# Effect of Public Financial Management Practices on Performance of County Governments in Kenya.

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**A thesis submitted in partial fulfilment for the Degree of Doctor of Philosophy in Business Administration in the Jomo Kenyatta University of Agriculture and Technology**

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## DECLARATION

This thesis is my original work and has not been presented for a degree in any other university

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## DEDICATION

To my wife Edith, daughter Anne, and son Jesse.

## ACKNOWLEDGEMENTS

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## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **CIDP** | County Integrated Development Plan |
| **CIFA** | Certified Investment and Financial Analysts |
| **CIPS** | Chartered Institute of Procurement and Supply |
| **CPA** | Certified Public Accountant |
| **CRA** | Commission on Revenue Allocation |
| **FPBP** | Financial Planning Budgeting Practices |
| **FTMS** | Financial Trends Monitoring System |
| **GASB** | Governmental Accounting Standards Board |
| **ICD** | Internal Control Deficiencies |
| **ICMA** | International City/County Management Association |
| **ICP** | Internal Control Practices |
| **MCA** | Member of County Assembly |
| **MDG** | Millennium Development Goals |
| **PEFA** | Public Expenditure and Financial Accountability |
| **PFM** | Public Financial Management |
| **PPMP** | Public Financial Management Practices |
| **PFPP** | Public Finance Procurement practices |
| **PFGP** | Public financial governance practices |
| **RMP** | Revenue Mobilization Practices |
| **TA** | Transitional Authority |

## DEFINITION OF TERMS

| | |
|---|---|
| **Budgeting** | This is an annual process which governments create and approve budget. It generally starts with the previous year's actual revenue and expenses and builds into a new one (Mwaura, 2013). |
| **Financial planning** | They are process for determining and detailing government's long- and short-term financial goals and specific strategies it will implement to meet them. (Mwaura, 2013). |
| **Internal control practices** | They are processes of monitoring and evaluation that ensures that resources are obtained and utilized economically, efficiently and effectively (Mwaura, 2013). |
| **Performance** | It is the financial and non-financial monitoring of targets against actual results to establish how well the public sector and its employees are functioning as a whole and as individuals (Wang & Ngomuo, 2015). |
| **Public financial management practices** | They are set of processes that are used by governments to mobilise revenue, allocate public funds, and undertake public spending, account for funds and audit results. (Lawson, 2015). |
| **Public finance procurement practices** | They are philosophies, methods, and processes adopted in procurement to contain costs, and produce results despite challenging circumstances (CSMP, 2011). |
| **Public financial governance practices** | It is the legitimate use of power and authority in the administration of public financial resources with the aim of successfully accomplishing responsibilities that bring added value to the public (Ogeh, 2013). |
| **Revenue mobilization practices** | Refers to the use of available resources to harness revenues that are by law to be paid by citizens, corporate |

institutions and quasi-governmental organizations on their operations (Adu-Gyamfi, 2014).

## ABSTRACT

The general objective of this study was to examine the effect of public financial management practices on performance of county governments in Kenya. The specific objectives of the study were to investigate how: financial planning and budgeting; internal control; public financial procurement; revenue mobilization and public financial governance practices influence on the performance of county governments in Kenya. One of the objects of devolution is to devolve economic resources closer to the people and for this to be felt by the citizens, effective public financial management practices are required. From literature reviewed it was established that there are limited studies done on the same hence this study intends to fill the gap by contributing to the existing body of knowledge. Despite the improved legislative and institutional frameworks on public finance management in the last six years, Kenya continues to experience myriad challenges that are not in line with the expected global standard practices thus leading to impoverished service delivery. In addition, this study intends to enhance policy frameworks that streamline prudent management of public resources. The research was anchored on Theory of Participative Budgeting and Agency Theory among others. The study used mixed research design and a purposive sampling technique. The respondents included all accounting officers and directors from county treasuries in the top ten counties selected on the locally collected revenue list as shown in the Office of the Controller of Budget's Annual Budget Implementation Report for financial year 2016/2017. Primary data was collected using a questionnaire whereas secondary data was obtained from Office of Controller of Budget, Office of the Auditor General and County Treasury Offices. The study used both qualitative and quantitative data. While content analysis was used to analyse the qualitative data, Statistical Package for Social Science Version 21 was used to analyze quantitative data that generated both descriptive and inferential statistics. Multiple linear regression analysis was used to establish the effect of public financial management practices on performance of county governments in Kenya. The major finding was that internal control practices that include control activities, control environment and internal audits had the highest significance ($F(1, 210) = 186.715$, $p<0.05$) on performance of county governments. From the findings of the study, it was concluded that those county governments that had invested in effective internal control systems had more improved performance as compared to those county governments that had a weak internal control system. From the findings, it was revealed that those county governments that observed integrity, ethical values, risk assessment, control activities, and monitoring procedures recorded high performance. The study therefore recommends that in order to attain transparent public financial management practices and reporting in public offices, there should be strict adherence to the nations' constitutional framework in terms of preparation and presentation of financial statements, submission and review as well as timely report of the Auditor-general to the Parliamentary Public Account Committees. The study recommends that the relevant county government officials should be constantly updated and well-grounded in international financial reporting standards (IFRS) and principles in order to enhance their knowledge and skills in application of public financial management practices and to keep them updated on the contemporary issues.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Effective institutions and systems of public financial management play a critical role in the implementation of government policies and sound economic management. A good PFM is the linchpin that ties together available resources, delivery of services, and achievement of government's policy objectives. Strong PFM systems are required to maximize the efficient use of resources, create the highest level of transparency and accountability in government finances and to ensure long-term economic success. If it is done well, PFM ensures that revenue is collected efficiently and used appropriately and sustainably (PEFA, 2016). PFM is a lever to broader country development, to raising revenues effectively, planning and executing budget decisions reliably and transparently, and to building trust for donors and investors and the entire citizenry. The recognition that development should be led by countries if it is to have lasting transformative impact requires greater international reliance on country PFM systems (CIPFA, 2009).

Notably, a dysfunctional PFM will not guarantee a proper public revenue collection and public expenditure that is done according to the law hence leading to poor service delivery. The most evident signs of a bad PFM system are persistent budget deficits and large differences between approved budgets and actual expenditures. Well-designed and well-functioning financial management systems are essential prerequisites for effective states and development outcomes. The aims of public financial management are the provision of services to citizens and optimum and sustainable use of public resources through aggregate fiscal discipline, allocative efficiency, equity, redistribution of wealth and value for money in a transparent and accountable way (NAZ, 2017).

### 1.1.1 Global perspective on Public financial management practices and performance

Although PFM has been regarded as essential to effective development programmes there has been no clear definition of what it is. Lawson (2015) defines PFMP as a set of laws, rules, systems and practices used by governments to mobilise revenue, allocate public funds, and undertake public spending, account for funds and audit results. The practices include resource generation, resource allocation, and expenditure and resource utilization. Comparatively, CIPFA (2009) defines 'Public financial management practices (PFMP) as the system by which the financial aspects of the public services' business are directed, controlled and influenced, to support the delivery of the sector's goals. The 'Public' in PFMP draws attention to the features that are distinctive about financial management practices in the public sector, particularly the heightened expectations of transparency and accountability, the constrained resources in the face of demand levels that are not primarily controlled by price, and the political environment. Resolving competing demands for resources is a value driven process rather than a technocratic solution. There is also a set of processes that are specific to the public sector, such as tax administration. Financial management in the public sector is qualitatively different from its private sector counterpart, even though there are some common professional standards and techniques (CIPFA, 2009).

PFM is at the centre of this national socio-economic system. PFM underlies all government activity and is, therefore, practised in a dynamic environment. It has a lot in common with private financial management, as many of the practices of budgeting, expenditure and reporting also hold true for private organizations. Whereas the main focus for private financial management is to ensure that investors and owners of businesses make a profit, the focus of public financial management is the efficient provision of services to citizens and optimum use of public resources. Hence, public financial management practices concern itself with achieving aggregate fiscal discipline, allocative efficiency, equity, redistribution of wealth and value for money in a transparent and accountable manner. It is, therefore, important to understand how various PFM functions fit into a broader system of rules and regulations that govern the management of public resources, and what these functions are ultimately intended to achieve as a whole (NAZ, 2017).

Pretorius and Pretorius (2008) reviewed literature on experiences with Public Financial Management Reforms from Organisation for Economic Cooperation and Development (OECD) countries in the last 10 years. It was commissioned by DFID on behalf of the Dutch Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency (Sida), the Canadian International Development Agency (CIDA) and the African Development Bank (AfDB). The report showed the following; firstly, current PFM reform landscape by identifying the major underlying theories, significant trends and differences in approaches in developed and developing countries. Secondly, it identified the main areas of reforms under the major PFM components as well as it identified gaps in current knowledge. Finally, it assisted with the identification of potential evaluation topics and questions that served as an input to forthcoming evaluation of PFM reform processes (Pretorius & Pretorius, 2008).

### 1.1.2 Regional perspective on Public financial management practices and performance

Governments have a responsibility to provide goods and services for their citizens in an efficient and effective manner despite having differing ideologies and value systems. The different ideologies and values influence the direction of economic policies on how best to make use of the country's scarce resources. The environment in which economic activity takes place, therefore, depends upon the people, the resources available within the country, PFM practices and the systems designed to provide for the welfare of the citizens (NAZ, 2017).

Muhammed (2014) conducted a critical analysis of Public Financial Management Practices in Ethiopia and Tanzania. The study showed that both the Ethiopian and Tanzanian reforms have been successful. Both pathways were selective and focused on systematically addressing key weaknesses in financial control. The first order task was to instill effective control while the second order task was to improve the efficiency of control. Both involved extensive customization. In comparing the two countries' public financial management reform, actions of Ethiopian reform have been the following: evolve existing systems, hybrid approach, focus on legal framework, budget, accounts, reporting, automation replicates, strong manual controls over commitments, procurement, disbursement and sequencing. On the other hand, the

Tanzanian PFM was based on reform actions driven by installing new Information Technology, procedures and discipline.

Fölscher, Mkandawire and Faragher (2012) evaluated the Public Financial Management Practices in Malawi 2001–2010 and attempted to answer the flowing questions: (i) Where and why do Public Finance Management (PFM) reforms deliver results? (ii) Where and how does donor support to PFM reform efforts contribute most effectively to results? The main conclusion was that major reform outputs were delivered over the period, signaling significant change in the capacity for budget preparation, budget execution and audit. Most of the outputs put in place over the period had external support. However, the effect of the political change in 2004 and the degree to which it drove reforms from within is significant. In retrospect, among the reform achievements of the Government of Malawi, the procurement and roll-out of an IFMIS that function stands out perhaps as the most significant change, supporting a series of further secondary reforms. Yet, this functionality was achieved with relatively little direct external support.

In addition, the study by Fölscher et al. (2012) showed that between 2000 and 2010 Malawi has made significant strides in improving its PFM practices and that these improvements can be traced to direct PFM inputs by donors and government, as well as external domestic pressure for reform. A key driver of improved PFM functionality in this period has been the successful implementation of an IFMIS system to control commitments and payments, coupled with the centralization of the payment system and the establishment of a Single Treasury Account system. Just like most countries in Africa, Malawi has exhibited a PFM reform cycle, closely linked to the political/electoral cycle, which has effectively determined the pattern of progress in PFM practices. Furthermore, the policy space available to government in selecting reform models and options was often unnecessarily limited and the reform models adopted were often inappropriate. Thus, donors need to be cognizant of the PFM practices/political cycle and local context in Malawi in order to maximize the effectiveness of their inputs.

### 1.1.3 Kenya's perspective on Public financial management practices and performance

In the early 2000, the Government of Kenya identified a well-functioning PFM system as a cornerstone to achieving national development. The first PFM reform strategy covered the period 2006-2011 under the theme "Revitalization of Public Financial Management System in Kenya" (ROK, 2016). At the end of implementation period, many of the reforms had not been completed. Furthermore, changes in the Constitution of Kenya, 2010 also presented new opportunities for major institutional and legal reforms in PFM practices. These included the creation of counties through a major devolution policy and the establishment of new institutional roles. In addition, the enactment of the Public Finance Management Act 2012 and other PFM practices related legislations expanded the demand for PFM institutional reforms. These issues among others formed the foundation upon which the 2013-2018 PFM Reform Strategy was formulated (ROK, 2016).

Building on the institutional reforms that were taking place in the government at the time, and under the theme "Revitalization of Public Financial Management System in Kenya" the main reforms of the PFM practices targeted: transformation of political priorities into the annual budget allocations, credibility of the budget, quality, timeliness and accuracy of financial reports, procurement, rollout of Integrated Financial Management Information System (IFMIS) and integration with other PFM practices, reducing tax evasion, poor collection and accounting of non-tax revenue, institutional reforms, debt management, revamping of the external audit, strengthening PFM legal framework and addressing the low capacity of PFM staff among others (ROK, 2016).

Wang'ombe and Kibati (2017) point out that the PFMA, 2012 clearly stipulates the principles, practices and framework for public finance management by all government entities. The requirements and practices of public finance stipulated in Article 201 of the constitution are: openness and accountability, including public participation in financial matters, equity in distribution of resources to ensure that resources are shared between the current and future generations. Further, it requires that public funds are used prudently for the intended purposes and in a responsible manner. Finally, the PFMA 2012 requires that there is clarity in fiscal reporting and responsible public financial management practices. These constitutional principles are further expounded under Section 107 of the PFMA, 2012 ("Public Finance Management Act," 2012).

The principles that guide public finance as highlighted in Article 201 of the constitution. They include: openness and accountability, including public participation in financial matters; promotion of an equitable society attained through fair sharing of the burden of taxation; equitable sharing of revenue raised nationally among national and county governments; expenditure that promotes equitable development of the country, including making special provision for marginalised groups and areas; equitable sharing between present and future generations of the burdens and benefits of the use of resources and public borrowing; prudent and responsible use of public money; and responsible financial management practices and clear fiscal reporting.

### 1.1.4 County Government's Public Financial Management Practises

Presently, Kenya is five years into implementing the devolved system of governance as espoused in the Constitution of Kenya (CoK) 2010. In addition to introducing 47 County governments with fiscal responsibility, the CoK 2010 also established new PFM institutions such as the Commission on Revenue Allocation (CRA), Salaries and Remuneration Commission (CRC) and Office of the Controller of Budget (COB) and expanded the mandate of the Auditor General. Additionally, the PFM Act 2012 has specified roles for the National Treasury and Parliament on public financial management practices. Furthermore, so as to meet the enlarged financing demands of both the national and 47 county governments there was a need for increased efficiency and effectiveness in utilisation of scarce public resources (ROK, 2016).

Since 2006, the government has undertaken to improve PFM practices which have contributed to the realisation of increased tax revenues, enactment of the first ever overarching PFM practices and improved management of public funds through the re-engineered IFMIS and strengthening of control, audit and oversight institutions. To take forward the reform agenda, the government in early 2013 approved the successor public financial management reforms (PFMR) strategy (2013-2018), which aims to strengthen PFM systems in line with the COK 2010 requirements (ROK, 2016).

Public Finance Management Reforms (PFMR) for the Government of Kenya for the period 2013-2018 is still anchored on Vision 2030, Constitution of Kenya 2010 and PFM Act 2012 with the following as the key themes : Macro-economic management and resource mobilisation, strategic planning and resource allocation, budget execution, accounting and reporting and review, independent audit and oversight, fiscal decentralization and intergovernmental fiscal relations, legal and institutional framework, and IFMIS and other PFM practices. ROK (2016) notes that by June 2015, the PFMR Strategy 2013-2018 had been under implementation for about two and a half years. A midterm review of the strategy was carried out to assess progress in its implementation, identify emerging gaps and challenges in the reforms and to enlist measures to improve the implementation of the strategy in its final phase. The review established that significant progress had been registered in implementing the PFMR strategy with some of the reform interventions completed (13 out of 69) and many more (29) well on target and likely to be completed by the end of the Strategy.

However, there were many areas (about 27) where implementation of reforms had been slow and likely to affect the achievement of the Strategy objectives by the end of its implementation (ROK, 2016).

### 1.1.5 County performance and its measurements

The genesis of performance management in the public service in Kenya is traceable to the Economic Recovery Strategy (ERS) and Wealth and Employment Creation of 2003-2007 inaugurated by the Coalition Government of NARC. Upon assuming power in December 2002, the NARC Government developed the ERS as a way of reversing the negative economic growth trajectory that had caused poverty and joblessness. The ERS was anchored in good governance under a democratic republic and the rule of law as the foundations of economic growth (CoG, 2017) . In operationalizing the expected outcomes of the public sector reforms, the Results-Based Management (RBM) system was introduced in September 2004 as a means of delivering the ERS. Subsequently, through a circular the government institutionalized RBM in the Public Service in April 2005 to deliver effective, efficient, ethical and targeted results for Kenyans.

RBM is a management strategy that seeks to achieve important changes in the way government agencies work with improving performance (achieving better results) as the overarching goal. RBM and performance management are synonymous and often used interchangeably in the Kenyan context. A key feature of RBM on performance management is the emphasis on improving performance and ensuring that government activities achieve the desired results.

The institutionalization of RBM in the Kenyan Public Service marked the beginning of the implementation of a performance management system. Performance management in the public service is anchored in the National Economic Development Blue Print which is Vision 2030 and the preceding ERS of 2003-2007. Key principles of Kenya’s RBM include: Citizen-centered service delivery, results-oriented, accountability and transparency, horizontal integration, performance measurement, stakeholder participation, performance monitoring and reporting.

At the county government level, performance management is legally prescribed through various sections of the County Government Act, 2012 (CGA) and the Public Finance Management Act, 2012 (PFM). The PFM Act, 2012, Section 126 (1) requires every county to prepare a development plan which identifies: 1. Strategic priorities for the medium term that reflect the county government’s priorities and plans; 2. Programs to be delivered with details for each program of; (a) The strategic priorities to which the program will contribute (b) The service or goods to be provided (c) Measurable indicators of performance where feasible, and (d) The budget allocated to the program.

### 1.1.6 Public financial management practices and performance of county governments in Kenya

With the enactment of Kenya’s new constitution (2010), issues relating to fiscal decentralization and public financial management are now at the center of policy reforms with the Public Financial Management (PFM) Act 2012 which was signed into law on July 23rd 2012 providing a clear legislative framework. The PFM Act 2012 sets out to promote transparency and accountability in the management of public finances at the national and county government levels. The Act details how resources are shared in the country between the national government and the county governments and creates new institutions with a public financial mandate. Such institutions include the Commission on Revenue Allocation (CRA) and the Office of the Controller of Budget (OCS), amongst others, with distinct functions aimed at enhancing efficiency within the sector (SID, 2012).

Just like most countries in Africa and other parts of the world, the need for reforms in the public financial management sector in Kenya arose out of previous challenges faced and gaps identified that lead to embezzlement of public funds, inequities arising in resource redistribution nationally and centralized systems of governance with inadequate checks and balances. The PFM reforms in Kenya were aimed at making public financial management more efficient, effective, participatory and transparent resulting in improved accountability and better service delivery. The PFM Act 2012 aims at achieving better public finance management as envisioned by public finance in Chapter 12 of the Constitution of Kenya. Enactment of this Act repealed the Public Financial Management Act No. 5 of 2004 (SID, 2012). ROK (2016) notes that there is momentum to reform the PFM in Kenya to make it more efficient, effective, participatory and transparent, thus resulting in improved accountability and better service delivery.

Public finance management is anchored in Part IV of the PFM Act, 2012 that gives county government the legal responsibility to manage the finances allocated from the national government. In addition, it establishes county treasuries, a move that primarily devolves public finance management. It stipulates that each county government adheres to the principles of public finance as set out in Chapter 12 of the Constitution of Kenya 2010. The County Executive Committee is required to observe principles of collective responsibility in exercising their functions under the Act. Furthermore, decisions are to take cognisance of Article 216 (2) of the Constitution, which mandates the Commission on Revenue Allocation to make recommendations on the financing of, and financial management by the county government. The responsibilities and powers of the County Treasury are elaborated in Section 104-108 of the Act, which discusses the general responsibilities and powers of a County Treasury which are largely to manage public finances in accordance with the principles of fiscal responsibility set out in Sub-section 2 of the Act.

