relationship between the two variables. Therefore, the null hypothesis (H_{01}) was rejected. The alternate hypothesis (H_{0a}) was considered to be true and acceptable.

The second null hypothesis (H_{02}) stated that: There is no statistically significant relationship between financial controls and financial sustainability of the County Government of Nakuru. The findings of the t-statistics ($t =2.543$; $p < 0.05$) as shown in Table 4.15 indicated that the relationship between the aforestated variables was significant at 0.05 level of significance (p-value). Therefore, the null hypothesis (H_{02}) was rejected and the alternate hypothesis (H_a) considered to be true.

The third null hypothesis (H_{03}) stated that: There is no statistically significant relationship between value management and financial sustainability of the County Government of Nakuru. The results of the t-statistics ($t = 2.797$; $p < 0.05$) indicated that the said relationship was statistically significant at $p = 0.05$. This implied that the

null hypothesis (H_{03}) was rejected, and instead the alternate hypothesis (H_a) was considered to be true.

The fourth null hypothesis (H_{04}) stated that: There is no statistically significant relationship between governance and accountability, and financial sustainability of the County Government of Nakuru. The results of the t-statistics ($t = 0.150$; $p > 0.05$) proved that indeed the relationship was not significant at 0.05 probability level. Therefore, the null hypothesis (H_{04}) was not rejected, but was accepted to be true.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter covers summarized study findings, conclusions made from the study, and also recommendations, which if and when implemented are likely to ensure that financial management practices enhance financial sustainability of devolved governments. The last section of this chapter constitutes areas recommended for further research in line with the conclusions drawn by this study.

5.2 Summary

The findings and interpretations were summarized in line with the objectives of the study.

5.2.1 Budget Management and Financial Sustainability

The county government of Nakuru was found to have a sound tax budget which was further established to be effective. The budget is subject to amendments during its implementation. The county government also has a clear financial performance plan. It was further established that the budget allocations are agreed upon by all stakeholders. The study indicated that there existed a weak, positive and not significant relationship between budget management and financial sustainability of the County Government of Nakuru.

5.2.2 Financial Controls and Financial Sustainability

The county government heavily depends on the national government funding for its operations. It was noted that there is distinct segregation of duties between the revenue collection from various sources such as parking, land rates and business permits. The study indicated that the senior finance managers in the county government are accountable to deliver timely and accurate financial statements, and are also required to deliver timely and precise operating metrics such as revenue collected. The county government has put in place effective internal audit trails for all financial transactions within its purview. The county government has adopted an accounting standard with knowledge staff who are accountable and responsible for its implementation. There are knowledgeable staff mandated with implementation of

finance policies by the County Government. The relationship between financial controls and financial sustainability of the County Government of Nakuru was positive, weak and statistically significant.

5.2.3 Value Management and Financial Sustainability

The county government of Nakuru spells out guidelines for basic requirement for planning, scheduling, and time-phased budgets for all tasks. In the same perspective, the study found that the respondents admitted that the county government has clear guidelines the focus on organizing work at the county. Earned value management analysis is effected by the County Government of Nakuru to address the variance between the budgeted and expended amount. The county government was also found to have clear accounting considerations that facilitate capturing actual costs expended which are consistent with the way activities are planned and budgeted. More so, it was found that the county government of Nakuru ensures that there is effective revision and data maintenance particularly when there is constantly changing baseline. It was found that improving value management practices was bound to improve financial sustainability of the County Government of Nakuru.

5.2.4 Governance and Accountability, and Financial Sustainability

The county government of Nakuru ensures that there is optimal equitability and inclusivity particularly when making financial decisions. The stated decisions were found to be consistent with relevant county legislations and common laws. The devolved government ensures that there is effective and efficient use of financial resources, and ensures that there are service quality protocols during decision making. It is accountable to the constituents by reporting, explaining and also by being answerable to the queries arising from the financial decisions it makes on their behalf. The financial decision-making process at the county government is largely transparent. To a large extent, it was unclear whether the county government always try to serve the needs of the entire community while balancing the competing interests in a timely, appropriate and responsive manner. Improving governance and accountability was likely to result in improved financial sustainability of the County Government of Nakuru.

5.2.5 Financial Sustainability

The study revealed that the county government of Nakuru takes long period before paying its creditors and suppliers. This is coupled with delay in effecting payment of salaries and wages to the workforce on its payroll. The actual expenditure of the county government was found to be increasing since the inception of devolution. Over the same period of time, the county government limits its borrowing capacity to avoid sinking into debt. The budgetary allocations have been increasing since 2013. The county government's expenditure per capital has consistently increased simultaneously. The county government recorded a decline in net current liabilities. The county government of Nakuru mostly runs on debt and it is presently operating on a budgetary surplus. It was found that strengthening the stated financial management practices was likely to lead to improved financial sustainability of the devolved government. It was found that value management was the most important financial management practice, and as such, the county governments in Kenya are recommended to put more emphasis on the same.