The responsibilities of the County Treasury with regard to public funds are outlined in Section 109-116. Each county government is required to establish a County Revenue Fund. The County Treasury for each county is to ensure that all the money raised or received by or on behalf of the county government is paid into the County Revenue Fund, except money that is outlined in Subsection 2(a-c). The Act allows the County Executive Committee to establish county government emergency funds, which will consist of money from time to time appropriated by the County Assembly through an appropriation law. The purpose of an Emergency Fund is to enable payments to be made in respect of a county when an urgent and unforeseen need for expenditure for which there is no specific legislative authority arises. Authority is conferred to the County Executive Committee to make payments from emergency funds. On accountability, the County Treasury is required to submit a financial report to the Auditor-General in regard to utilization of the Emergency Fund. Subsection 2(a) further outlines what should be included in the financial statement. In addition to the emergency funds, the County Executive Committee (CEC) is permitted to establish any other public fund, with approval of the CEC and the County Assembly, and appoint a designated person to administer such public fund.

The key responsibilities of government regarding county governments' budget process are elaborated in Section 117-118. The County Treasury is to prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval. The County Treasurer will then submit the strategy paper to the County Assembly for approval. Thus, the principle of responsible financial management with clear fiscal reporting is upheld. The County Treasury is also required to prepare a County Budget Review and Outlook Paper, to be submitted to the County Executive Committee. Subsection 2(a) gives specifications on how the budget review and outlook papers are to be prepared.

Other responsibilities of the county treasuries include: making banking arrangement for county government and its entities, management of cash at county government level, procurement for county government entities, maintaining of records of county government loans, submitting county government Debt Management Strategy (DMS) to the County Assembly, and to provide the County Assembly, with additional reports when required (Section 119-124). The county government budget process is outlined in Section 125-134. These sections elaborate on the stages in county government budget process, preparation of development plans, and cash flow projections. The County Executive Committee member for finance is to manage the budget process at county government level, and submit budget estimates to the County Executive Committee for approval.

Sections 137-146 establish a forum for consultations by county governments, thus promoting the principle of openness, for example through establishment of a county budget and economic forum for county budget consultation process. The forum is to provide a means for consultation by the county government on: (a) preparation of county plans, County Fiscal Strategy Paper, Budget Review and County Budget Outlook Paper, and (b) matters relating to budgeting, the economy and financial management at the county level, conditions in which county governments or entities may receive grants and donations, regulations on grant administration, authority for borrowing by county governments, obligations and restrictions regarding county government borrowing, borrowing by county government entities, persons authorized to execute loan documents at county government level, securities on borrowed loans, lending of money by county government, and issues of joint infrastructure investment. Responsibilities of government entities and their accounting officers are elaborated in section 147-154. Subject to the principle of accountability outlined in the constitution, the accounting officer of a County Assembly who is the Clerk to the County Assembly and the Public Service Board is to monitor, evaluate and oversee the management of their public finances, including: (a) promoting and enforcing transparency, effective management and accountability with regard to the use of their finances, (b) ensuring that accounting standards are applied, (c) implementing financial policies in relation to their finances, (d) ensuring proper management and control of, and accounting for, their finances in order to promote the efficient and effective use of budgetary resources, (e) preparing annual estimates of expenditures, (f) acting as custodian of the entity's assets, except as may be provided by other legislation or the constitution, (g) monitoring the management of finances and performance, (h) reporting regularly to the county assembly on the implementation of the budget, and (i) taking such other action, not inconsistent with the constitution, as will further the implementation of this Act. Responsibilities of county government entities and their accounting officers are discussed in section 148-159.

**1.2 Statement of the problem**

Despite the strong legislative and institutional frameworks for PFM in the last six years, Kenyan public finance management arena continues to experience myriad challenges that are not in tandem with the principles of public finance. For instance, since the beginning of devolved systems of government in 2013, every annual Auditor

General’s and Controller of Budget’s Report has been indicating that some devolved units spend in total disregard to the PFM Act of 2012, the PPAD Act of 2015 and other fiscal responsibility principles (CoB, 2017). In particular, the reports clearly note that every year the county governments are allocated more than the stipulated 15 per cent of the national revenue with regular annual increments with Kshs 368 billion given in FY 2018/2019 compared to Kshs 341 billion in FY 2017/2018. However, lack of proper accounting systems and weak controls at the county level have continuously facilitated misuse of the allocated public funds, slowing down service delivery and overall performance of the county governments (CoB, 2017).

While various past studies have suggested that in order to optimize performance and effectively deliver services, county governments should consider having robust public financial management practices that include good financial planning and budgeting, effective internal control, prudent public finance procurement, efficient revenue mobilisation and potent public financial governance, a few of them have adopted these practices but the rest have not (Lerno, 2016; Lotiaka, Namusonge, & Wandera, 2016; Mbae, 2014; Mutua & Wamalwa, 2017; Njahi, 2017; Obwaya, 2011; Ochoi & Memba, 2015). For instance, in FY 2016/17, the aggregate revenue raised by the county governments amounted to Kshs.32.52 billion, which was 56.4 per cent of the annual local revenue target of Kshs.57.66 billion. This performance represented a decline of 7.1 per cent from Kshs.35.02 billion generated in FY 2015/16, which was 69.3 per cent of the annual revenue target. It is therefore imperative to note that this low local revenue performance leads to insufficient funds and hence delayed or hindered service delivery in certain important sectorial areas within the affected counties hence need for this study.

Njahi (2017) found out that while budgeting had a significant influence on the performance of county governments, source of revenue had insignificant influence. His results were contrary to Mutua and Wamalwa (2017) who examined challenges and opportunities of enhancing local revenue mobilization in Nairobi City County and concluded that local revenue is not only an important revenue source for any county in expanding its budgetary and service delivery needs but also a good fall back when transfers from national government delays.

Although, Onyango (2014) and Lerno (2016) observed that county governments in Kenya have adopted internal control practices, they had varied conclusions, with Onyango (2014) for and Lerno (2016) against the fact that the adoption of such practices had fully led to improvement of performance in the county governments. A report on Public Procurement in Kenya's counties highlighing experiences from Wajir, Mombasa and Machakos counties in the FY 2013/2014 showed that these counties extensively violated the general procurement rules provided in legislation; that not only led to haemorrhaging of public resource but also poor performance and service delivery (Africog, 2015).

It is therefore evident from the various past studies that there are inconsistentes in results and gaps in the literature that have been occasioned by various factors hence the need to for this study to investigate the effect of public financial management practices on the performance of county governments in Kenya.

## 1.3 Objectives of the Study

### 1.3.1 General Objective

The general objective of this study was to determine the effect of public financial management practices on performance of county governments in Kenya.

### 1.3.2 Specific Objectives

The specific objectives of this study were:

1. To investigate the effect of financial planning and budgeting practices on the performance of county governments in Kenya.
2. To examine the effect of internal control practices influence on the performance of county governments in Kenya.
3. To establish the effect of public finance procurement practices on the performance of county governments in Kenya.
4. To evaluate the effect of revenue mobilization practices on the performance of county governments in Kenya.
5. To investigate the effect of public financial governance practices on the performance of county governments in Kenya.

## 1.4 Research hypotheses

The study was guided by the following null hypotheses:

**$H_{01}$**: Financial planning and budgeting practices have no significant effect performance of county governments in Kenya.

**$H_{02}$**: Internal control practices have no significant effect performance of county governments in Kenya.

**$H_{03}$**: Public finance procurement practices have no significant effect on the performance of county governments in Kenya.

**$H_{04}$**: Revenue mobilization practices have no significant effect performance of county governments in Kenya.

**$H_{05}$**: Public financial governance practices have no significant effect on the performance of county governments in Kenya.

## 1.5 Significance of the Study

The rationale for this study was the realization that there is a gap in the existing knowledge on the link between public financial management practices and performance of county governments Kenya. Therefore, the study aimed at contributing new dimensions in policy formulation in the management of public resources and service delivery. The findings of the study if accessed could benefit the following users:

### 1.5.1 County Executive

Since, the County Executive is charged with the responsibility of exercising executive power at the county level, the findings can bolster their efforts in carrying out these executive functions that guarantee proper checks and balances and a well-designed public finance management system that is intended to ensure that public resources are used fairly and efficiently. In addition, the findings will help the county governor, who is the head of the County Executive Committee to be accountable for the management and use of the county resources, promote and facilitate citizen participation in the development of policies and plans, and delivery of services in the county.

### 1.5.2 County Assembly

The County Assembly is the legislative arm of the county government which makes laws to govern selected county operations. The assembly also has oversight responsibilities on the county's operational activities. The County Assembly consists of elected Members of County Assembly (MCAs) from the wards, nominated members and the Speaker elected by the County Assembly. Therefore, the findings from this study could not only help the assembly in enacting relevant public finance laws at the county level but also it could help them have a clear oversight on the County Executive performance in line with the resources provided. In addition, it could assist in making invaluable information when approving various plans and policies for smooth operation and management of resources and county institutions.

### 1.5.3 Policy Makers

Now that the transition phase is behind us, the research findings ignite debate and give everyone the opportunity to revisit the constitution and use experience gained since

2010 to strengthen the implementation of devolution as it is envisaged in the constitution. Specifically, the study provides information that could enable the national and county government to come up with policy measures that will foster proper functioning of the devolved governments. Since the study addresses most of the emerging issues affecting county governments with a view to improving the implementation of the devolved system of government and to achieve optimal service delivery, it guides policy makers at both levels of government to align their respective policies to the devolved system of government by consolidating devolution, clarifying and strengthening roles and responsibilities of both the national and county governments.

### 1.5.4 Researchers and Academia

Researchers and academics working in the fields of public finance will be the immediate beneficiaries of the research. The research documents good practices and challenges of the public financial management and performance of county governments with reference to Kenyan devolution model that help to inform teaching and research at universities and other research institutions in Kenya and around the world.

### 1.5.5 General Public

Through the concept of public participation, the study findings could enable the public to be given adequate, balanced and objective information on matters of public financial management and performance of county governments. While the research findings remind the county government to collaborate with the public in decision-making, it also empowers the public to be involved in all development activities such as, budget making; law-making and legislation, policy making and formulation, development planning and proposals writing, implementation of development projects/programs, and monitoring & evaluation of development projects/programs.

### 1.6 Scope of the Study

The study was carried out in March 2018 in ten counties; Nairobi, Mombasa, Kiambu, Nakuru, Narok, Machakos, Kisumu, Uasin Gishu, Nyeri and Kilifi. These were the top ten counties in local revenue collection during 2016/2017 financial year as per the Office of Controller of Budget report. The sample formed about twenty percent of the 47 counties in the county. This study was limited to the contribution of financial planning and budgeting practices, internal controls practices, public finance procurement practices, revenue mobilization practices and public financial governance practices to their contributions to the overall performance of county governments.

### 1.7 Limitations of Study

The study had its limitations, for instance the scope of the study was limited by its sample size and location. This study focused on only 10 counties were listed as the top ten in the 2016/2017 Office of Controller of Budget Report as having the highest local revenue collection. Other parameters that the report uses to rank the counties include: revenue analysis, own revenue, funds released to the counties and expenditure analysis. These parameters may also provide an adequate basis for sampling of the counties for study. Hence the parameter of ‘local revenue collected’ was selected because revenue stands out as the key component of public finance management and provides the ingredient for service delivery and performance. Since devolution in Kenya is barely five years, local literature on county government was inadequate and especially regarding on their performance. However, this challenge was remedied by drawing comparisons from the national government and other decentralised units in the region. Likewise, obtaining data from the county officials was difficult because they felt that the information that was being collected was highly classified and would unnecessarily expose them to unauthorized scrutiny especially by the general public and other stakeholders. In response, we assured them that the data collected was wholly confidential and would be used exclusively for academic purposes.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter presents the theoretical framework for which different theories relevant to the study are reviewed; conceptual framework and the discussion of study variables, empirical review, and critique of the existing literature relevant to the study, research gaps and summary of literature reviewed.

## 2.2 Theoretical Framework

Theoretical framework is an explanation about the phenomenon based on conceptual analysis, previous studies and theories that exist in the literature (Camp, 2001). For this study, theory of Participative budgeting, Agency Theory, Institutional Theory, Resource Dependency Theory and Stakeholders Theory were explored to give a basic understanding of the phenomenon.

### 2.2.1 Theory of Participative Budgeting

In the study, financial planning and budgeting practices was considered using the theory of participative budgeting. Financial planning is understood as the task of determining how an organisation intends to achieve its strategic goals and objectives. Whereas entities in the private sector will create a financial plan, those in public sector will develop budgets immediately after the vision and objectives have been set. Both financial and budget plans will describe each of the activities, resources, equipment and materials that are needed to achieve these objectives, as well as the timeframes involved. Participatory budgeting has been the most successful instrument of participation for last two decades having originated in 1990, in 12 Brazilian cities and by 2005 (Shah, 2007) it had expanded to more than 300 municipalities worldwide. It was established Kenya in 2010, upon promulgation of the new constitution. A government budget is a document presenting the government's proposed revenues, spending and priorities for a financial year. The budget is passed by the legislature, approved by the chief executive and presented by the national or county treasury to the national or county assemblies.

Article 201 of the Constitution of Kenya provides for the principles of public finance and stipulates that there shall be openness and accountability, including public participation in financial matters. The public, therefore, have a role to play in budget-making. The agencies charged with budget-making such as the County Executive Committees and the Cabinet, have an obligation to ensure that the public participates in the budget-making process (TIK, 2014). The Constitution of Kenya (Article 201) and the Public Finance Management Act (sections 117(5), 125(2)) provide for public participation. Members of the public can participate both at national and county level. This can be at different levels of the process for example, at the making of the budget policy statements, county fiscal strategy paper, and when the budget estimates are released. Similarly, they can participate when a circular is being issued on the budget process for the following year. The government is required to call for public hearings where the members of the public can present their priorities and needs to inform the budget for a particular year. The hearings can be effective if the public is well informed and given the requisite information in good time, so that they make substantive contributions. Citizens can also demand for information under Article 35 of the Constitution on access to information (TIK, 2014).

Therefore, the theory of participative budgeting is used in the study to describe how the composition of a budget should be in an agency relationship. In the sense that County Executive Committees (at the county level) and the Cabinet (national level) act as the agents and the legislative members (County assembly and Parliament) act as the principal with the general public being the participants (Widanaputra & Mimba, 2014). The quality of a budget depends highly on the process of how such budget is composed.

### 2.2.2 Agency Theory

Both Internal Control Practices and County performance were examined through the Agency Theory. The first scholars to propose, explicitly, that a theory of agency be created, and to begin its creation, were Stephen Ross and Barry Mitnick, independently and almost concurrently. Ross is responsible for the origin of the economic theory of agency, and Mitnick for the institutional theory of agency, though the basic concepts underlying these approaches are similar (Mitnick, 2013). Agency theory is extensively employed in the accounting and finance literature to explain how, when one person manages another person's financial affairs, an agency relationship exists by default. Mitnick (2013) posits that Agency theory is defined as “the relationship between the principals, such as shareholders and agents such as the company executives and managers”. In this theory, shareholders who are the owners or principals of the company, hires the agents to carry out the work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents.

Adams (1994) argues that agency theory provides a useful theoretical framework for the study of the both external and internal auditing functions within the public sector. In the current study, the agency theory on one hand helps to explain and predict the existence of internal audit in public sector where the principals are the county residents who have elected both the county executive and assembly to be the agents in running the county affairs in order to deliver services. However, each county government has an internal audit function unit that is established in accordance with Section 155 (1) of the Public Financial Management Act, (No. 18 of 2012) of the Laws of Kenya. The purpose of Internal Audit is to assist the county residents through the county government to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. On the other hand, the agency theory helps to explain the role and responsibilities assigned to the office of the auditor general as mandated under Article 229 of the Constitution to audit and report on the accounts of the national and county governments. Through reports, the county citizens may oversight the two arms of government and acquire the auditor general's independent opinion of whether the county governments have spent funds as outlined in the enacted budget and raise queries related to failures to follow procedure that may indicate misuse of funds, and hence deny them the need critical services (Adams, 1994).

With regard to county performance, the agency theory creates the relationship between the principals, such as county residents and agents such as the County Executive Committee and particularly county treasury officials. In this theory, the county residents elect the governor together with the deputy governor to run county government for a five year period. The governor appoints among other officials the county executive members to oversee various departments within respective functions. With the help of the internal audit and monitoring and evaluation units the county residents are able to assess the financial and non-financial performance of the county government. Financial performance management will measure how well the county governments utilize the assets and resources available to generate revenue, and how well it manages costs in the execution of their mandate. On the other hand, non-financial performance management will include review of ratio-based performance measures, excluding the monetary value; such as customer satisfaction, employee engagement and satisfaction, quality of service provision, improving the way the public view of the operations of the county governments. Non-financial performance measures are considered to be leading indicators of future financial performance.

### 2.2.3 Institutional Theory

Public finance procurement practices were examined through the institutional theory. Public procurement is broadly defined as the purchasing, hiring or obtaining by other contractual means of goods, construction works and services by the public sector. Public procurement is alternatively defined as the purchase of commodities and contracting of construction works and services if such acquisition is effected with the resources from state budgets, local authority budgets, state foundation funds, domestic loans or foreign loans guaranteed by the state, foreign aid as well as revenue received from the economic activity of state. Public procurement thus means procurement by a procuring entity using public funds (Hassan, 2012).

According to Scott (2004), institutions are composed of cultural-cognitive and regulative elements that, together with associated activities and resources give meaning to life. He further explains the three pillars of institutions as regulatory, normative and cultural cognitive. The regulatory pillar emphasizes the use of rules, laws and sanctions as enforcement mechanism, with expedience as basis for compliance. The normative pillar refers to norms (how things should be done) and values (preferred or desirable), social obligation being the basis of compliance. The cultural-cognitive pillar rests on shared understanding (common beliefs, symbols, shared understanding).

This theory is relevant to this study when it comes to the implementation of procurement law, policy and practice in organizations that utilises public funds particularly in devolved systems of governments in Kenya. Since 2013 up to July 2017, the national government had disbursed Ksh. 1 trillion to county governments. The government is required by the constitution to allocate at least 15 per cent of revenue to the county governments with more than 60% of the total expenditure used on procurement. Public procurement in Kenya is guided by article 227 of the Constitution of Kenya 2010, Public Procurement and Asset Disposal Act 2015, Rules and

Regulations, 2007 & 2013, Treasury & PPOA Circulars and PPOA Manuals which must be complied in totality.

### 2.2.4 Theory of Optimal Taxation

Revenue mobilisation practices were explored through the theory of Optimal Taxation. Frank Ramsey's brilliant 1927 paper, modestly entitled, ‘A contribution to the theory of taxation’, was a landmark in the economics of public finance. Nearly a half a century later, through the work of Diamond and Mirrlees (1971) and Mirrlees (1971), his paper can be thought of as launching the field of optimal taxation and revolutionising public finance (Ramsey, 1927; Stiglitz, 2015).

Optimal tax theory encompasses a range of models that focus on particular aspects of the tax system. These different models share three features. First, each model specifies a set of feasible taxes for the government, such as commodity taxes, and the government’s revenue needs. The models typically rule out lump-sum taxes, which would cause no economic distortion. Second, each model specifies how individuals and firms respond to taxes. That is, individuals have preferences about goods and leisure, firms have a given technology for producing goods, and individuals and firms interact in a given market structure (often perfect competition). Third, the government has an objective function for evaluating different configurations of taxes. In the simplest models, the government’s objective is to minimize the excess burden generated by the tax system while raising a set amount of revenue. The more complicated models balance efficiency considerations with equity concerns. The models that include equity are usually more concerned with vertical equity rather than either horizontal equity or the benefit principle (Gentry, 1999).

Mankiw, Weinzierl and Yagan (2009) posit that the standard theory of optimal taxation states that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility. However, some studies in this literature assume that the social planner cares solely about average utility, implying a social welfare function that is linear in individual utilities. For our purposes in this essay, these differences are of secondary importance, and one would not go far wrong in thinking of the social planner as a classic "linear" utilitarian. To simplify the problem facing the social planner, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming that the economy is populated by completely identical individuals. The social planner's goal is to choose the tax system that maximizes the representative consumer's welfare, knowing that the consumer will respond to whatever incentives the tax system provides (Torome, 2013).

Therefore, the theory of optimal taxation is used in this study to describe the various aspects of the tax systems in county governments in Kenya. With reference to clear legislative framework, it describes how the various set of taxes the county governments levies to raise the revenue needs, how individuals citizens respond to the taxes and finally how the county government in collaboration with county assemblies evaluates the different configurations of the taxes (Torome, 2013).

### 2.2.5 Stewardship Theory

Public financial governance practices were examined through the Steward theory which has its roots from psychology and sociology. Davis, Schoorman and Donaldson (1997) observed that "a steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximised". In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. This theory resonates well with the current study in the sense that it discourages the perspective of individualism (Donaldson & Davis, 1991), but rather encourages the role of top county government officials and specifically the county treasury officials being as stewards, integrating their goals as part of the whole county plans. In the stewardship perspective, county treasury officials (stewards) are satisfied and motivated when county governments perform (organizational success) well.

In additon, Argyris (1973) points out that stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behavior (Davis et al., 1997).

On the other end, Daily, Dalton and Cannella (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vishny (1999) insists that managers return finance to investors to establish a good reputation so that it can re-enter the market for future finance.

Therefore, the Stewardship theory has been used in the study to describe how the county officials being stewards and takes ownership of their jobs and work on them diligently to achieve optimal service delivery throughout the country. Moreover, stewardship theory suggests unifying the roles of the governor and county speaker so as to reduce agency costs and to have greater roles as stewards in the county governments and assemblies respectively. It was evident that there would be better safeguarding of the interest of the county citizens (Donaldson & Davis, 1991).

## 2.3 The Conceptual Framework

Following a comprehensive literature review comprising relevant theories and a series of empirical studies on public financial management and performance of county government a conceptual framework was developed. It conceptualized that: Dependent variable (DV) was performance of county government in Kenya that was being influenced by the independent variables (IV); Financial Planning and Budgeting Practices (FPBP), Internal Control Practices (ICP), Public Finance Procurement Practices (PFPP), Revenue Mobilisation Practices (RMP) and Public Financial Governance Practices (PFGP). The model was operationalized as illustrated by the conceptual framework shown in the next page.

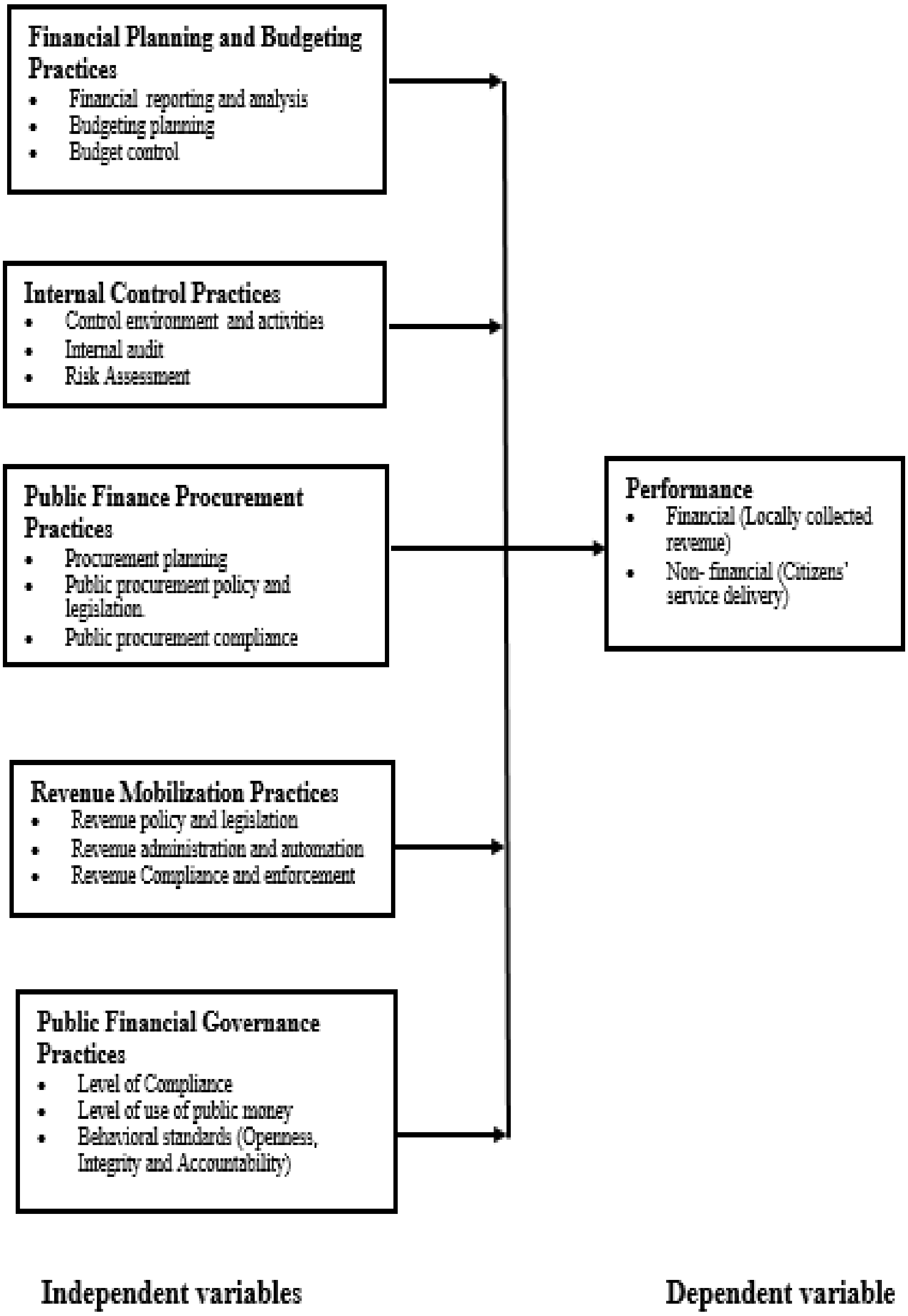


**Figure 2. 1: Conceptual Framework**

## 2.4 Empirical literature

The variables that are used in the study as are reviewed in the following subsections.

### 2.4.1 Financial Planning and Budgeting Practices

Financial Planning is a process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. The long term financial plans (strategic) serve as script in the preparation of the short term financial plans (operational). The short term financial plans are visualized in one period – from one to two years. The long term plans go from two to ten years. This helps in reducing the uncertainties or risks which can be a hindrance to growth of the company. This helps in ensuring stability and profitability in a concern. In general usage, a financial plan can be a budget, a plan for spending and saving future income for both private and public sector.

Shah (2007) states that budgets are important tools of financial management employed to direct and control the affairs of large and multifarious institutions. They are used not only by governments, where budgeting had its origins, but in other public bodies, in industry and commerce and in private families. In this study, a budget acts as a tool for planning and controlling the use of scarce financial resources in the accomplishment of county governments' goals as outlined in County Integrated Development Plans. The county budget is an invaluable aid in planning and formulating policy and in keeping check on its execution. It stipulates which activities and programs should be actively pursued, emphasized or ignored in the period under scope, considering the limited financial resources available to the organization. Any good budget process needs to attain three important objectives, namely, maintenance of fiscal discipline, attaining allocation efficiency and operational or technical efficiency (Obwaya, 2011).

Obwaya (2011) observed that numerous past researches into the relationship between participatory budgeting and organisation performance mechanism has concentrated generally on developed countries. Therefore, the study sought to fill the existing research gap by carrying out a survey study on the relationship between participatory budgeting and performance of local authorities in Kenya. The research was conducted through a survey study. The target population of the study was the sampled 44 respondents. The study also utilized the firm’s financial statements and other data used in various previous research projects. The study found out that there is a positive significant relationship between budgetary participation and organisation performance. The researcher established that the results of the study support the contingent effect of task uncertainty, task difficulty and organizational affective commitment on the relationship between budget participation and organisation performance. The study therefore recommended that in order to avoid many impediments, the City Council of Nairobi was to make sure that its budgetary participatory strategies are sufficient to enable budget administration and management (Obwaya, 2011).

Mwaura (2013) investigated whether financial planning has an impact on the financial performance of the firms in the automobile industry in Kenya. The design of the study was descriptive research method. Primary data was obtained through questionnaires to randomly selected employees of the selected companies. The results of the study indicated that the financial planning measures such as earnings before interest and tax and the capital employed which comprises of fixed assets and working capital had an impact on the financial performance of the firm measured by return on capital employed (ROCE). This study showed that there was strong relationship between financial planning and financial performance of a firm. Hence, the success of any business depends on the manner the financial plans are formulated (Mwaura, 2013).

Ngaruro (2013) examined the relationship between financial planning and financial performance of public service organizations with particular reference to commercial oriented public service organizations in Kenya. The researcher used descriptive survey research design in collecting data from the respondents. The census-sampling procedure was used which involved the use of the entire target population of forty-seven (47) finance managers drawn from commercial oriented parastatal organizations. The researcher used questionnaires in collecting data that was analysed quantitatively and qualitatively. The study established existence of a relationship between focusing on organization objectives, allocation of resources, risk management and financial performance. The research study recommended that there is need for management to focus the whole organization operation towards organizational objectives by defining the line of action to complete the work, setting the blue print of the organization course of action, eliminating the unnecessary activities and focusing on priorities and facilitating the taking of the right decision at the right time. Lastly, there is need for management to undertake effective risk management through active process of regular risk reviews and the commitment to: anticipate and influence events before they happen by taking a proactive approach, provide knowledge and information about predicted events, inform and, where possible, improve the quality of decision making, keep track of the identified financial risks, monitoring the residual financial risks and identifying new financial risks (Ngaruro, 2013) .

Pimpong and Laryea (2016) assessed the impact of budgeting on firms' performance of non-bank financial institutions in Ghana. The study adopted a quantitative research strategy. Primary data was collected by use of questionnaires in order to ascertain the relevance of budgets as a financial management tool among non-bank financial institutions. The study applied the step-wise method to generate the models. Moreover, regression analysis was used to measure the degree and extent of the relationship between budgeting and firm performance. The findings of the study revealed that, budget coordination has a statistically significant moderate positive relationship on firm performance (Pimpong & Laryea, 2016).

Mutune (2014) analyzed the relationship between financial planning and financial performance of cement manufacturing firms in Kenya. A census approach was used to study the relationship in six cement manufacturing firms in Kenya. The instrument of data collection was a semi-structured questionnaire having both open-and close-ended questions. Data on the financial performance was gathered from past records and audited financial statements of the manufacturing firms. Secondary data was collected from audited financial statements of all the cement manufacturing firms in Kenya for the years in consideration. The study covered a five-year period. Data was analyzed to establish the measures of central tendency that include the mean, mode, and median highlighting the key findings. Inferential statistics was used to establish the relationship between the variables of the study and qualitatively by content analysis. Analysis of variance (ANOVA) was used to determine the significant relationship, if any, of the variables. The study used regression analysis to determine the extent to which financial planning practices affect the financial performance of cement manufacturing firms. The findings of the study overwhelmingly support the hypothesis that financial planning practices play a big role in implementing most organizational policies. The failure of a firm to implement financial planning activities and business planning activities seemed to inhibit many of the cement manufacturing firms from making expected profits. Results also revealed that financial planning activities, business planning activities and frequency of financial planning techniques are the key factors that influence how well the company will perform in the industry. Factors like risk management practices, employee turnover, tax planning, contingency plans, monitoring the lead time, preserving excess stocks, monitoring stock levels, avoiding stock out costs, setting profits target periodically and minimizing holding costs came out to significantly influence the financial performance of a firm (Mutune, 2014).

Onduso (2013) looked at effects of budgets on financial performance of manufacturing companies in Nairobi County. The study used cross-sectional research method targeting eighteen (18) manufacturing firms listed in the Nairobi Securities Exchange by employing a census survey to cover all manufacturing firms within Nairobi County. The researcher used both primary and secondary data. A statistical package for social sciences was used as analyzing tool and also regression model was adopted to determine the association between dependent and independent variables. The study findings revealed that there is a strong positive effect of budgets on financial performance of manufacturing companies as measured by return on assets (ROA). The study recommended that effective budget implementation should be facilitated through capacity building, robust systems and processes prioritization, and close monitoring for evaluation. Stakeholders should get involved in budget execution to enhancing the overall budget implementation. Further, financial management systems should be supported in order to ensure prudent management of funds and adequate sensitization of both the employees and the public on best financial management practices to enhance the oversight role. In addition, manufacturing companies need to establish a strong link between the planning process and the budget process (Onduso, 2013).

Kimani (2014) examined the budgetary control in Non-Governmental Organizations and its effects on their performance. The research target population consisted of 7,127 Non-Governmental Organizations. Thirty Non-Governmental Organizations were selected using convenience judgmental sampling technique. Both local and international organizations with headquarters in Nairobi were covered. A descriptive survey (questionnaires) was used in the data collection. The Statistical Package for Social Sciences Version 17.0 was used to analyze the data using descriptive statistics, including means and standard deviation. The relationship between budgetary controls and performance of the NGOs was analyzed using correlation and regression analysis. The research findings established that there is a weak positive effect of budgetary control on performance of Non-Governmental Organizations in Kenya measured by R square at 14.3%. The research recommended that employees need to be sensitized on budgetary controls and the effect on performance of the organization. It also recommended that other factors that influence performance apart from budgetary controls should be investigated by organizations. It also suggests that further research should be done on the same area but a larger sample should be used (Kimani, 2014).

### 2.4.2 Internal Controls Practices

Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity's objectives, goals and missions (Brennan & Solomon, 2008). They are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organization's communication processes, internally and externally, and include procedures for: handling funds received and expended by the organization, preparing appropriate and timely financial reporting to board members and officers, conducting the annual audit of the organization's financial statements, maintaining inventory records of real and other properties and their whereabouts (Onyango, 2014). International Accounting Standards (IAS) categorizes internal control types as a plan of organization, segregation of duties, control of documents, safeguarding of assets, competence of staff, arithmetic and accounting controls, recording and record keeping, supervision, authorization and approvals and vocation. The Internal control includes the following: firstly, the control environment; it sets out the tone of an organization, influencing the conscience of its employees. It is the base for all other components of internal control, providing discipline and structure. Control environment factors include the following: Commitment to competence, human resource policies and practices, organizational structure, philosophy of management, responsible assignment. Secondly, control activities are the policies and procedures implemented by an organization to ensure that management's directives are carried out. These activities are often grouped into the three categories of objectives to which they relate, namely, operations, financial reporting, and compliance. Control activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties and authority (Onyango, 2014).

Thirdly, internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management. The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. IA has four main components: (1)

verification of written records, (2) analysis of policy, (3) evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organization's policies, and (4) reporting recommendations for improvements to management (Zhang, Zhou, & Zhou, 2007). Fourthly, risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives. It entails the identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact (Menon & Williams, 1994). Consequently, Menon and Williams (1994) further note that at risk assessment entails the identification, evaluation and management of risks. Risks can relate to financial statement fraud or to the misappropriation of assets. Lastly, internal reporting is a business practice which involves collecting information for internal use. Financial reports are used to monitor a company's financial health and can inform decisions which need to be made about the direction in which a company will be taken (Onyango, 2010). On the other hand, information and communication platform assists to relay information about controls. It be should be communicated to management in a timely manner, so that shortfalls can be addressed promptly. The amount of information communicated should be appropriate to the needs of the recipient. Furthermore, monitoring assists the management to examine and assess whether its internal controls are functioning properly. Ideally, management should be able to spot control failures and make adjustments to improve the control environment.

Njiru and Bunyasi (2016) investigated the effect of internal controls on financial performance of Water Service Providers (WSPs) in Kenya, a case study of water companies under Tana Water Services Board. The study used a descriptive survey study research design. The population of the study was 22 members of the audit committee, 22 finance managers, 22 internal auditors and 22 senior accountants in WSPs in TWSB region as at December 2014. The study conducted a purposive sampling of the selected members. The study used primary method of which was obtained by use of structured questionnaires. Correlation analysis was to establish the association between the variables while a multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable. The study found that segregation of duties, cash reconciliation, inventory audits and cost management influence the performance of water companies under Tana water services Board. The findings revealed a strong positive relationship between the independent variables and the dependent variable (Njiru & Bunyasi, 2016).

Nwaobia, Ogundajo and Theogene (2016) adopted a desk/analytical review design to conduct a study on the internal audit practices and public financial management in Rwanda and Nigeria: bridging the transparency gap in public sector financial reporting. The study found out that the internal audit function would enhance transparency in public financial management and reporting if the unit is given full autonomy in terms of independence and well equipped with both human capital and relevant infrastructural facilities. The researchers noted that in order to attain transparent financial management and reporting in public offices, there should be strict adherence to the nations' constitutional framework in terms of preparation and presentation of financial statements, submission and review as well as timely report of the Auditor-general to the National Assembly's Public Accounts Committee. Also, the financial statements should be timely published for easy accessibility by the citizens (Nwaobia et al., 2016).

With regard to particular countries, the study observed that internal audit practices can play a key role in bridging the transparency gap in public financial management and reporting in Rwanda. The study therefore recommends the granting of full autonomy to OAuGF in Nigeria, in terms of funding and recruitment of appropriate personnel, adequate staffing and provision of relevant infrastructural facilities for the OAuGF, strict compliance to ethical and professional standards in internal audit practices with well-spelt penalties for violation, strict adherence to constitutional provisions relating to timely submission and issuance of reports by the OAGF, OAuGF and PAC. Also, implementation of high quality financial reporting practices and standards (IPSAs) will enhance the work of the internal auditors and even lessen their burden in carrying out their civic roles. Finally, for transparent public financial management and reporting, there should be speedy resolution of all audit queries, as well as timely and easy accessibility of AFS by the citizens in line with constitutional provisions (Nwaobia et al., 2016).

Onyango (2014) used descriptive research design to determine the influence of internal controls on the performance of county governments in Kenya. The target population for this study was the 47 county governments in Kenya with county governments' employees working in the finance department being used as the respondents. The study established that county governments did not implement internal audits recommended by the Auditor General to improve management of financial resources. In addition, the study established that the employees did not submit weekly reports, and also, did not hold meetings to discuss the progress of activities. The study established that there was no clear separation of roles among workers and that the employees work was not checked by others. Therefore, the study recommended that an external body to be established by the national government to audit county governments regularly for accountability. In addition, the study recommended that county management should allocate enough resources to empower employees with necessary skills to perform their duties, and at the same time, county government leaders should be exposed to international forums and conferences to learn more experiences. Moreover, the study recommended that that all county governments should invest in modern ICT systems to improve service delivery to key stakeholders (Onyango, 2014). Similarly, Lerno (2016) investigated the impact of internal control practices on performance in county governments in Kenya. The study used a descriptive study design and utilized primary data. The target population included the county administrators in the forty-seven (47) counties in Kenya. The researcher concluded that the county governments in Kenya have adopted internal control practices but the adoption of such practices has not fully led to improvement of performance in county governments.

Mugo (2013) investigated the relationship between internal control systems and financial performance in Technical Training Institutions in Kenya. In the study, internal controls were looked at from the perspective of control environment, internal audit and control activities whereas financial performance focused on liquidity, accountability and reporting as the measures of financial performance. The data from the research was collected from a population of 37 Technical Training Institutions in Kenya. The study established a significant relationship between internal control system and financial performance. The investigation recommend competence profiling in the internal audit department and in addition the institutions should establish and manage knowledge/information management system to enable all parties within the institution to freely access and utilize the official information (Mugo, 2013).

Wakiriba, Ngahu and Wagoki (2014) looked at the effect of control activity on financial management in Mirangine Sub-County of Nyandarua County. The study adopted a descriptive design and targeted 30 accounting, finance and administrative staff in the government departments in Mirangine Sub-County. The study employed a census survey where all members of the target population constituted the study sample. The study concluded that the public sector in Mirangine Sub County has an effective internal control system characterized by clear separation of roles, supervision and commitment of management. However, there are weaknesses in the implementation of financial controls since internal audit function is not well extended to all the departments. The study recommended a competence staff profiling, establishment of information system within the departments and improving the generation of more finances for the operations of the government departments.