5.3 Conclusions

The study concluded that the County of Nakuru had both effective and sound tax budget. It was deduced that the County Government’s budget is subject to amendments during its implementation. In addition, the study concluded that the county government has a clear financial performance plan. In reference to budgeting, the study inferred that key stakeholders were involved in budgetary allocation. It was further concluded that the relationship between budget management and financial sustainability was marginal.

In relation to financial controls, the study inferred that county government heavily depends on the national government funding for its operations. It was also concluded that there was clear separation of duties between revenue collections from various sources. The study further deduced that senior finance managers are held to account in reference to delivery of timely and accurate financial statements. At the same time, the said managers are required to deliver timely and precise operating metrics. It was concluded that the county government has put in place effective internal audit trails for all financial transactions within its jurisdiction. Though the relationship between

financial controls and financial sustainability was found to be considerable, it was concluded to be weak.

The study concluded that guidelines for basic requirement for planning, scheduling, and time-phased budgets for all tasks are clearly spelt out. Earned value management analysis was concluded to be effected by the County Government of Nakuru to address the variance between the budgeted and expended amount. The study deduced that the county government has clear accounting considerations that facilitate capturing actual costs expended. It was concluded that there is effective revision and data maintenance. The study inferred that improving value management practices was bound to improve financial sustainability.

Optimal equitability and inclusivity particularly when making financial decisions was concluded to be ensured by the County Government of Nakuru. Financial decisions are consistent with the devolved government's legislations. It was also concluded that there is effective and efficient use of financial resources. The county government was concluded to be accountable to its constituents. There is transparency in the financial decision-making process at the county government. The study concluded that improving governance and accountability was likely to result in improved financial sustainability of the County Government.

Financial sustainability was concluded to be a major issue facing the County Government of Nakuru. It was concluded that the government takes long period before paying its creditors and suppliers besides delaying paying salaries and wages to its employees. Since the inception of devolved governments, the study concluded that the actual expenditure of the county government, budgetary allocations and expenditure per capital had increased. More so, the study concluded that the county government of Nakuru mostly runs on debt though it is currently operating on a budgetary surplus. It was also concluded that strengthening the stated financial management practices was likely to lead to improved financial sustainability.

5.4 Recommendations

The study made several crucial recommendations in line with both study objectives and results of the study. It was recommended that, though it was important to have a flexible budget, the number of amendments effected on the budget during its

implementation should be minimal in order to avoid dilapidating it altogether. The study further recommended that the financial plan should be in line with the county government's budget and the County Integrated Development Plan (CID). This is in order to mitigate probable conflict among the three documents which are individually supposed to contribute towards financial sustainability of the county government. During the budget preparation, it is imperative to include all stakeholders including the members of the public since the latter are the ultimate benefactors of the county government.

The study recommended that the County Government of Nakuru alongside other devolved governments should strive towards financial autonomy by ensuring that they are financially sustainable and as such reduce and eventually cease completely from relying on the Exchequer for financial aid. The study also recommended that, though it is vital to have distinct segregation of duties in respect of revenue collection streams, it is advisable for the county government to have a harmonized revenue collection system that can mitigate possible fraud and loopholes through which it can lose financial resources. Moreover, all entities involved in revenue collection and financial management should be held to account for their respective actions and/or inactions that may potentially lead to loss of finances or foregoing of revenues.

The study recommends that it ought to be a requirement for all departments and sections under the county government to prepare their own budgets which must be in harmony with the overall county government budget. In the same respect, the budgets should be prepared in time and submitted to the respective authorities without delay. This is due to the fact that, the soundness and timely submission of budgets determines allocation of funds. The county government is advised to conduct budget variance and also address it accordingly.

It is recommended that the county government should ensure that in reference to equitability and inclusivity there is optimal equitability and inclusivity. The financial decisions made by the county government are supposed to be in cue with relevant county legislations and common laws. The county government should be accountable to the public by timely reporting on financial issues. It is also recommended that the county government should be adequately transparent by uploading on its official websites all financial issues including financial position frequently.

The study recommends that the county government should make sure that funds are available so that it can be in a position to pay all its creditors and suppliers without delay. As a way of improving its financial sustainability, the county government is recommended to minimize its expenditures by, for instance, reducing its recurrent budget. The county government is advised to limit its borrowing particularly from commercial banks, and also to seek the advice of the national government before borrowing from international financiers. The county government ought to enhance its revenue streams so that it can be in a position to pay its workforce timely.

5.5 Suggestions for Further Research

It is recommended for scholars to undertake further empirical investigations on other factors that may influence financial sustainability of county governments besides financial management practices. The study further recommends research on the relationship between financial management practices and financial sustainability of State corporations in Kenya. It is also important to analyze the various factors that occasion late payments to suppliers and creditors, and also the factors leading to delayed payment of salaries and wages of staff on the county government payroll.