Babatunde and Dandago (2014) examined the effects of internal control system deficiency on capital project management in the Nigerian public sector. A sample of two hundred and twenty-eight capital projects (228) was used. Kendall's tau_ b τ, ANOVA and Chi-square X2 statistics were employed to analyze the data collected. The study found out that internal control system deficiency has significant negative effects on capital project management in the Nigerian Public Sector. The study recommended strict compliance with internal control system in the best interest of the citizenry.

### 2.4.3 Public Finance Procurement Practices

Public procurement can be defined as the acquisition, whether under formal contract or not, of works, supplies and services by public bodies. It ranges from the purchase of routine supplies or services to formal tendering and placing contracts for large infrastructural projects. Public procurement in Kenya is governed by the Public Procurement and Asset Disposal Act 2015. The Act provides procedures for efficient public procurement and for assets disposal by public entities. Procurement planning is the process of deciding what to buy, when and from what source. During the procurement planning process, the procurement method is assigned and the expectations for fulfillment of procurement requirements determined. Procurement policies are rules and regulations for governing procurement procedures in an organization. A properly designed and implemented procurement policy plays a pivotal role in providing a guiding framework for the implementation of efficient procurement practices.

Machoka (2017) investigated the public procurement practices and performance of selected Constituency Development Fund Projects in Kenya. The study used a descriptive research design. The target population was 2000 officers drawn from 96 CDF projects in Nairobi, Kiambu, Kisumu, Bomet, Kisii and Bungoma counties. The study used exploratory, descriptive and quantitative designs and stratified random sampling procedure to select a sample of 96 respondents. Questionnaires were used for collecting data, which was processed and analyzed by use of SPSS. The data analyzed included descriptive and inferential statistics. Data was presented by using tables and figures. The findings of the study concluded that most of the CDF projects management had a capacity building programme, good supplier relationships, good procurement ethics, but didn’t have a well established information communication technology system. The study recommended that the stakeholders and policy-makers should employ better capacity building strategies. The CDF project management committees should emphasis on supplier relationships so as to ensure continuous performance of the CDF projects.

Orobo and Muturi (2015) examined the factors affecting compliance with the Public Procurement and Disposal Regulations with a case of Nyamira County, Kenya. With a focuss on three variables: training, ethical practices and enforcement mechanisms, the study used a descriptive survey research design that sampled 80 officers drawn from 13 county departments representing senior, middle and lower management. Data was collected by use of questionnaire and reliability of research instruments was tested using test-retest. The research recommended that the county governments should train their procurement staff and stakeholders on the procedures, procurement matrix, methods of procurement, professionalism and excellence in implementation of legislation. In addition, county governments should offer ethics education and draw county governments code of ethics conduct to its entire staff that stands to play a role in procurement procedures. This is to ensure that the staff is conditioned to ensure objectivity, transparency, accountability and fairness in awarding of public contracts. Lastly, both national and county governments should use ICT in procurement of works, goods and services. This will enhance the process of effective tendering through advertising, sourcing reviews, prequalification, potential for cost savings and greater awareness of new development.

Hassan (2012) esablished the procurement practices among state corporations in Kenya. The study singled out National Social Security Fund as a case study. The respondents were selected through stratified random sampling from among the NSSF employees. A total of 29 respondents participated in the study. Data was collected through a questionnaire which was administered by drop and pick method. The data collected was analyzed using SPSS and the findings were presented in tables, graphs and pie charts. The study concluded that there are a number of procurement practices prevalent at NSSF. They include: segregation of duties among the employees of procurement department, maintaining all documentation relating to the tendering process, maintains continuous improvement programs with strategic suppliers, measures costs involved in producing and delivering product and services, encouraging a range of suppliers to bid for the supply of various products and provision of services and approval of long term projects by the governing board. The researcher recommended that NSSF needs to come up with better risk management mechanisms.

Kahiri, Arasa, Ngugi and Njeru (2014) examined the influence of procurement policies on implementation of effective procurement practices in tertiary public training institutions in Kenya. The study employed a descriptive research designs targeting procurement staff across the 40 tertiary public training institutions in Kenya. A stratified random sampling technique was employed to select a sample of 160 respondents. The main data collection instrument was a questionnaire containing open-ended and closed-ended questions utilizing both a nominal and a Likert-type scale format. The study findings showed that procurement policies elements that influence implementation of effective procurement practices in tertiary public training institutions in Kenya included; low level of procurement regulations compliance, application of poor procurement policies, lack of top management support, use of poor procurement procedures, poor relationship between management and stakeholders, poor method of managing organization resources, and lack of effective policy making process. The study recommended that the management of the tertiary public training institutions should improve on the level of compliance with procurement regulations, design and apply better procurement policies, support and empower staff to execute procurement functions in accordance with the procurement regulations and procurement policies, use effective procurement procedures, improve on relationship between management and stakeholders and employ better methods of managing organization resources (Kahiri et al., 2014).

Mokogi, Mairura and Ombui (2015) established the effect of procurement practices on performance of commercial state owned enterprises in Nairobi County. The study adopted a descriptive survey design. Primary data was collected using questionnaires targeting managers in Finance, Procurement, Production and Sales and Marketing departments in each enterprise. The population of the study comprised of thirty-eight (38) commercial state owned enterprises operating in Nairobi County. A random sample of thirty (30) enterprises representing 78.95% was selected. The study findings revealed that buyer-supplier relationships, supplier selection procedures, organizational capacity and procurement process management practices had a strong impact on the performance of commercial state owned enterprises studied. The study recommended that all commercial state owned enterprises must implement efficient procurement practices in order to become more efficient in their operations and overall service delivery to their customers.

Davis (2014) evaluated the procurement practices influencing service delivery in the public sector with focus on the provision of electricity, a case study of Kenya Power. The study was based on the socio-economic and institutional theories. Stratified sampling technique was used to select a representative sample from a target population of 160 employees with a sample size of 100 respondents. The collected data was further analyzed using SPSS and excel computer software as well as descriptive statistics. The findings revealed that: procurement rule and regulation lack flexibility and it is hampering the procurements operations as revealed by 77.5%. Also, procurement planning does not take long term cost of ownership into consideration as also revealed by 39.4%. The findings also revealed that 59.1% agreed that there is no sustainable procurement practice by the company even though it has Green policy in place but the implementation is hampered by organizational culture as well as budgetary constraint. The study recommended that national procurement policy or rules and regulations should be reviewed to put into place clauses that will lead to flexibility and inclusion of emerging trends in the procurement process.

Nyambura and Mwangi (2015) investigated the factors affecting public procurement in the public institutions in Kenya. The explainable variables include: organization structure, training, technology and budgetary resource. The study was significant to Kenya Institute of Education who oversee the daily operations of the organizations. A descriptive survey design for the purpose of the study. The researcher used stratified random sampling procedure to select a sample for the study. The target population was 218 employees and a sample of 65 respondents was chosen. Majority of the respondent stated that budgetary resources, technology, organization structure and training affects procurement in an organization. The researcher concluded that all employees in the purchasing department should be well trained and even given refresher courses to ensure that they are up to date with the policies of the purchasing department (Nyambura & Mwangi, 2015).

### 2.4.4 Revenue Mobilization Practices

Revenue mobilization is the act of marshalling, assembling, and organizing financial contributions from all incomes accruing from identifiable sources in an economic setting. Revenue mobilisation practices were described as follows. Firstly, revenue policy and legislation. National Treasury reported that one of the basis for mobilization and sustainability of Own Source Revenue (OSR) for county governments is a clear revenue policy and legislative framework. Although, many counties resulted to using annual County Finance Acts as the main legislation to provide for revenue collection, it is contrary to what the law provides as County Finance legislation are supposed to allow for amendments of taxes, charges and fees. Secondly, revenue structure and design (revenue regime) is that the revenue raising powers therein should not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital and labour. The design and structure of local revenue system is important because it determines the extent to which a tax or fee is fair, that is, based on taxpayer's ability to pay.

Thirdly, revenue collection. It includes assessment of tax, fees and charges, billing, payment and receipting, enforcement, auditing, reporting and oversight. In addition, most counties have not undertaken any study to assess and analyse its revenue potential. This will help in informing the county on how to broaden tax base and strengthen efficiency and effectiveness in revenue mobilization. In addition, automation in revenue enhancement cannot be over emphasized especially in terms of efficiency gains and sealing leakages. Fourthly, revenue administration. Counties should employ revenue staff with adequate skills and knowledge in revenue potential assessment, forecasting, and cost of collection assessment, revenue management and administration, among others. Lastly, revenue compliance and enforcement. County government should proactively engage taxpayer's education campaign, simplify tax legislations and explore partnership for better engagement.

Adu-Gyamfi (2014) examined effective revenue mobilisation by districts assemblies, a case study of Upper Denkyira East Municipal Assembly of Ghana. The research design used for the study was the mixed approach with both qualitative and quantitative research methods. The sample size was 85 and both convenient and purposive samplings were used for the study. From the study, the main sources of internal funds identified were property rates, licenses, market tolls and lorry park fees and property rate made the highest contribution to the Internally Generated Funds (IGF) of the Assembly. The study also found out that some of the problems undermining revenue mobilization are: inadequate data on revenue sources, lack of enforcement of revenue mobilization by-laws, inadequate revenue collectors and their training. The study therefore recommended that to efficiently and effectively generate revenue mobilisation, tax education, training and motivation of revenue staff, establishment of databank on revenue sources, enforcement of bye-laws and prosecution of defaulters constantly should be enforced (Adu-Gyamfi, 2014).

Mutua and Wamalwa (2017) identified the challenges and opportunities of enhancing local revenue mobilization in Nairobi City County. Using literature from Nairobi County budget documents and revenue legislations, the study noted that local revenue is an important revenue source for the county governments given its expanding budgetary and service delivery needs. Just like other counties, Nairobi County has little influence on the revenue it receives as transfers from the national government and that in cases of delays, local revenue is always a good substitute. Besides, local revenue is critical in fostering accountability and fiscal discipline in the county governments. This study revealed that even though Nairobi County's local revenue collection increased nominally between 2013/14 and 2015/16, it consistently fell short of realizing targets. The researchers observed that Nairobi County lacks as a foundation, a comprehensive policy and legislation underpinning its revenue regime, hence this affects revenue mobilization, for example, on property rates which accounts for nearly 30% of local revenue whose legislation is outdated. Low compliance level was as a result of lack of taxpayers' education campaigns and other participatory initiatives by the county government. The study pointed out that the county government lacks requisite personnel capacity in revenue collection and administration compounded by weak enforcement mechanism and fragmented revenue system. Related to this, the study showed that Nairobi County lacks an up to date database of tax bases, thus making it difficult to undertake revenue forecasting and monitoring. The researchers recommended that for Nairobi County to enhance local revenue mobilization, it should expedite updating and strengthening of its legal framework for county governments revenue administration and collection. For increased compliance levels, the county government should proactively engage taxpayers, simplify tax legislations and explore partnership for better engagement. For efficient revenue collection, comprehensive revenue automation is paramount coupled with better administrative capacity and cost effective collection practices (Mutua & Wamalwa, 2017).

Torome (2013) studied relationship between revenue mobilization and performance of local authorities in Kenya. This research adopted a descriptive research design where the target population was175 local authorities. The sample size of the study was 35 local authorities selected using purposive sampling. The study was based on secondary data on revenue collection and service delivery of the local authorities. The study established that there had been increase in revenue mobilization in the local authorities. The higher the level of mobilized revenue, the better the performance of local authorities. It was also established that the local authorities with low levels of mobilized revenue performed dismally/poorly. The reseracher noted that local authorities' budgeting greatly influenced their revenue mobilization. In conlsuion, the study recommend that revenue collection in local government should be privatized by giving out tenders to individuals or companies to collect revenues on behalf of local government to reduce the increasing rate of tax defaulters and constituting enforcement teams to check businesses that have failed to pay taxes and penalize them accordingly to increased revenue mobilization.

Kinoti and Kagiri (2016) examined factors affecting revenue mobilization in county governments in Kenya. A case of Nairobi City County. The study employed descriptive case study research design. Target population for this study was 150 staff working in tax and administration units. A sample of 30% of the target population was selected thus a sample size of 50. Primary data was collected using a questionnaire. Qualitative data was analyzed using content analysis while quantitative data was analyzed using descriptive and inferential statistics. The results of the study established that central government directives have significantly contributed negatively to revenue mobilization. The results also show that county revenue administration significantly contributed positively to revenue mobilization. This study recommends that the central government should review its directives regarding county government revenue mobilization. The county government should uphold the county revenue administration procedures in place as it has improved revenue mobilization. The central government and county government should sensitize the public on the need and importance of revenue mobilization. The central government and county government through the relevant authorities should fight corruption as it negatively impact on revenue mobilization.

Fjeldstad (2016) assessed how the current sub-national revenue system in Sudan can be better designed and managed to strengthen the states' and localities' own resource mobilization and at the same time not discourage economic activities. The analysis focused on the composition of sub-national revenues, administrative practices, and possible impacts of the current system on economic activities. Experiences from other African countries that have suffered similar challenges in the past were also assessed. This report drew data and information collected during World Bank missions in 2012 and 2013. The field studies were conducted in River Nile, Kassala and Khartoum states in November 2012 and in North Kordofan in February 2013. It was recommended that a fundamental requirement when further redesigning the sub-national revenue system is greater emphasis on the cost-effectiveness of revenue collection, taking into account not only the direct costs of tax administration, but also the overall costs to the economy, including the compliance costs to the taxpayers. In addition, losses through tax evasion need to be reduced. To achieve these aims, there is a need to simplify the business license, stamp duties and fee structures by reducing the number of rates and coverage. Moreover, sub-national taxes and licenses should be harmonized with the federal government's revenue bases, to avoid double taxation and conflicts with national development policies, such as job creation and private sector development. The establishment of one-stop-shop Single Business Permit systems has had positive effects in other sub-Saharan countries and could be promising for future reforms also in Sudan (Fjeldstad, 2016).

Fosu (2012) evaluated the effectiveness of revenue mobilization strategies of Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana, a case study of Kumasi Metropolitan Assembly (KMA). The survey conducted using the staff and management of KMA, tax payers and other stakeholders in Kumasi revealed that the infrastructural projects provided by KMA are not adequate and neither march revenues collected nor their demands for development. KMA is legally and politically doing nothing to motivate the residents to fulfill their financial obligations. There are so many revenue leakages involving KMA revenue collectors, senior officers of the Assembly and Assemblymen and women of the various Sub-metros. The conclusion drawn from the survey indicated that KMA is not sufficiently using fiscal decentralization to empower itself under Local Government Act, Act 462 (1993), for that matter, it has not developed new and sustainable strategies to improve its performance in revenue mobilization. The reseracher recommended that KMA should try to eliminate corruption, put in place reliable data base on properties and businesses, use of relationship marketing to reach out to stakeholder through meetings, seminars, conferences, forums, tax education and sensitization to know the problems of payment of taxes andrates, and the challenges in revenue collection. KMA should also invest in hostel accommodation, shuttle transport, mortuary services, funeral services and other profitable ventures (Fosu, 2012).

### 2.4.5 Public Financial Governance Practices

The first author to express interest in researching the causes of the financial failures and conceptualized corporate governance was Adrian Cadbury, who, in 1992, as president of the Committee for Corporate Governance Financial Aspects in Great Britain, developed and published the Cadbury Code (Matei & Drumasu, 2015). The Cadbury Report defined corporate governance as “the system by which companies are managed and controlled”. On his part, Matei and Drumasu (2015) looked at different approaches and defined corporate governance as the way in which an organization (public or private) is lead and controlled, with the purpose of getting performance/accomplishing its responsibilities successfully and bringing added value, as well as using financial, human, material and informational resources efficiently, while respecting the rights and obligations of all involved parties (shareholders/investors, administration board, managers, employees, state, suppliers, clients and other people with a direct interest. The Chartered Institute for Public Finance and Accounting (CIPFA) developed the first corporate governance framework for the public sector, containing a common set of principles and standards for management and control of public organizations.

The corporate governance framework for the public sector, developed by the CIPFA approaches 3 key areas: The first key area: organizational processes and structures; it include responsibility towards the law, responsibility for public money, communication with stakeholders, roles and responsibilities for different parties (balance between power and authority, council, president, non-executive members of the board of directors, executive management), the second key area: controls and financial reporting; it consist of annual reporting, internal controls (risk management, internal audit), audit committees, external audits. The last area of the corporate governance framework is behavioural standards of directors; it includes leadership/management, behavioral codes (selflessness, objectivity and honesty).

Matei and Drumasu (2015) observed that public entities' corporate governance is a concept that is gaining more and more field both in specialized literature and in practice. Therefore, the model of corporate governance in the private sector does not differ greatly from the public financial governance practices. Using the historical method for pointing out the milestones in the corporate governance concept evolution and the comparative method for the analysis of advantages and disadvantages of corporate governance in the private sector and how this model can be implemented in the public sector, they noted that corporate governance can contribute to the efficient use of public funds, the decrease of expenses or budget deficits, the elimination of corruption and the increase in performance in public entities. The researchers opine that the public bodies' corporate governance as leadership and control method involves a set of clear rules and principles (integrity, honesty/sincerity, transparency and responsibility), clear risk management and control mechanisms, elements needed to achieve the purpose of public entities, which is satisfying public needs.

Ndung'u (2013) investigated the effect of corporate governance on financial performance of insurance companies in Kenya. The study examined the size of board, number of board sub-committees, number of board meetings, CEO duality, and number of independent directors, number of dependent directors, age of the company and size of company in terms of asset value and how they affect the financial performance of insurance companies in Kenya. The performance of firms was measured using Return on Assets (ROA). The study found that a weak relationship exists between the Corporate Governance practices under study and the firms' financial performance. The study recommend that board size should be reduced as much as possible since a larger size reduces the financial performance immensely.

Mwangangi (2018) using a study population of 62 firms listed on Nairobi Securities Exchange, the researcher investigated the contribution of corporate governance leadership practices on performance of Listed Companies in Kenya. The study concluded that corporate governance leadership practices had a positive contribution on performance of listed companies in Kenya. Specifically, the study established that corporate governance leadership composition and ownership concentration made the most positive contribution, among the independent variables investigated. The study recommended that listed companies should ensure that the leadership composition embrace the expertise from financial management and ensure that strict adherence to corporate governance principles on leadership independence for optimum performance of the leaders.

Sukmadilaga, Pratama and Mulyani (2015) studied on the disclosure level in the Association of South East Asian Nations (ASEAN) governmental financial statement for year ended 2012-2013. They used an exploratory quantitative research study and collected data using disclosure checklist provided by International Public Sector Accounting Standard (IPSAS). Two countries in ASEAN, Indonesia and Malaysia were selected as a sample. The study concluded that although Indonesia's government financial statements provided more disclosure rather than Malaysia's, but generally, disclosure level of Indonesia's and Malaysia's government financial statements is still low. This result indicated that Indonesia's and Malaysia's government has to do an effort to increase their level of disclosure in the future.

Similarly, Ochoi and Memba (2015) looked at how corporate governance of selected public companies in Kenya affected their financial performance during the period 1998 to 2004, where financial performance was measured by use of profitability. The study used purposive sampling that focused on public companies listed in Nairobi securities exchange with a sample of 26 public companies. The study showed that good corporate governance, if applied to organization can improve the financial performance of firms. Management aspects, audit committees, and board of directors had an upper hand in driving the organization towards better financial performance. The board members constituted another factor of corporate governance that could influence the financial performance of the firm. The researchers recommended that cooperation the between board of directors and management improves decisions and better financial performance. The management should be more committed to the organization by implementing of budgets, planning, successive leadership to be employed, and more professional cooperation between the management and the board. On the other hand, the board of directors should play a role of oversight to the management activities, on leadership and corporate governance for board of directors should be implemented more frequently. Board members should have a balanced representation and more qualified individuals should be appointed. Finally, audit committees should be given more support from the management so as to enable them carry out their roles more effectively. Audit independence should be a priority and more internal controls should be established and implemented (Ochoi & Memba, 2015).

Ogeh (2013) used a questionnaire to conduct a survey and performed a cross-sectional regression analysis to examine how public financial governance practices was practiced by NGOs in Ghana. The study further investigated the determinants of the financial governance structures of the NGOs. The study specifically investigated which organizational-level characteristics exhibit any link with governance as it relates to budget preparation, budget execution and internal controls and budget monitoring. The study found out that the most influential factor in explaining an NGO's adoption of a governance framework is its size. The other variables, organizational, age and independence were not significant. It was recommended that governance codes be reviewed with a view to making provisions for size and thereby accurately capture and differentiate inability from refusal to comply.

### 2.4.6 Performance

Performance management framework operational in the public service in Kenya has evolved over the years as a globally acceptable good management practice. At the National level, performance management has not been legally prescribed by any applicable legislation but rather as a policy document adopted by the Cabinet in 2004. At the county government level, however, performance management is legally prescribed through various sections of the County Government Act, 2012 (CGA), and the Public Finance Management Act, 2012 (PFM).

As part of its wider public sector modernization and reform agenda, in 1999, the Tanzanian government introduced strategies such as Performance Management System (PMS) to public sectors including local governments for planning, implementation, monitoring, and evaluation and reporting in the public services of Tanzania. The system aimed to provide quality public

service to the public, improve performance of public service institutions, improve accountability and responsiveness, ensure effective and efficient use of public resources, and provide standards for providing comparisons and benchmarking within the public service institutions in Tanzania as well as other public service institutions across the world for continuous improvement (Wang & Ngomuo, 2015).

Public institutions therefore can improve on their service delivery process and enhance their competitiveness by adopting performance contracting in their management programme. It is noted that public service reforms have entailed multiple performance improvement initiatives including rapid results initiative, performance contracting and service charter. The gains being recorded in the public sector performance in Kenya could therefore be attributable to these performance improvement initiatives though to varying degrees (Korir, Rotich, & Bengat, 2015). In a bid to establish the performance of county governments in Kenya, the study measured their performances in terms of both financial and non-financial parameters. With financial performance examined through local collected revenues targets whereas non-financial performance studied using service delivery (Wang & Ngomuo, 2015).

## 2.5 Critique of the existing literature

In order to provide the critique of the exiting literature, the study examined each variable with regard to the past studies analysed. Firstly, from the literature reviewed it was clear that numerous studies have been conducted on the effect of financial planning and budgeting practices on performance of organisation in private sector. Attempts have been to extend this research to public sector. However, a lot remains undone in relation to the formation of county governments in the wake of the Constitution of Kenya, 2010. Most studies recommend that effective budget implementation should be facilitated through capacity building, robust systems and processes prioritization, and close monitoring for evaluation. Just as it had been explained in participative budgeting, stakeholders should get involved in budget preparation in order to enhance the overall budget implementation. Further, financial management systems should be supported in order to ensure prudent management of funds and adequate sensitization of both the employees and the public on best financial management practices to enhance the oversight role. This component of budget making process has largely been deactivated to avoid transparency and accountability.

Secondly, it was clear from the reviewed literature that internal controls in both public and private organisations act to safeguard an organisation's assets and resources, ensure the accuracy and completeness of its accounting data, detect errors, fraud, and theft and produce reliable and timely financial and management information. The review of scholars' views has demonstrated that internal auditors within public entities should be qualified, skilful, objective and independent if they are to improve on the readability and trust of financial reports prepared by public sector entities. Adoption of global best practices is essential in ensuring qualitative service delivery and the quality of service from the internal audit function determines the reliance users will place on financial information communicated by public institutions through their financial reports. Even though greater efforts have been made in private sector, much need to be done in public entities and particularly county governments.

Thirdly, from the literature reviewed from developing countries, public procurement is increasingly recognized as essential in service delivery and it accounts for huge proportion of total expenditures, hence the need for streamlining Public Finance Procurement practices. Performance and specifically service delivery can only be effective and efficient when processes and systems are well in place and follow accordingly. Unfortunately, in most developing countries, the procurement processes are bypassed or being looked at as insignificant. As a result, implementation becomes a nightmare. The issue of service delivery is very much evolving and requires adequate policy, planning and implementation. The major objective of service delivery in the public sector is to meet the satisfaction of the citizenry, thus meeting the socio-economic objective of the country to a larger extend. There is limited empirical literature on procurement practices influencing performance in county government, hence this study fills this gap.

Fourthly, the literature reviewed showed that sound revenue system for both national and sub-national governments is an essential pre-condition for the success of fiscal decentralization and on the other hand raising revenues, and local revenue mobilization has the potential to foster political and administrative accountability by empowering communities. Principally internal revenue mobilization is made up of two aspects, which are policy formulation and administration. With regard to policy formulation, it deals with the physical goal determination and formulation of laws and rules for the attainment of such goals. The administration on the other hand deals with the executions of the physical policies formulated. Though equally important in revenue mobilization, policy formulation and administration do not receive equal attention both in theory and practice hence the need to bridge the gap.

Fifthly, public financial corporate governance is concerned with the structures and processes for decision-making, accountability, control and behavior at the top of a public organisations. From the analysis, it could be inferred that the public sector governance is not totally new, and is probably at least as old as corporate governance in the private sector – governance in publicly listed companies. In terms of governance in the public sector, what is new is probably their elevation to a position where their introduction is supported by government policy. Their successful implementation is dependent not only on this mandate but also on the use of psychological constructs and practices that build such things as commitment, trust, and social capital. The reviewed literature illustrated that there is a parallel development of governance arrangements in both the private and the public sector. Those parallels suggest that governance issues have indeed became an intrinsic part of good management of both the public and private entities. Adopting the same basic good corporate governance standards, the public sector and the private sector have developed (in parallels) each own unique governance models, practices and mechanisms that suit each individual organisation's circumstances.

Lastly, on the county government performance, the literature reviewed showed that public sector organisations are owned and controlled by both national and county governments. They aim to provide public services, often for free at the point of delivery. Their purpose is to provide a quality service to the public. Unlike in the private sector where for example financial performance of companies are measured by use of accounting information or stock values in a financial management context, the measurement of performance is much harder for public sector organisation where the standard of the service is more often than not based on opinion or feelings and not necessarily fact. Therefore, attempts to institutionalize performance measurement in county governments is an imperative step in ensuring that county governments demonstrate their development results, it marks a paradigm shift in the sense that counties will no longer just demonstrate what they have done but rather how their activities and interventions have benefited the people of Kenya hence the need to use both financial and non-financial parameters for holistic approach.

## 2.6 Research Gaps

This literature brought out critical issues on opening up public financial management in county governments in Kenya. First, it is argued that public financial management practices such as financial planning and budgeting, internal control, public finance procurement, revenue mobilization as well as public financial governance plays a crucial role in enabling public authorities control wastage of public funds giving taxpayers value for money, improving the quality of government service delivery and permitting better allocation of resources.

From the foregoing review of relevant literature, it is evident that researches in the area of performance and public financial management practices has been done but to a large extent county governments in Kenya has not been tackled exhaustively. Most of the past literature reviewed indicated that researchers concentrated on measures of financial performance in private sector with using accounting information and financial ratio. Among the common accounting ratios used to measure profitability are: return on assets (ROA) and return on capital employed (ROCE) (Butt, Hunjra, & Rehman, 2010; Mwaura, 2013; Ngaruro, 2013; Onyiego, Namusonge, & Waiganjo, 2017). However, for the few studies that were done on the public sector, they used non-financial measures with multiple performance improvement initiatives including rapid results initiative, performance contracting and service charter have been adopted to determine service delivery. Interestingly, in Kenya, at the national level, performance management has not been legally prescribed by any applicable legislation but rather as a policy document adopted by the Cabinet in 2004. At the County Government level, however, performance management is legally prescribed through various sections of the County Government Act, 2012 and the Public Finance Management Act, 2012 (CoG, 2017). Therefore, the need for this study to fill the gap and integrate financial and nonfinancial performance measures in public sector to allow an elaborate mechanisms to determine the relationship between public finance management practices and performance management in public sector (Wang & Ngomuo, 2015).

Most findings of the past studies overwhelmingly support the hypothesis that financial planning practices play a big role in implementing most organizational policies (Mutune, 2014; Mwaura, 2013; Ngaruro, 2013). The gap exists with the failure of firms and especially in public sector both at national and county governments to implement financial planning activities and business planning activities that at the end leads to poor performance. Notably, numerous past researches into the relationship between participatory budgeting and organisation performance mechanism has concentrated generally on developed countries. Therefore, the study seek to fill the existing research gap by carrying out a survey study on the relationship between participatory budgeting and performance of county governments in Kenya (Obwaya, 2011).

Mutua and Wamalwa (2017) clearly observed that local revenue is not only an important revenue source for any county in expanding its budgetary and service delivery needs but also a good fall back when transfers from national government delays. The literature fails to prescribe clear modalities that can help county governments to broaden their tax base and strengthen efficiency and effectiveness in revenue mobilization (Adu-Gyamfi, 2014; Khadondi, 2016; Kinoti & Kagiri, 2016). Although, Onyango (2014) and Lerno (2016) observed that county governments in Kenya have adopted internal control practices, most of them have not fully implemented internal audits recommended by the Auditor General to improve management of financial resources hence the prevalent cases of misappropriation of funds. The review therefore established gap in attaining transparent financial management and reporting in public offices. This study seek to explore the need for strict adherence to the legal framework in terms of preparation and presentation of financial statements, submission and review as well as timely report of the Auditor-general to the National Assembly's Public Accounts (Nwaobia et al., 2016).

Mbae (2014) observed that public procurement law had a great impact on the procurement performance, in the sense that the law reduces the speed with which goods and services are procured, increases the level of transparency among government offices and improved utilization of funds in the county government operations. There are gaps in literature to fill on succinct procurement challenges that counties encounters and particular solutions in the face of clear laws that has led to huge pending bills and even loss of public resource and eventually poor performance and service delivery (Davis, 2014; Hassan, 2012; Machoka, 2017; Mbae, 2014; Muli, 2017;

Odhiambo & Kamau, 2003). Matei and Drumasu (2015) observed that public entities' corporate governance is a concept that is gaining more and more field both in specialized literature and in practice. Therefore, most of the past studies concluded that public financial governance had a positive contribution on performance of county government in Kenya (Kihoro, Oloko, & Akicho, 2017; Mwangangi, 2018; Ochoi & Memba, 2015). However a gap exist of how to link the gains achieved in private sector and mirror them in public sector. This study aims to fill in the gap by prescribing a corporate governance framework for the public sector, containing a common set of principles and standards for management and control of county governments in Kenya.

## 2.7 Summary

The literature review in this study comprises of the theoretical framework, conceptual framework, and empirical review. In theoretical framework, Theory of participative budgeting explained financial planning and budgeting practices, both internal control practices and county performance were examined through the Agency Theory. While public finance procurement practices were examined through the institutional theory that explained the implementation of procurement law, policy and practice in organizations that utilises public funds. Revenue mobilisation practices was explored through Theory of Optimal Taxation and Public financial governance practices was examined through the Steward theory that discourages the perspective of individualism but rather encourages county treasury officials being as stewards. Integrating their goals as part of the whole county plans. In line, with the stewardship perspective, county treasury officials (stewards) are satisfied and motivated when county governments perform (organizational success) well. In conceptual framework, dependent variable was performance that was being influenced by the independent variables; financial planning and budgeting practices with financial forecasting and analysis, budget planning and budgetary control being considered. Others were; internal control practices, public finance procurement practices and public financial governance practices and revenue mobilisation practices that was examined through revenue policy and legislation, revenue structure and design, revenue collection, revenue administration and automation and revenue compliance and reinforcement. Empirical review in the study has carried out to identify the knowledge gaps from previous studies relevant to the current study that was carefully critiqued and research gap identified.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter describes the research design, target population, sampling frame, sample size and sampling technique, research instruments, data collection procedure, pilot test, and data processing and analysis. Research methodology helped the study to discover answers to research questions through application of scientific procedures.

## 3.2 Research philosophy and design

### 3.2.1 Research philosophy

The research philosophy that was adopted in this study was pragmatism (Creswell, 2013). This approach allowed the researcher to use appropriate methods, techniques and procedures that appropriately matched to the specific questions and objectives of the research study. This is because every method has its limitations and that the different approaches can be complementary. Pragmatism ensured that the research problem was central, suitable data collection and analysis tools were selected to provide empirical data on public financial management practices and performance of county government in Kenya (Creswell, 2013).

### 3.2.2 Research Design

Kothari (2004) defines research design as a master plan that specifies methods and procedures for collecting and analyzing the needed information. According to Creswell and Creswell (2017) research design is a plan and structure of investigation so conceived as to obtain answers to research questions. The study used a mixed research design, that is, correlational and descriptive design. Zikmund et al. (2013) observed that this method is best suited for gathering descriptive information when the researcher wants to describe the state of affairs as they exist. Descriptive design was used to allow the researcher to gather information, summarize, present and interpret it for purpose of clarification. The design is suitable for the study since it enables description of both dependent and independent variables; on one hand, performance of county government in terms of financial and non-financial parameters, while on the other hand, public financial management practices in terms of financial planning and budgeting, internal control, public finance procurement, revenue mobilisation, public sector financial governance. The correlation design on the other hand comprises of collecting data to determine whether, and to what extent, a relationship exists between two or more variables (Teddlie & Tashakkori, 2009). Correlation design was therefore appropriate since the study intended to establish the effect of public financial management practices on financial performance of county governments in Kenya.

## 3.3 Target Population

Target population refers to the complete group of specific population elements relevant to the research project (Zikmund et al., 2013).  The target population was 210 county officials that consisted 130 accounting officers and 80 directors from county treasuries in 10 counties; Nairobi, Mombasa, Kiambu, Nakuru, Narok, Machakos, Kisumu, Uasin Gishu, Nyeri and Kilifi. These were the top ten counties in local revenue collection during 2016/2017 financial year as per the report of the Office of Controller of Budget.

**Table 3. 1 Target Population**

| County | County Assembly | County Public Service Board | Chief Officers | Directors | TOTAL |
|---|---|---|---|---|---|
| Nairobi | 1 | 1 | 11 | 8 | 21 |
| Mombasa | 1 | 1 | 11 | 8 | 21 |
| Kiambu | 1 | 1 | 11 | 8 | 21 |
| Nakuru | 1 | 1 | 11 | 8 | 21 |
| Narok | 1 | 1 | 11 | 8 | 21 |
| Machakos | 1 | 1 | 11 | 8 | 21 |
| Kisumu | 1 | 1 | 11 | 8 | 21 |
| Uasin Gishu | 1 | 1 | 11 | 8 | 21 |
| Nyeri | 1 | 1 | 11 | 8 | 21 |
| Kilifi | 1 | 1 | 11 | 8 | 21 |
| **TOTAL** | **10** | **10** | **110** | **80** | **210** |

### 3.4 Sampling Frame

Kothari (2004) defines a sampling frame as a list of population from which a sample is drawn. It is the source material or device from which list of all elements within a population that can be sampled is drawn and may include individuals, households or institutions. It’s a published list with a set of directions for identifying a population (Zikmund et al., 2013). A sampling frame facilitates formation of a sampling unit that refers to one member of a set of entities being studied which is the material source of the random variable (Bailey, 2008). For this study, the sampling frame was drawn from the lists of accounting officers and directors in county treasuries that were obtained from the Human Resource Departments of the respective county governments.

### 3.5 Sampling Technique and Sample Size

Sampling is a procedure of using a small number of items or part of the whole population to make conclusions regarding the population. It enables the researcher to estimate some unknown characteristics of the population and make generalization

(Zikmund et al., 2013). In selecting a sample, either probability or non-probability or both methods may be used. For this study non-probability sampling was employed.

Non-probability sampling method is where every item in the population has unknown chance, or probability, of being chosen. Non-probability sampling is a sampling technique where the samples are gathered in a process that does not give all the individuals in the population equal chances of being selected. This method provides biased estimates having measurable precision (Kothari, 2004). Under non-probability method, this study utilized purposive sampling method in selecting its sample. This is because the accounting officers and directors in the county treasuries were purposively sought. Purposive sampling is a non-probability sampling method and it occurs when elements selected for the sample are chosen by the judgment of the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgment, which saves time and money.

Purposive sampling method may prove to be effective when only limited numbers of people can serve as source of primary data due to the nature of research design and aims and objectives. In purposive sampling personal judgment needs to be used to choose cases that help answer research questions or achieve research objectives (Saunders & Lewis, 2009). This study therefore conducted a survey of all the target population of study with purposive sampling. This meant that all the 130 accounting officers and 80 directors from county treasuries from the top ten counties were selected.

**Table 3. 2 : Sample Size**

| County | County Assembly | County Public Service Board | Chief Officers | Directors | TOTAL |
|---|---|---|---|---|---|
| Nairobi | 1 | 1 | 11 | 8 | 21 |
| Mombasa | 1 | 1 | 11 | 8 | 21 |
| Kiambu | 1 | 1 | 11 | 8 | 21 |
| Nakuru | 1 | 1 | 11 | 8 | 21 |
| Narok | 1 | 1 | 11 | 8 | 21 |
| Machakos | 1 | 1 | 11 | 8 | 21 |
| Kisumu | 1 | 1 | 11 | 8 | 21 |
| Uasin Gishu | 1 | 1 | 11 | 8 | 21 |
| Nyeri | 1 | 1 | 11 | 8 | 21 |
| Kilifi | 1 | 1 | 11 | 8 | 21 |
| **TOTAL** | **10** | **10** | **110** | **80** | **210** |

## 3.6 Data Collection Methods and Procedures

### 3.6.1 Data Collection Methods

Saunders and Lewis (2009) defines data collection as a means by which information is obtained from the selected subjects of an investigation. Mugenda and Mugenda (2003) observe that the choice of a tool and instrument depends mainly on the attributes of the subject, research topic, data and expected results. In social sciences, the most commonly used instruments are: questionnaires, interview schedules, observational forms, and standardized tests (Zikmund et al., 2013). The study used both primary and secondary data.

#### 3.6.1.1 Primary Data

The data collection instruments that was used in this study was self-administered structured questionnaire. A research instrument in this study is a device that the study used to collect data. According to Kinyanjui (2014), self-administered structured questionnaire is used to collect both quantitative and qualitative strands. The current study involved both the qualitative and quantitative aspects of both independent and dependent variables and therefore, self-administered structured questionnaire was appropriate for this study.

According to Wolf (2008) a self-administered questionnaire refers to a questionnaire that has been designed specifically to be completed by a respondent without intervention of the researcher collecting the data, self-administered questionnaire is usually a stand-alone questionnaire.

A self-administered structured questionnaire was used to collect quantitative data from county treasury employees. As indicated by Kombo and Tromp (2006), the use of this instrument assumed that the respondents understood the significance of the research and could understand the items in the instrument. The questionnaire took the format of five point Likert scale of 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree as recommended by (Bryman, 2015). In his interpretation in analysis of data, Sije (2017) indicated that; Strongly Disagree 1 < SD < 1.8; Disagree 1.8 < D < 2.6; Neutral 2.6 < N < 3.4; Agree 3.4 < A < 4.2; and Strongly Agree 4.2 < SA < 5.0. This study therefore followed this criterion while analyzing data. The study collected information regarding effect of public financial management on the performance of county governments in Kenya.

#### 3.6.1.2 Secondary Data

Kothari (2004) defines secondary data as data that is already available, referring to the data which have already been collected and analysed by someone else.

Polit and Beck (2004) explain that secondary research involves the use of data gathered in a previous study to test new hypotheses or explore new relationships. They also indicate that secondary analysis of existing data is efficient and economical because data collection is typically the most time-consuming and expensive part of a research project. Secondary data will be used to validate the findings from analysis of primary data which will be collected using questionnaires. The strategy of using both primary and secondary data to address the same study objectives is meant to improve the interpretive coherence and improve both communicative and pragmatic validity of the study results. This study utilized secondary data from the Offices of Controller of Budget, Office of the Auditor General Office as well as county government's treasury records.