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APPENDICES

APPENDIX 1

INTRODUCTION LETTER

Dear Respondent,

County Government of Nakuru

P.O. BOX 2870-20100

Nakuru

RE: REQUEST FOR DATA COLLECTION

I am a Master of Business Administration (MBA – Finance Option) student at Jomo Kenyatta University of Agriculture conducting a research entitled ***"Relationship between financial management practices and financial sustainability of the County Government of Nakuru, Kenya."*** This research forms part of the requirement for my MBA qualification. I would appreciate if you would kindly take a little of your time to complete a questionnaire that I will provide. Any information provided from youis purely for academic purposes and all responses will be treated with utmost confidentiality. Your cooperation is most valued and appreciated.

I take this opportunity to thank you in advance for your quick return of your completed questionnaire.

Yours faithfully

Nancy Munyao	**Mr. Solomon Ngahu**
Student-JKUAT	**University Supervisor**

APPENDIX II

RESEARCH QUESTIONNAIRE

This questionnaire is aimed at collecting data to facilitate the study titled: **Relationship between financial management practices and financial sustainability of the County Government of Nakuru, Kenya.** The questionnaire forms an integral part of the study and the respondents are kindly requested to complete and give any additional information they feel is necessary for the study. The researcher will uphold utmost integrity and ethics by ensuring that the data collected will be used absolutely for academic purpose and will be treated with strict confidentiality.

Section A: Demographic Information of the Respondents

In the following section indicate using a tick (√) your choice in the various categories

1. **Age**

Below 25 Years ☐ 26-35 Yrs ☐ 36-45 Yrs ☐

46-55 Yrs ☐ above 56 Yrs ☐

2. **Level of education**

Secondary school ☐ Diploma ☐ Degree ☐

Masters ☐ Doctorate ☐

3. **Indicate the Position you serve in.**

Accountant ☐ Auditor ☐ Revenue Officer ☐

Sub-county Administrator ☐

Section B: In the following section, use the following scale to show your level of agreement with the statements therein

1-Strongly Disagree (SD) 2-Disagree (D) 3-Undecided (U) 4-Agree (A) 5-Strongly Agree (SA)

I. Budget Management

	Description	**5**	**4**	**3**	**2**	**1**
i	The county government has a sound tax budget.					
ii	The budget allocations are agreed upon by all stakeholders.					
iii	The county government has a clear financial performance plan.					
iv	The budget implementation is closely monitored.					
v	There is an effective system for budget control.					
vi	The budget is subject to amendments during its implementation.					

II. Financial Controls

	Description	**5**	**4**	**3**	**2**	**1**
i	The county government heavily depends on the national government funding for its operations					
ii	The county government has adopted an accounting standard with knowledgeable staff who are accountable and responsible for its implementation.					
iii	The senior finance managers in the county government are accountable to deliver timely and accurate financial statements.					
iv	The senior finance managers are required to deliver timely and precise operating metrics such as revenue collected.					

v	There are knowledgeable staff mandated with implementation of finance policies.					
vi	There is a distinct segregation of duties between the revenue collection from various sources such as parking, land rates and business permits.					
	The county government has put in place effective internal audit trails for all financial transactions within its purview.					

III. Value Management

	Description	5	4	3	2	1
i	The county government has clear guidelines the focus on organizing work at the county.					
ii	The county government spells out guidelines for basic requirements for planning, scheduling, and time-phased budgets for all tasks.					
iii	The county government has clear accounting considerations that facilitate capturing actual costs expended which are consistent with the way activities are planned and budgeted					
iv	Earned value management analysis is effected to address the variance between the budgeted and expended amount.					
v	The county government ensures that there is effective revision and data maintenance particularly when there is constantly changing baseline.					

I. Governance and Accountability

	Description	5	4	3	2	1
i	The county government ensures that there is optimal equitability and inclusivity particularly when making financial decisions.					
ii	The county government ensures that there are service quality protocols during decision making.					
iii	The financial decision-making process is largely transparent.					

iv	The financial decisions made by the county government are consistent with relevant county legislations and common laws.					
v	The county government always try to serve the needs of the entire community while balancing the competing interests in a timely, appropriate and responsive manner.					
	The county government ensures that there is effective and efficient use of financial resources.					
	The county government is accountable to the County's constituents by reporting, explaining, and being answerable to the queries arising from the financial decisions it makes on the constituents' behalf.					

II. Financial Sustainability

	Description	**5**	**4**	**3**	**2**	**1**
i	The county government has recorded increased net current assets for the past 4 years.					
	Over the past 4 years, the county government has recorded a decline in net current liabilities.					
	The budgetary allocations have been on an upward trajectory since 2013.					
	The actual expenditure of the county government has been increasing for the past 4 years.					
	The county government is presently operating on a budgetary surplus.					
ii	The county government mostly runs on debt					
v	The county government takes long period before paying its creditors and suppliers					
vi	The county governments limits its borrowing capacity to avoid sinking into debt					