### 3.6.2 Data Collection Procedures

Teddlie and Tashakkori (2009) indicate that the type of data to be collected should be guided by the objectives of the study. In this study therefore, primary data was gathered from the county treasury officials while secondary data was obtained from the reports from the Office of Controller of Budget. As indicated by Kinyanjui (2014) and Kombo and Tromp (2006), both primary and secondary sources of data are permitted in research. This study appreciated both primary and secondary sources of data but the main focus of the study was data obtained from primary sources through a self-administered structured questionnaire. Using the view of Teddlie and Tashakkori (2009), the data collection methods were informed by the study objectives. Data for the study was collected by administering the questionnaires to a sample of 210 accounting officers from 10 selected county governments. The study was assisted by four research assistants in the process of data collection. The study used this method to ensure that every detail is captured to help make sound judgement and hence advice appropriately. Before deploying the research assistants to the field, the researcher trained the research assistants on research ethics as well as on the items in the research instruments so as to enable them clarify any questions that could have been raised by the respondents. A follow up time schedule was agreed upon by the researcher and the research assistants to guide on the supervision of the research progress. In addition, the research assistants were given copies of the cover letter and the letter from the university to permit them collect data on behalf of the researcher.

### 3.7 Pilot Study

According to Cooper, Schindler and Sun (2006) pilot test is used to establish the accuracy and appropriateness of the research design and instrumentation. This was informed by the fact that the results of the current research should remain reliable and valid as much as possible. The study used 21 county treasury officials from Uasin Gishu County government to carry out the pilot study of which these were part of the sampled population. This represented 10% of the accessible target population. This is generally supported by social scholars such as Mugenda and Mugenda (2003) who indicate that successful pilot study uses 1% to 10% of the actual sample size. The respondents who participated in the pilot testing of the research instruments were exempted from being respondents in the main study to eliminate biasness in the research results based on prior knowledge of the contents in the research instrument. The study used purposive sampling in the selection of the respondents, which according to Orodho (2003), it ensures that there is identification and selection of information-rich cases related to the phenomenon of interest in the study. To check the validity of the research instruments, the study sought an expert opinion through a focus group discussion.

### 3.7.1 Reliability

Kombo and Tromp (2006) define reliability of research instruments as the consistence of scores obtained and has two aspects; stability and equivalency. On the other hand, Corbin, Strauss and Strauss (2014) define reliability as the degree to which a measurement technique can be depended upon to secure consistent results upon repeated application. This is justified by Cooper et al. (2006) who indicate that a research design, in fact, has a great bearing on the reliability of the results arrived at and as such constitutes the firm foundation of the entire edifice of the research work. A good design is often characterized by adjectives like flexible, appropriate, efficient, and economical. Generally, the design which minimizes bias and maximizes the reliability of the data collected and analyzed is considered a good design (Kothari, 2004). The study was informed by these qualities hence formed the basis of testing the reliability of this research. In addition, Kothari (2004) indicates that a measuring instrument is reliable if it provides consistent results. Sije (2017) indicated that there are many methods used by researchers to obtain reliability of research instruments and as a result the current study used test-retest method. Cooper et al. (2006) posit that this method involves administering the same test twice to the same group after a certain time interval has elapsed since the previous test which to the view of the study, was applicable to the current study. Reliability coefficient of the research instrument was assessed using Cronbach's Alpha coefficient. This tool measures internal consistency among a group of items combined to form a single scale. According to Corbin et al.(2014), a Cronbach-alpha coefficient of greater than 0.70, indicates a factor as being reliable. If the Cronbach – alpha coefficient was to be less than 0.7, then the instrument was to be revised before the main research is carried out to the acceptable level. According to George and Mallery (2003), the following is the commonly accepted rule of thumb for describing internal consistency of a research instrument.

**Table 3. 3 Cronbach's Alpha**

| Cronbach's Alpha | Internal consistency |
|---|---|
| $\alpha \geq 0.9$ | Excellent |
| $0.9 > \alpha \geq 0.8$ | Good |
| $0.8 > \alpha \geq 0.7$ | Acceptable |
| $0.7 > \alpha \geq 0.6$ | Questionable |
| $0.6 > \alpha \geq 0.5$ | Poor |
| $0.5 > \alpha$ | Unacceptable |

Source: George and Mallery, (2003)

### 3.7.2 Validity

According to Kombo and Tromp (2006), validity of a research instrument is the appropriateness, meaningfulness and usefulness of the research instrument in respect to the inferences a study makes. Kombo and Tromp (2006) further indicate that there are three types of validity that are of interest to researchers which include: content related criterion related and construct. Content related validity is the content and format of the instrument; criterion related validity is the relationship between scores obtained using an instrument and scores obtained using one or more instruments or measures; and construct validity is the nature of the psychological construct or characteristic being measured (Cooper et al., 2006). The validity of the research instruments in the current study was tested through the content-related method. This test of validity method was informed by the fact that it was consistent with the objectives of the study and the research paradigm. Based on Kothari (2004) stance, the validity of the research instruments was informed by the advice of experts in finance and statistics.

## 3.8 Data Analysis and Presentation

### 3.8.1 Data Analysis

Before the data analysis was performed, the raw data that was collected from the field was cleaned, edited and then coded. This exercise transformed the data into information that later was used to test the research hypotheses. Corbin et al. (2014) and Zikmund (2013) defined data analysis as the computation of certain measures along with searching for patterns of relationships that exist among data groups. Data processing and analysis is essential to ensure that all relevant data is gathered for making contemplated comparisons and analysis (Mugenda & Mugenda, 2003).

The researcher used descriptive analysis, correlation analysis and regression analysis to analyse the quantitative data while on the other hand qualitative data was analysed using content analysis. Neuman (2014) lists content analysis as a key non-reactive research methodology and described it as a technique for gathering and analysing the content of text. The 'content' refers to words, meanings, pictures, symbols, ideas, themes, or any message that can be communicated. The 'text' is anything written, visual, or spoken that serves as a medium for communication (Neuman, 2014). Since, the content analysis was used to analyse qualitative data, the texts of the open-ended questions were studied and subdivided into themes guided by the objectives of the study. The themes then guided the researcher to analyse the data. According to Mbwesa (2006) and Sije (2017) descriptive analysis involves finding numerical summaries to provide a deeper insight into the characteristics and description of the variables under study. Correlation analysis involves using the collected data to determine whether a relationship exists between two or more quantifiable variables where the magnitude and direction of correlation is expressed by correlation coefficient (Cohen, Cohen, West, & Aiken, 2013). According to Creswell and Creswell (2017), linear regression analysis involves measuring the linear association between a dependent and independent variable(s). It assumes that the dependent variable is predicatively linked to the independent variable(s). Regression analysis therefore attempts to predict the values of a continuous interval or scaled dependent variable from the specific values of the independent variable(s).

### 3.8.2 Research Models

After the conditional diagnostic tests were complete, regression analysis was done to establish whether independent variables predicted the dependent variable from the research model. The R square, t-tests and F-tests and Analysis of Variances (ANOVA) tests were all generated by SPSS to test the significant of the relationship between the variables under the study and establish the extent to which the predictor variables explained the variation in dependent variable. The research hypotheses were tested using the p value approach at 95% confidence level based on linear regression analysis output produced by SPSS. The decision rules were that the null hypothesis should be rejected if the calculated p-value is less than the significant level (0.05); and not rejected if the calculated p-value was greater than the significance level (0.05). The significance of the independent variables was tested using F test and p value approaches. The decision rules were to reject the null hypotheses that the effect of independent variable(s) was insignificant if the computed F value exceeds the critical F value or if the P value was less critical value of 0.05.

The study had five objectives from which five research hypotheses were identified. The following simple regression model was used:

$Y = \beta_{0i} + \beta_i X_i + \varepsilon_i$ ........................................................................................ Model 3.1

Where;

$_i$ = 1, 2, 3, 4 and 5

$\beta_{0i}$ It is the intercept of variable Y

$\beta_i$ It is the slope or gradient of the regression line which explains the manner in which Y relates with $X_i$

$\varepsilon_i$ It is the error term.

In this study, performance of county governments was the dependent variable (Y) and public financial management practices were the independent variables (Xi). Since the study had five independent variables, a simple linear regression model was used for each of them. The results for model 3.1 indicated whether each individual public financial management practice had a significant influence on the performance of county governments in Kenya. Multiple linear regression analysis was used to establish the combined relationship between all independent variables and the dependent variable. Model 3.2 presented the results for regression analysis of all the independent variables on the dependent variable.

Multiple regression equation used was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon \quad \text{........................................ Model 3.2}$$

**Where;** $Y$ - Performance (P)

$X_1$ - Financial Planning and Budgeting Practices (FPBP)

$X_2$ - Internal Control Practices (ICP)

$X_3$ - Public Finance Procurement practices (PFPP)

$X_4$ - Revenue Mobilization Practices (RMP)

$X_5$ - Public financial governance practices (PFGP)

$\beta_0$ $\beta_1, \beta_2, \beta_3,$ $\beta_4$ and $\beta_5$ are regression constants.

$\varepsilon$ - Error term

### 3.8.3 Data Presentation

Kombo and Tromp (2006) observed that data can be presented using statistical techniques, graphical techniques or a combination of both in order to come up with comprehensive conclusions. Quantitative data was presented using statistical techniques such as tables while qualitative data presented descriptively in this study.

### 3.8.4 Measurement of Variables

The dependent variable is performance of county governments in Kenya which was tested through five independent variables namely: financial planning and budgeting practices, internal control practices, public finance procurement practices, revenue mobilization practices and public financial governance practices. Performance of county governments in Kenya was measured both by financial (locally collected revenue) and non-financial (citizens' service delivery) parameters. The measurements of the independent variables and dependent variable were as shown in Table 3.4.

**Table 3. 4 Measurement of Variables**

| Variable | Constructs | Operational Definition | Measurement Scale | Data Type |
|---|---|---|---|---|
| Performance | • Financial (Locally collected revenue)<br>• Non-financial (Citizens' service delivery) | Responses to be provided in Likert Scale of 1-5 to assess the influence of public financial management practices on performance of county governments in Kenya. | Ordinal scale | Quantitative and qualitative |
| Financial Planning and Budgeting Practices | • Financial reporting and analysis<br>• Budgeting planning<br>• Budget control | Responses to be provided in Likert Scale of 1-5 to assess the influence of financial planning and budgeting practices on performance of county governments in Kenya. | Ordinal scale | Quantitative and qualitative |
| Internal Control Practices | • Control environment and activities<br>• Internal audit<br>• Risk Assessment | Responses to be provided in Likert Scale of 1-5 to assess the influence of internal control practices on performance of county governments in Kenya. | Ordinal scale | Quantitative and qualitative |
| Public Finance Procurement practices | • Procurement planning<br>• Public procurement policy and legislation.<br>• Public procurement compliance | Responses to be provided in Likert Scale of 1-5 to assess the influence of public finance procurement practices on performance of county governments in Kenya. | Ordinal scale | Quantitative and qualitative |

| | | | | |
|---|---|---|---|---|
| Revenue Mobilization Practices | • Revenue policy and legislation<br>• Revenue administration and automation<br>• Revenue Compliance and enforcement | Responses to be provided in Likert Scale of 1-5 to assess the influence of revenue mobilization practices on performance of county governments in Kenya. | Ordinal scale | Quantitative and qualitative |
| Public financial governance practices | • Level of compliance<br>• Level of use of public money<br>• Behavioral standards (Openness, Integrity and Accountability) | Responses to be provided in Likert Scale of 1-5 to assess the influence of public financial governance practices on performance of county governments in Kenya. | Ordinal scale | Quantitative and qualitative |

### 3.8.5 Operationalization of Variables

The dependent variable was performance of county governments in Kenya, which was assessed through five independent variables namely: financial planning and budgeting practices, internal control practices, public finance procurement practices, revenue mobilization practices and public financial governance practices. The measurement parameters for the study variables were as shown in Table 3.3.

**Table 3. 5: Operationalization of Variables**

| Variable | Constructs | Data Type |
|---|---|---|
| Financial Planning and Budgeting Practices | • Financial reporting and analysis<br>• Budgeting planning<br>• Budget control | Quantitative and qualitative |
| Internal Control Practices | • Control environment and activities<br>• Internal audit<br>• Risk Assessment | Quantitative and qualitative |
| Public Finance Procurement practices | • Procurement planning<br>• Public procurement policy and legislation.<br>• Public procurement compliance | Quantitative and qualitative |
| Revenue Mobilization Practices | • Revenue policy and legislation<br>• Revenue administration and automation<br>• Revenue Compliance and enforcement | Quantitative and qualitative |
| Public financial governance practices | • Level of compliance<br>• Level of use of public money.<br>• Behavioral standards (Openness, Integrity and Accountability) | Quantitative and qualitative |

### 3.8.6 Hypothesis Testing

Table 3.4 indicates the summary of the research hypotheses, type of analysis, decision rule, and the interpretation of the results.

**Table 3. 6: Statistical Tests of Hypotheses**

| Hypothesis statements | | Type of Analysis | Decision rule and interpretation |
|---|---|---|---|
| **$H_{01}$**: | Financial planning and budgeting practices have no significant influence on the performance of county governments in Kenya. | Pearson's Correlation | Reject $H_{01}$ if P-value is < 0.05<br>Fail to reject H01 if P-value is > 0.05.<br>$Y = \beta_0 + \beta_1 X_1 + \varepsilon$ |
| **$H_{02}$**: | Internal control practices have no significant influence on the performance of county governments in Kenya. | Pearson's Correlation | Reject $H_{02}$ if P-value is < 0.05<br>Fail to reject H01 if P-value is > 0.05.<br>$Y = \beta_0 + \beta_2 X_2 + \varepsilon$ |
| **$H_{03}$**: | Public finance procurement practices have no significant influence on the performance of county governments in Kenya. | Pearson's Correlation | Reject $H_{03}$ if P-value is < 0.05<br>Fail to reject H01 if P-value is > 0.05.<br>$Y = \beta_0 + \beta_3 X_3 + \varepsilon$ |
| **$H_{04}$**: | Revenue mobilization practice have no significant influence on the performance of county governments in Kenya. | Pearson's Correlation | Reject $H_{04}$ if P-value is < 0.05<br>Fail to reject H01 if P-value is > 0.05<br>$Y = \beta_0 + \beta_4 X_4 + \varepsilon$ |
| **$H_{05}$**: | Public financial governance practices have no significant influence on the performance of county governments in Kenya. | Pearson's Correlation | Reject $H_{05}$ if P-value is < 0.05<br>Fail to reject H01 if P-value is > 0.05<br>$Y = \beta_0 + \beta_5 X_5 + \varepsilon$ |

### 3.8.7 Diagnostic Tests

This study satisfactorily performed conditional diagnostics statistical tests. The study tested for normality, heteroscedasticity, linearity and multicollinearity.

#### a) Normality

Normality is important in knowing the shape of the distribution and helps to predict dependent variables scores (Paul & Zhang, 2010). Tests of normality were performed to determine whether the data was well modelled and normally distributed (Gujarati, 2009). According to Ghasemi and Zahediasl (2012), the variables are supposed to be roughly normally distributed especially if the results are to be generalized beyond the sample. In this respect, the study used Kolmogorov-Sminorv tests, where if the tests of normality yield a figure of less than 0.05, it means that the data is not normally distributed.

**b) Heteroscedasticity**

Heteroscedasticity means a situation in which the variance of the dependent variable varies across the data, as opposed to a situation where Ordinary Least Squares, OLS, makes the assumption that V(εj)=σ2 for all the j, meaning that the variance of the error term is constant (homoscedasticity). Heteroscedasticity complicates analysis because many methods in regression analysis are based on an assumption of equal variance (Park, 2015). Hence to test for normality and heteroscedasticity of regression residuals, this study used SPSS version 22.0 software.

**c) Linearity**

Linearity refers to the consistent slope of change that represents the relationship between an independent variable and a dependent variable. Perhaps the easiest and clear-cut one, yet rigorous, is the deviation from linearity test. If the significant value for deviation from linearity is less than 0.05, the relationship between independent and dependent variables is not linear, and this presents problems during modelling. Mark (2003) also states that issues of linearity can also be fixed by removing outliers. Since this was done in the current study, the study assumes linearity of the variables.

### d) Multicollinearity

Multicollinearity occurs in statistics where two or more predictor variables in a multiple regression model are highly correlated (Corbin et al., 2014). Multicollinearity is the undesirable situation where the correlations among the independent variables are strong (Martz, 2013). Variance Inflation Factors (VIF) and tolerance values were used to test for multicollinearity consistent (Saunders, 2011). Variance Inflation Factor (VIF) was used to measure the problem of multicollinearity in the multiple regression models. VIF statistic of a predictor in a model is the reciprocal of tolerance and it indicates how much larger the error variance for the unique effect of a predictor (Baguley, 2012). Cohen et al. (2013) define Variance Inflation Factor (VIF) as an index of the amount that the variance of each regression coefficient is increased relative to a situation in which all of the predictor variables are uncorrelated and suggested a VIFs of 5 or more to be the rule of thumb for concluding VIF to be too large hence not suitable. Zikmund et al. (2013) argued that if two or more variables have a Variance Inflation Factor (VIF) of 5 or greater than 5, one of them must be removed from the regression analysis as this indicates presence of multicollinearity. Thus in a study, if two or more variables have a Variance Inflation Factor of 5 or greater than 5 one of them must be removed from the model.

# CHAPTER FOUR

# RESEARCH FINDINGS AND DISCUSSION

## 4.1 Introduction

This chapter presents the results of the research that was conducted to test both the conceptual model and research hypotheses. First, it provides the response rate, reliability and validity of the research constructs. Secondly, it describes the general background information of the respondents and descriptive analysis of the study variables. Finally, the chapter describes the results of statistical analysis to test the hypotheses and at the same time presents the discussions of the results and conclusions from the findings.

## 4.2 Response Rate

Response rate is described as the percentage of respondents who attended to a survey. Orodho (2003) posits that response rate is the extent to which the final data sets include all sampled members and is calculated as the number of respondents with whom interviews are completed and divided by the total number of respondents of the entire sample including none respondents. The study sample consisted of 130 accounting officers and 80 directors from county treasuries from selected county governments in Kenya. The researcher distributed 210 questionnaires and all of them were returned hence the overall response rate was 100%. This was due to the fact that the approach used to distribute the questionnaires was the drop-and-pick method where the research assistant issued the questionnaire and waited for the respondent to finish filling it and then went back with the duly filled questionnaire. Kothari (2004) presupposes that a response rate of 50% is seen to be average, 60-70% is looked at being adequate while anything above 70% is considered to be excellent response rate. This response rate was, therefore, considered excellent representative of the respondents to provide information for analysis and generate valid conclusions.

### 4.3 Results of the pilot study

In order to find out the validity and reliability of the proposed questionnaire, the researcher carried out a pilot study on 21 respondents which was 10% of the sample size and in addition reliability test was conducted.

#### 4.3.1 Reliability

Zikmund et al. (2013) point out that reliability is the ability of the questionnaire to deliver consistent scores. Scale reliability coefficient was measured using Cronbach's Alpha rating which classified scores into excellent, good, acceptable and un-acceptable. The Cronbach's Alpha ratings shown below are congruent with Corbin, Strauss and Strauss (2014).

**Table 4. 1: Pilot testing and rating of Cronbach's Alpha scores**

| Variable Questions | Respondents | Cronbach's Alpha Values | Interpretation |
|---|---|---|---|
| Financial planning and budgeting practices | 21 | 0.799 | Acceptable |
| Internal control practices | 21 | 0.909 | Excellent |
| Public finance procurement practices | 21 | 0.897 | Good |
| Revenue Mobilization Practices | 21 | 0.886 | Good |
| Public financial governance practices | 21 | 0.844 | Good |
| Performance | 21 | 0.921 | Excellent |

Corbin et al. (2014) indicate that Cronbach's value of 0.7 and above and which include excellent, good and acceptable scores are indicators of good data collection instrument. The instrument was therefore confirmed to be reliable enough to collect the desired data. The instrument was however shortened to reduce the chance of fatigue by the respondents, without losing on key data collected per variable.

### 4.3.2 Validity

Kothari (2004) defines validity as the degree to which the test actually measurers what it meant to measure. The study considered different levels of validity; content related validity, criterion related validity and construct related validity.

## 4.4 Descriptions of the respondents

### 4.4.1 Gender

The research results in Table 4.2 shows that 77% (163 respondents) of the officials working in the county governments in Kenya were male compared to 23% (47 respondents) who were female. Results are similar to Lotiaka et al (2016).

**Table 4. 2: Gender**

| Item | Frequency | Percent |
|---|---|---|
| Female | 47 | 23 |
| Male | 163 | 77 |
| | **210** | **100** |

### 4.4.2 Educational level

The respondents were asked to indicate their various educational levels. The results from the study showed that 16 percent (33 respondents) were either pursuing or they had already completed their postgraduate studies in various programmes at both public and private universities, 84 percent (177 respondents) had their first bachelor's degrees as shown in Table 4.3. This findings are similar to Okongo (2015).

**Table 4. 3: Educational level**

| Item | Frequency | Percent |
|---|---|---|
| Degree | 177 | 84 |
| Post graduate | 33 | 16 |
| **Total** | **210** | **100** |

### 4.4.3 Professional qualification

Table 4.4 indicated that 93% of the respondents had CPA professional qualifications, compared to 5 % that had CIPS and 2% that had CIFA. Therefore, the research findings concluded that majority of the respondents who were the accounting officers had the requisite professional qualifications to hold and manage their respective departments in the county treasuries.

**Table 4. 4: Professional qualifications**

| Item | Frequency | Percent |
|---|---|---|
| CPA | 195 | 93 |
| CIFA | 5 | 2 |
| CIPS | 10 | 5 |
| **Total** | **210** | **100** |

### 4.4.4 Job designation

The research study targeted the accounting officers and directors from all the departments in both the county executive and county assemblies in the ten selected county governments. Table 4.5 below shows that 62% (130 respondents) were accounting officers while 38% (80 respondents) were directors. This findings concluded that the sample was a good representation of the county treasury officials.

**Table 4. 5: Job Designation**

| Item | Frequency | Percent |
| --- | --- | --- |
| Accounting officers | 130 | 62 |
| Directors | 80 | 38 |
| Total | 210 | 100 |

### 4.4.5 Length of Service at the County Government

Table 4.6 shows that 46 % (97 respondents) indicated that they have been working for county government for a period of over 3 years. While on the other hand, 44 % (92 respondents) had less than 1 year, 6% (12 respondents) had 1-2 years, while 4% (9 respondents) had 2-3 years working experience in the county government. The findings indicate that while the number of county governments had new employees, it also had old members who keep sufficient institutional memories that has enabled them upload the principles of devolutions.

**Table 4. 6: Length of Service at the County Government**

| **Item** | **Frequency** | **Percent** |
| --- | --- | --- |
| Less than 1 year | 92 | 44 |
| 1-2 years | 12 | 6 |
| 2-3 years | 9 | 4 |
| Over 3 years | 97 | 46 |
| **Total** | **210** | **100** |

### 4.5 Statistical analysis of the study variables

In a bid to explore the effect of public financial management practices on performance of county governments in Kenya, the study was arranged around five variables. This section provides a systematic descriptive, correlational and inferential analysis of each of the variables. The dependent variable was performance of county governments in

Kenya; independent variables were; Financial Planning and Budgeting Practices, internal control practices, Public Finance Procurement practices, Revenue Mobilization practices and Public Financial Governance practices.

### 4.5.1 Performance of county governments in Kenya

**General objective**: To determine the effect of public financial management practices on the performance of county governments in Kenya in Kenya. Performance of county governments in Kenya was measured using a 5-Point Likert scale, where 1 represented 'Strongly Disagree (SD)' and 5 represented 'Strongly Agree (SA)'.

**a) Descriptive analysis for performance of county governments in Kenya**

In a bid establish the performance of county governments in Kenya, the study measured their performances in terms of both financial and non-financial parameters. With regard to financial performance; local collected revenues targets were used. In the research findings from Table 4.7 70.4 % (M=3.96, SD=0.1.048) of the respondents agreed that the county government has regularly been attaining the annual locally revenue targets for the past four years. 71.5 % (M=3.90, SD=0.801) of the respondents indicated that the county government has sufficient staff to administer and collect own revenue sources while on the other hand 75.8% (M=0.407, SD=0.786) of the respondents observed that the own revenues sources of county government is cost effective and adequately covered by a legal framework. In addition, 51.5 % (M=3.38, SD=1.064) of the respondents posited that the county government have a debt collection unit that follow taxpayers who have defaulted or delayed in paying tax/fees. Furthermore, 41.9 % (M=3.34, SD=0.863) of the respondents agreed that ooutsourcing has led to better revenue administration performance compared to collection by the county government. In the study, 75% (M=3.93, SD=0.816) of the respondents opined that automation of revenue collection operations has increased collections and reduced leakages.

With regard to non-financial performance, service delivery was used; the study found out that 85.5 % (M=4.28, SD=0.784) of the respondents agreed that the county government had enhanced food security through improved veterinary services, increased crop and livestock production. 69.6 % (M=3.87, SD=0.839) of the respondents observed that the county provides affordable and accessible healthcare services. While on the other hand, 61.9% (M=3.70, SD=0.962) of the respondents opined that the county had improved the access to education through bursaries and other support programmes at prep-primary and vocational levels. Moreover, 91.6 % (M=4.34, SD=0.675) of the respondents equipped that the county had improved access to quality, affordable water and sewerage services for all citizens whereas 90 % (M=4.13, SD=0.721) of the respondents indicated that the county has efficient infrastructure that ensures effective and efficient transport.

**Table 4. 7: Responses for performance of county governments in Kenya**

| | Statement | SD | D | N | A | SA | Mean | Std. Deviation |
|---|---|---|---|---|---|---|---|---|
| | | % | % | % | % | % | | |
| **a)** | The county government has regularly been attaining the annual locally revenue targets for the past four years. | 1.4 | 9.9 | 18.3 | 32.4 | 38.0 | 3.96 | 1.048 |
| **b)** | The county government has sufficient staff to administer and collect own revenue sources. | | 4.3 | 24.3 | 48.6 | 22.9 | 3.90 | .801 |
| **c)** | The own revenues sources of county government is cost effective and adequately covered by a legal framework. | | 1.4 | 22.9 | 42.9 | 32.9 | 4.07 | .786 |
| **d)** | The county governments have a debt collection unit that follow taxpayers who have defaulted or delayed in paying tax/fees. | 3.0 | 21.2 | 24.2 | 37.9 | 13.6 | 3.38 | 1.064 |
| **e)** | Outsourcing has led to better revenue administration performance compared to collection by the county | | 16.4 | 41.8 | 32.8 | 9.0 | 3.34 | .863 |
| **f)** | Automation of revenue collection operations has increased collections and reduced leakages. | | 5.9 | 19.1 | 51.5 | 23.5 | 3.93 | .816 |
| **g)** | The county has enhanced food security through improved veterinary services, increased crop and livestock production. | | 2.9 | 11.6 | 40.6 | 44.9 | 4.28 | .784 |
| **h)** | The county provides affordable and accessible healthcare services. | | 5.8 | 24.6 | 46.4 | 23.2 | 3.87 | .839 |
| **i)** | The county has improved access to education through bursaries and other support programmes at prep-primary and vocational levels. | 1.4 | 9.9 | 26.8 | 40.8 | 21.1 | 3.70 | .962 |
| **j)** | The county has improved access to quality, affordable water and sewerage services for all citizens | | 1.4 | 7.0 | 47.9 | 43.7 | 4.34 | .675 |
| **k)** | The county has efficient infrastructure that allows ensures effective and efficient transport. | 1.4 | 1.4 | 7.1 | 62.9 | 27.1 | 4.13 | .721 |

### b) Findings and discussions on performance of county governments in Kenya

The study sought to examine the linear relationship between public financial management practices (PFMP) and performance of county governments in Kenya. The findings are consistent with results of Mutua and Wamalwa (2017) that observed that local revenue is an important revenue source for the county government because its helps in expanding budgetary and service delivery needs. In addition, automation of revenue collection operations using LAIFOMS, IFMIS and other systems has increased collections and reduced leakages hence increased the funds available for critical projects (Mutua & Wamalwa, 2017).

### 4.5.2 Financial Planning and Budgeting Practices (FPBP) on performance of county governments in Kenya

**Specific objective 1:** To investigate how Financial Planning and Budgeting Practices influence the performance of County governments in Kenya.

**a) Descriptive analysis of Financial Planning and Budgeting Practices (FPBP) on performance of county governments in Kenya**

Table 4.8 shows that 93.1 % (M=4.43, SD=0.668) of the respondents agreed that the county government utilizes County Integrated Development Plan as its primary planning document. Ninety-two point nine (92.9) percent (M=4.34, SD=0.657) of the respondents posited that the process of preparing the planning documents i.e. CIDP, ADP, CFSP, Budget etc. is consultative. Ninety-two point six (92.6) percent (M=4.32, SD=0.609) opined that the County budget is linked to the ADP and CIDP.

Eighty-eight point four percent (88.4%) (M=4.16, SD= 0.656) of the respondents noted that departmental allocations are based on priorities in ADP and CIDP while on the other hand 88.7 % (M=4.37, SD=0.849) of respondents suggested that the county governments budget is implemented as approved by the Assembly. In the study, 63.2 % (M=3.65, SD=1.062) of the respondents concluded that their departments are allocated what they budgeted for while on the other hand 45.8% (M=3.33, SD=1.126) of the respondents observed that there is no timely disbursement of resources to their departments. In the research findings, 98.5% (M=4.66, SD=0.507) of the respondents opined that financial planning can be used as a tool to prevent financial challenges 98.5% (M=4.66, SD=0.507).

Ninety percent (90.0 %) (M=4.26, SD=0.630) of the respondents argued that the county government's plan includes an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance. Seventy-eight point two percent (78.2 %) (M=3.97, SD=0.727) indicated that the financial plan(s) has/have monitoring mechanisms that indicates financial health. In addition, 63.8% (M=3.81, SD=0.862) of the respondents mentioned that the county government conducts monthly and yearly budget variance analysis.

**Table 4. 8: Response frequencies for Financial Planning and Budgeting Practices**

| Statement | | SD % | D % | N % | A % | SA % | Mean | Std. Deviation |
|---|---|---|---|---|---|---|---|---|
| **a)** | The County Government utilizes County Integrated Development Plan as its primary planning document | | 1.4 | 5.6 | 41.7 | 51.4 | 4.43 | .668 |
| **b)** | The process of preparing the planning documents (CIDP, ADP, CFSP, Budget) is consultative | | 1.4 | 5.7 | 50.0 | 42.9 | 4.34 | .657 |
| **c)** | The County budget is linked to the ADP and CIDP | | | 7.4 | 52.9 | 39.7 | 4.32 | .609 |
| **d)** | Departmental allocations are based on priorities in ADP and CIDP | | 1.4 | 10.1 | 59.4 | 29.0 | 4.16 | .656 |
| **e)** | The County budget is implemented as approved by the Assembly | 1.4 | 2.8 | 7.0 | 35.2 | 53.5 | 4.37 | .849 |
| **f)** | My department is allocated what is budgeted for | 4.4 | 10.3 | 22.1 | 42.6 | 20.6 | 3.65 | 1.062 |
| **g)** | There is timely disbursement of resources to my department | 4.2 | 23.6 | 22.2 | 34.7 | 15.3 | 3.33 | 1.126 |
| **h)** | Financial planning can be used as a tool to prevent financial challenges | | | 1.5 | 30.9 | 67.6 | 4.66 | .507 |
| **i)** | The county's plan includes an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and | | | 10.0 | 54.3 | 35.7 | 4.26 | .630 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | maintaining financial balance, | | | | | | |
| **j)** | The financial plan(s) has/have monitoring mechanisms that indicates financial health. | 2.9 | 18.8 | 56.5 | 21.7 | 3.97 | .727 |
| **k)** | The County Government conducts monthly and yearly budget variance analysis | 5.8 | 30.4 | 40.6 | 23.2 | 3.81 | .862 |

**b) Ways to improve Financial Planning and Budgeting Practices to enhance performance of county governments in Kenya**

The research findings sought to find other ways to improve the financial planning practices in order to enhance performance of the county governments, in their responses, 25.8% of the respondents indicated that there is need to reinforce on the financial accountability and planning, 22.8% of the respondents opined that the both the county executives and county assemblies should involve all the stakeholders in planning through county-wide public participation exercises. Twenty percent (20%) of respondents indicated that there should be strict adherence to the budget forecasts that provide the both the revenue and expenditure estimates and at the same time follow the provisions in Public Financial Management Act, 2012. In addition, 12.8% of the respondents observed that efforts should be put in place to fully automate the revenue systems. Although, there has been a constant delay in disbursement of funds from the national government, with 4.3% of the respondents affirming that there should a timely disbursement of funds by the National treasury, 10% of respondents suggested that when it is done, it should be done directly to the respective county department for faster utilisation as opposed to the county treasury before it is re-allocated. Furthermore, 4.3

% of respondents pointed out that the devolved government units should offer extra training to bolster the knowledge and skills of various county officials to foster service delivery.

**Table 4. 9: Ways to improve Financial Planning and Budgeting Practices to enhance performance of county governments in Kenya**

| Item | Frequency | Percent |
|---|---|---|
| a) Ensure financial accountability and transparency | 54 | 25.8 |
| b) Engage public participation in order to involve all stakeholders in planning | 48 | 22.8 |
| c) Strict adherence to the budget and Public Financial Management Act | 42 | 20.0 |
| d) Fully automation of the revenue system | 27 | 12.8 |
| e) Direct disbursement of allocation from the treasury to the specific department | 21 | 10.0 |
| f) Offer extra training | 9 | 4.3 |
| g) Timely disbursement of funds by the National treasury | 9 | 4.3 |
| **Total** | **210** | **100** |

### c) Correlation results of Financial Planning and Budgeting Practices on performance of county governments in Kenya

The study examined the linear relationship between financial planning and budgeting practices (FPBP) and performance. Table 4.10 indicates that there is positive correlation between FPBP and the performance of county governments in Kenya, r (210) =0.367, p-value <0.05. Hence, an increase in FPBP led to an increase in performance of county governments in Kenya.

**Table 4. 10: Correlation results of Financial Planning and Budgeting Practices (FPBP) on performance of county governments in Kenya**

| Variable | | Financial Planning and Budgeting Practices | Performance |
|---|---|---|---|
| Financial Planning and Budgeting Practices | Pearson Correlation | 1 | .367** |
| | Sig. (2-tailed) | | .000 |
| | N | 210 | 210 |

**. Correlation is significant at the 0.05 level (2-tailed).

**d) Regression results of Financial Planning and Budgeting Practices (FPBP) on Performance of county governments in Kenya**

Since the correlation analysis showed that there is a positive relationship between FPBP and performance of county governments in Kenya, a regression analysis was conducted to establish the extent to which FPBP influences performance of county governments in Kenya. A hypothesis to guide the study was as follows:

***Hypothesis $H_{01}$:*** Financial planning and budgeting practices has no significant influence on performance of county governments in Kenya in Kenya. Therefore, to test this hypothesis, the model $Y = \beta_0 + \beta_1 X_1 + \varepsilon$ was fitted with FPBP as an independent variable. Table 4.11 shows that the co-efficient of determination, $R^2$ was 0.134 meaning that 13.4 % of performance of county governments in Kenya can be explained by FPBP with the difference of 86.6% being described by other factors outside the model.

**Table 4. 11: Financial Planning and Budgeting Practices (FPBP) on performance of county governments in Kenya Model Summary**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| $M_1$ | .367[a] | .134 | .132 | .45620 |

a. Predictors: (Constant), Financial Planning and Budgeting Practices (FPBP)

Results in Table 4.12 indicates that the relationship between FPBP and performance of county governments in Kenya in the model was significant ($F (1, 210) = 59.592$, $p<0.05$).

**Table 4. 12: Financial Planning and Budgeting Practices (FPBP) on Performance of County governments in Kenya ANOVA**

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| $M_1$ | Regression | 12.402 | 1 | 12.402 | 59.592 | .000[a] |
| | Residual | 79.918 | 208 | .208 | | |
| | Total | 92.320 | 209 | | | |

a. Predictors: (Constant), Financial Planning and Budgeting Practices (FPBP)

b. Dependent Variable: Performance

Furthermore, $\beta$ co-efficient for FPBP was significant ($\beta = 0.367$, $t=7.720$, $p<0.05$) meaning that that for every 1unit increase in FPBP there was an equivalent increase by 0.367 in performance of county governments in Kenya. Hence, the model equation for FPBP was;

$$\text{Model } m_1 \quad Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

$$\mathbf{Y} = 2.172 + 0.342\, \mathbf{X_1}$$

In conclusion, the results confirm that FPBP has significant influence on the performance of county governments in Kenya and hence the null hypothesis, $H_{01}$ is rejected.

**Table 4. 13: Financial Planning and Budgeting Practices (FPBP) on performance of county governments in Kenya Regression Weights**

| **Coefficients[a]** | | | | | | |
|---|---|---|---|---|---|---|
| | | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | | B | Std. Error | Beta | t | Sig. |
| $M_1$ | (Constant) | 2.172 | .167 | | 13.029 | .000 |
| | Financial Planning and Budgeting Practices (FPBP) | .342 | .044 | .367 | 7.720 | .000 |
| a. Dependent Variable: Performance | | | | | | |

**e) Discussion of research findings on the relationship between Financial Planning and Budgeting Practices on performance of county governments**

Financial planning and budgeting practices (FPBP) was measured using 5-point Likert scale with 1= 'Strongly Disagree' and 5= 'Strongly Agree 'statements. The study findings showed that there is positive correlation between FPBP and the performance of county governments in Kenya ($r$ (210) =0.367, p-value <0.05). The model shows that relationship between FPBP and performance of county governments in Kenya is significant ($F$ (1, 210) =57.592, $p<0.05$) and $R^2=0.134$ meaning that 13.4 % of performance of county governments in Kenya can be explained by FPBP with the difference that is 86.6% described by other factors outside the model. Furthermore, $\beta$ co-efficient for FPBP was significant ($\beta$ =0.342, t=7.720, $p<0.05$) meaning that for every 1 unit increase in FPBP equivalent increase by 0.342 in performance of county governments in Kenya. These results are consistent with previous studies investigating the influence of financial planning and budgeting practices and performance.

Research findings from a study on influence of influence of financial planning practices on the performance of county governments a study of selected counties in Kenya by Mogaka, Atambo and Mogwambo (2016) conducted on 244 respondents in five counties; Kisii, Nyamira, Kericho, Bomet and Migori found out that that financing decisions practices are useful for the county governments. In particular, the trio noted budgeting practices had a positive significant influence on performance of selected county governments in Kenya. In conclusion, they observed that financial executives still struggled with the need to synthesize financial and non-financial data and performance measurements in a single system in which they would also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time (Mogaka et al., 2016).

Similarly, results of the analysis from Arasa and K'Obonyo (2012) reveal the existence of a relationship between strategic planning and firm performance with a Pearson moment product coefficient of 0.616. The findings also indicated existence of a relationship between strategic planning and both financial and non-financial performance indicators. It was observed that firms that exhibit higher levels of strategic planning perform better in both financial and non-financial indicators compared to those exhibiting low levels of strategic planning (Arasa & K'Obonyo, 2012). Examining the strategic planning constituent variables and their link to performance, it was evident that no doubt there are correlations between these constituent variables and performance. This finding conforms to the theoretical arguments by David (1997), Greenley (1986), Henderson (1979), and Hofer and Schendel (1980) , that organisations both in public and private sectors record improved performance once they effectively embrace strategic planning. Therefore, findings from previous studies either in public or private sectors showed a relationship between strategic planning and firm performance existed regardless of context (geographical or business sector).

### 4.5.3 Internal Control Practices (ICP) on performance of county governments in Kenya

Specific objective 2: To examine how internal control practices influence the performance of County governments in Kenya.

a) **Descriptive analysis of internal control practices (ICP) on performance on county governments in Kenya**

In the study, 70.4% (M=3.96, SD=1.048) of the respondents observed that they were aware of the existence of the audit committee. Seventy-one point five percent (71.5%) (M=3.90, SD=0.801) of respondents agreed that activities are carried out as planned. 75.8% (M=4.07, SD=0.786) indicated that they are confidence in the internal audit team. In the research findings, 51.5% (M=3.38, SD=1.064) of the respondents noted that internal accounting system is manual. However, 58.2% (M=3.34, SD=0.863) of the respondents opined that there are no incentives to discover and report control deficiencies.

Furthermore, 75.0% (M=3.93, SD=0.816) of the respondents showed that there is separation of duties and responsibilities in the audit team (for bookkeeping, deposits, reporting and auditing) 75.0% (M=3.93, SD=0.816). 85.5% (M=4.28, SD=0.784) of respondents revealed that access to different parts of an accounting system is controlled via passwords, lockouts and electronic access. While 69.6% (M=3.87, SD=0.839) argued that there are robust access tracking mechanisms that serve to deter attempts at fraudulent access, 61.9% (M=3.70, SD=0.962) observed that physical audits are frequently conducted on any physical assets tracked in the accounting system, such as inventory, materials and tools.

In addition, 91.6% (M=4.34, SD=0.675) of respondents pointed out that the county has standardised documents that are used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, to maintain consistency in record keeping over time. Ninety percent (90%) (M=4.13, SD=0.721) of the respondents indicated that occasional accounting reconciliations is done.

However, 78.2% (M=4.06, SD=0.784) of the respondents revealed that audit personnel have high integrity and ethical values with 95.8% (M=4.41, SD=0.623) of respondents stating that there are specific managers/officers required to authorize certain types of transactions. Besides, 57.5% (M=3.74, SD=0.882) of the respondents pointed out that the Governor has a "hands-on" oversight involvement in the audit activities. Seventy point four percent (70.4%) (M=3.96, SD=0.853) of the respondents noted that management personnel communicated the internal controls through frequent contact with accounting personnel.

**Table 4. 14: Response frequencies for internal control practices**

| Statement | | SD % | D % | N % | A % | SA % | Mean | Std. Deviation |
|---|---|---|---|---|---|---|---|---|
| a) | I am aware of the existence of the Audit Committee | 1.4 | 9.9 | 18.3 | 32.4 | 38.0 | 3.96 | 1.048 |
| b) | Activities are carried out as planned | | 4.3 | 24.3 | 48.6 | 22.9 | 3.90 | .801 |
| c) | I am confidence in the internal audit team | | 1.4 | 22.9 | 42.9 | 32.9 | 4.07 | .786 |
| d) | The internal accounting system is manual | 3.0 | 21.2 | 24.2 | 37.9 | 13.6 | 3.38 | 1.064 |
| e) | There are incentives to discover and report control deficiencies | | 16.4 | 41.8 | 32.8 | 9.0 | 3.34 | .863 |
| f) | There is separation of duties and responsibilities in the audit team (for bookkeeping, deposits, reporting and auditing) | | 5.9 | 19.1 | 51.5 | 23.5 | 3.93 | .816 |
| g) | Access is controlled to different parts of an accounting system via passwords, lockouts and electronic access | | 2.9 | 11.6 | 40.6 | 44.9 | 4.28 | .784 |
| h) | There are robust access tracking mechanisms that serve to deter attempts at fraudulent access. | | 5.8 | 24.6 | 46.4 | 23.2 | 3.87 | .839 |
| i) | Physical Audits are frequently conducted on any physical assets tracked in the accounting system, such as inventory, materials and tools. | 1.4 | 9.9 | 26.8 | 40.8 | 21.1 | 3.70 | .962 |
| j) | The county has Standardised documents used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, to maintain consistency in record keeping over time. | | 1.4 | 7.0 | 47.9 | 43.7 | 4.34 | .675 |
| k) | Occasional accounting reconciliations is done | 1.4 | 1.4 | 7.1 | 62.9 | 27.1 | 4.13 | .721 |
| l) | There are specific managers/officers required to authorize certain types of transactions | | 1.4 | 2.8 | 49.3 | 46.5 | 4.41 | .623 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| m) | Audit personnel have high integrity and ethical values. | 2.9 | 18.8 | 47.8 | 30.4 | 4.06 | .784 |
| n) | The Governor has "hands-on" oversight involvement in the audit activities. | 6.1 | 36.4 | 34.8 | 22.7 | 3.74 | .882 |
| o) | Management personnel communicate internal controls through frequent contact with accounting personnel. | 4.2 | 25.4 | 40.8 | 29.6 | 3.96 | .853 |

**b) Forms of internal control practices that can be implemented in order to increase the performance of county government in Kenya**

The study sought to find the other forms of internal control practices that can be implemented in order to increase the performance of county government. In their responses, 19.7% of the respondents indicated that county monitoring and evaluation systems should be fully operationalized. This will verify whether the activities of each county's priority project or programme are happening according to planning timelines and targets presented in the County Integrated Development Plan (CIDP); and whether resources are being used in a correct and efficient manner. Similarly, 19.7% of the respondents opined that we should have frequent rotational audit across all departments to enhance independence, objectivity, and professionalism.

In addition, 13.8% of respondents indicated that the county government should create opportunities for staff training and capacity building on internal control measures while at the same time 13.8% of respondents the human resource function should carry out an effective recruitment, selection and employ qualified staffs in all the departments. This will ensure that they carry out the county governments objectives and provide quality services to the general public. Furthermore, 11% of the respondents pointed that the county government should have regular update of policies to ensure that they are congruent to the socio-economic needs of their respective devolved units. Eleven percent (11%) of the respondents observed that all sectors of the county governments should put in place an effective and efficient revenue collection system in monitoring framework that ensures adequate supervision of the budgeted programs and project activities to enhance accountability and absorption of resources. Furthermore, 11% of respondents recommended that credible audit committees should be formed be responsible for providing oversight over the county governments' audit and other areas involving public financial management. The audit committee plays a critical role in creating the right environment for quality auditing and hence strong internal control systems.

**Table 4. 15: Forms of internal control practices that can be implemented in order to increase the performance of county government in Kenya**

| Item | Frequency | Percent |
|---|---|---|
| a) Implement monitoring and evaluation systems | 41 | 19.7 |
| b) Conduct frequent rotational audit across all departments | 41 | 19.7 |
| c) Offer staff training opportunities and capacity building on internal control measures | 29 | 13.8 |
| d) Recruit, select and employ of qualified staffs | 29 | 13.8 |
| e) Institute regular update of policies | 23 | 11.0 |
| f) Automate revenue process | 23 | 11.0 |
| g) Form audit committees | 23 | 11.0 |
| **TOTAL** | **209** | **100.0** |

**c) Correlation results of Internal Control Practices (ICP) on performance of county governments in Kenya**

The findings from the study established that there is linear relationship between Internal Control Practices (ICP) on performance of county governments in Kenya.

Table 4.16 shows that there is positive correlation between ICP and the performance of county governments in Kenya, r (210) =0.573, p-value <0.05. Therefore, an increase in use of ICP led to an increase in performance of county governments in Kenya.

**Table 4. 16: Correlation results of Internal control practices on performance of county governments in Kenya**

| **Variable** | | Internal Control practices | Performance |
|---|---|---|---|
| Internal Control practices | Pearson Correlation | 1 | .573** |
| | Sig. (2-tailed) | | .000 |
| | N | 210 | 210 |

**. Correlation is significant at the 0.05 level (2-tailed).

**d) Regression results of Internal Control Practices (ICP) on performance of county governments in Kenya**

From the correlation analysis shown above, it is clear that there is a positive relationship between ICP and performance of county governments in Kenya. A regression analysis was conducted to establish the extent to which ICP influence performance of county governments in Kenya. A hypothesis to guide the research was as follows:

**Hypothesis $H_{02}$**: Internal Control Practices have no significant influence on performance of county governments in Kenya. To test this hypothesis, the model $Y = \beta_0 + \beta_2 X_2 + \varepsilon$ was fitted with ICP as an independent variable. Table 4.17 shows that the co-efficient of determination, $R^2$ was 0.328 meaning that 32.8 % of performance of county governments in Kenya can be explained by ICP with the difference of 67.2% being described by other factors outside the model.

**Table 4. 17: Internal control practices on performance of county governments in Kenya Model Summary**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| $M_2$ | .573[a] | .328 | .327 | .40026 |
| a. Predictors: (Constant), Internal control practices | | | | |

Results in Table 4.18 show that the relationship between ICP and performance of county governments in Kenya in the model was significant ($F(1, 210) = 186.715$, $p<0.05$).

**Table 4. 18: Internal control practices on performance of county governments in Kenya ANOVA**

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| $M_2$ | Regression | 29.914 | 1 | 29.914 | 186.715 | .000[a] |
| | Residual | 61.200 | 206 | .160 | | |
| | Total | 91.114 | 207 | | | |
| a. Predictors: (Constant), Internal control practices | | | | | | |
| b. Dependent Variable: Performance | | | | | | |

Moreover, $\beta$ co-efficient for ICP was significant ($\beta$ =0.573, t=13.664 p<0.05) meaning that for every 1unit increase in ICP there was an equivalent increase by 0.573 in performance of county governments in Kenya.

Hence, the model equation for ICP was;

$$\text{Model } m_2 \quad Y = \beta_0 + \beta_2 X_2 + \varepsilon$$

$$\mathbf{Y} = 1.784 + 0.474\mathbf{X_2}$$

In conclusion, the results confirm that ICP has significant influence on the performance of county governments in Kenya and hence null hypothesis, $H0_2$ is rejected.

**Table 4. 19: Internal control practices on performance of county governments in Kenya, Regression Weights**

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| | | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | | B | Std. Error | Beta | t | Sig. |
| $M_2$ | (Constant) | 1.784 | .124 | | 14.429 | .000 |
| | Internal control practices | .474 | .035 | .573 | 13.664 | .000 |

a. Dependent Variable: Performance

### e) Discussion of research findings on the relationship between Internal Control Practices (ICP) on performance of county governments in Kenya

Internal Control Practices (ICP) was measured using 5-point likert scale with 1= 'Strongly Disagree' and 5= 'Strongly Agree' statements. The research findings found that there was a positive correlation between ICP and the performance of county governments in Kenya (r (210) =0.573, p-value <0.05). An increase in use of ICP led to an increase in performance of county governments in Kenya. The model shows that the relationship between ICP and performance of county governments in Kenya was significant (F (1, 210) =186.715, p<0.05) and $R^2$=0.328 meaning that 32.8 % of performance of county governments in Kenya can be explained by ICP with the difference that is 67.2% being described by other factors outside the model. Furthermore, $\beta$ co-efficient for ICP was significant ($\beta$ =0.573, t=13.664 p<0.05) meaning that that for every 1 unit increase in ICP there was an equivalent increase by 0.573 in performance of county governments in Kenya. The finding were congruent to Nwaobia, Ogundajo and Theogene (2016) who examined the position of internal audit practices towards enhancing transparency in public financial management and reporting in Rwanda and

Nigeria, as key components to agency and stewardship relationships between government and stakeholders. The findings indicated that internal audit function would enhance transparency in public financial management and reporting if the unit is given full autonomy in terms of independence and well equipped with both human capital and relevant infrastructural facilities. Nwaobia et al. (2016) further noted that in order to attain transparent financial management and reporting in public offices, there should be strict adherence to the nations' constitutional framework in terms of preparation and presentation of financial statements, submission and review as well as timely report of the Auditor-General to the National Assembly Public account committee. Also, the financial statements should be timely published for easy accessibility by the citizens.

However, on the other hand, the results were inconsistent with previous studies investigating the influence of internal control practices and performance. Onyango (2010) observed that county governments did not implement internal audits recommended by the Auditor General to improve management of financial resources. In addition, the study established that majority of employees neither submitted weekly reports nor held meetings to discuss the progress of activities. The issue that was of much concern was that the study revealed that there was no clear separation of roles among workers and employee work was not checked by others (Onyango, 2010). On the other hand Origa (2015) concluded that manufacturing firms which invested in effective internal control systems had more improved financial performance as compared to those manufacturing firms that had a weak internal control system. Hence, it was recommended that the Kenya Association of Manufacturers should monitor and supervise manufacturing firms to ensure that the accountants comply with accounting regulations and requirement as provided by the Institute of Certified Public Accountants. To ensure proper implementation and compliance with accounting standards and principles, organizations should develop a mechanism to incorporate relevant feedback from the various stakeholders into their internal control system; and also that the governing body ensure that the internal control system is periodically monitored and evaluated (Origa, 2015).

### 4.5.4: Public Finance Procurement practices on performance of county governments in Kenya

Specific objective 3: To establish how of Public Finance Procurement practices influence the performance of county governments in Kenya.

#### a) Descriptive analysis of Public Finance Procurement practices on performance of county governments in Kenya

The study findings in Table 4.20, 94.4% (M=4.39, SD=0.595) of the respondents indicated that the county governments conform to the existing public procurement and asset disposal act and its regulations. Eighty-six point one (86.1%) (M=4.33, SD=0.712) of the respondents revealed that the county governments utilize the e-procurement module which is aimed at improving financial performance. Additionally, 71.9% (M=3.89, SD=0.887) of the respondents observed that the county governments' overall supply chain management system is effective in sourcing and payment of goods, works and services. 47.9% (M=3.32, SD=01.039) of the respondents pointed out that the county government's procurement process is time sensitive.

Furthermore, 72.2% (M=3.79, SD=0.804) of the respondents argued that the county government's procurement process is anchored on the principle of fairness to all bidders. 74.7% (M=4.03, SD=0.845) of the respondents pointed out that there was separation of financial authority and purchasing authority. Similarly, 79.1% (M=4.10, SD=0.825) of the respondents observed that there was separation of duties between personnel who make contracts, those who receive the goods or services, and those who authorize payments. Interestingly, 100% (M=4.46 SD=0.502) of the respondents indicated that the requirements which are above a certain financial threshold are normally advertised in accordance with particular regulations on public procurement. Eighty-three point three percent (83.3%) (M=4.19, SD=0.744) of the respondents noted that competition is used to acquire goods and services. In addition, 78.9% (M=4.13, SD=0.773) of the respondents observed that purchasing is based on value for money. However, 62.5% (M=3.79, SD=0.918) revealed that all procurement transactions are undertaken in an ethical and honest way. Sixty-three point nine percent (63.9%) (M=3.82, SD=0.811) noted that suppliers and customers are informed and protected.

Similarly, 74.6% (M=3.86, SD=0.816) of the respondents showed that the price quoted and terms of payment are clearly negotiated to avoid non-delivery and partial-deliveries which lead to stock-outs. Ninety-seven point two percent (97.2%) (M=4.48, SD=0.557) of the respondents observed that they are required to prepare procurement plans in time for consolidation in line with annual budget estimates.

**Table 4. 20: Response frequencies for public finance procurement practices**

| Statement | SD % | D % | N % | A % | SA % | Mean | Std. Deviation |
|---|---|---|---|---|---|---|---|
| a) The county government conforms to the existing public procurement and asset disposal act and its regulations. | | | 5.6 | 50.0 | 44.4 | 4.39 | .595 |
| b) The county government utilizes the e-procurement module which is aimed at improving financial performance. | | | 13.9 | 38.9 | 47.2 | 4.33 | .712 |
| c) The county's overall supply chain management system is effective in sourcing and payment of goods, works and services. | | 8.5 | 19.7 | 46.5 | 25.4 | 3.89 | .887 |
| d) The county's procurement process is time sensitive | 1.4 | 25.4 | 25.4 | 35.2 | 12.7 | 3.32 | 1.039 |
| e) The county government procurement process is anchored on fairness to all bidders. | | 8.3 | 19.4 | 56.9 | 15.3 | 3.79 | .804 |
| f) There is separation of financial authority and purchasing authority; | | 4.2 | 21.1 | 42.3 | 32.4 | 4.03 | .845 |
| g) There is separation of duties between personnel who make contracts, those who receive the goods or services, and those who authorize payments | | 4.2 | 16.7 | 44.4 | 34.7 | 4.10 | .825 |
| h) Requirements which are above a certain financial threshold are normally advertised in accordance with particular regulations on public procurement | | | | 53.5 | 46.5 | 4.46 | .502 |
| i) Competition is used to acquire goods and services | | 1.4 | 15.3 | 45.8 | 37.5 | 4.19 | .744 |
| j) Purchasing is based on value for money | | 1.4 | 19.7 | 43.7 | 35.2 | 4.13 | .773 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| k) | All procurement transactions are undertaken in an ethical and honest way | | 8.3 | 29.2 | 37.5 | 25.0 | 3.79 | .918 |
| l) | Suppliers and customers are informed and protected | 1.4 | | 34.7 | 43.1 | 20.8 | 3.82 | .811 |
| m) | The price quoted and terms of payment are clearly negotiated to avoid non-delivery and partial-deliveries which lead to stock-outs | 1.4 | 4.2 | 19.7 | 56.3 | 18.3 | 3.86 | .816 |
| n) | Procurement plans are prepared in time for consolidation in line with annual budget estimates | | | 2.8 | 46.5 | 50.7 | 4.48 | .557 |

### b) Ways to improve public finance procurement practices to enhance performance of county government in Kenya

The study sought to find out ways to improve the procurement practices to enhance the performance of county government in Kenya. Twenty-one point nine percent (21.9%) of the respondents suggested that the procurement activities should be automated into purchase-to-pay systems, which allow buyers to order goods and services and county government to pay suppliers using computers. Automation's primary influence is on the efficiency of procurement staff. The adoption of automated purchase order processing will allow procurement staff to be more efficient and productive. These will reduce staffing costs associated with purchase order processing and thereafter allow the department to shift employees from the more basic task of processing purchase orders to more value-added activities within the procurement function. In addition, 17.1% of the respondents observed that procurement staff should be deployed to respective department to assist in initiating procurement planning and largely the whole process at the basic level.

Fifteen point seven per cent (15.7%) of the respondents posited that the county governments should carry out effective capacity building to inform and equip the county governments' officials with the relevant procurement rules and regulations. A similar recommendation was made by the Controller of Budget which suggested that counties should consider liaising with the Ministry of Devolution and Planning for possible staff secondment. On the other hand, 9.6 % of the respondents observed that the county government should employ additional staff who possess the right knowledge, skills and experiences. In addition, 12.4 % of the respondents recommended that trainings of users should be carried out. Moreover, continuing education and capacity enhancement, based on lessons learnt from past experiences, should also be encouraged. Part of enhancing citizen capacity in procurement matters is the distribution of simplified procurement manuals in all counties (based on the procurement rules) to ensure all procurement processes are clear and well understood by the public. Furthermore, 12.4 % of the respondents indicated that the county government should have timely procurement and payments of suppliers to ensure it reduces the gestation period and cost overruns that ultimately lead to the low absorption of funds but also avoid delays in the implementation of development activities. Lastly, 10.9% of the respondents suggested that the county governments should improve their service delivery alongside in all the CIDP and County Sectorial Plans.

**Table 4. 21: Ways to improve public finance procurement practices to enhance performance of county government in Kenya**

| Item | Frequency | Percent |
|---|---|---|
| a) Automate procurement activities | 46 | 21.9 |
| b) Deploy procurement staff to department | 36 | 17.1 |
| c) Enhance capacity building | 33 | 15.7 |
| d) Enhance training of users | 26 | 12.4 |
| e) Timely procurement and payments of suppliers | 26 | 12.4 |
| f) Improve service provision | 23 | 10.9 |
| g) Employ additional staff | 20 | 9.6 |
| **TOTAL** | **210** | **100.0** |

**c) Correlation results of public finance procurement practices on performance of county government in Kenya**

The study sought to examine the linear relationship between PFPP and performance of county governments in Kenya. Table 4.22 shows that there is a significant positive correlation between PFPP and performance of county governments in Kenya, r (210) =0.520, p-value < 0.05 denoting that an increase in PFPP led to increase performance of county governments in Kenya. Therefore, an increase in use of PFPP led to an increase in performance of county governments in Kenya.

**Table 4. 22: Correlation results on Public finance procurement practices on performance of county governments in Kenya**

| Variable | | PFPP | Performance |
|---|---|---|---|
| **PFPP** | Pearson Correlation | 1 | .520** |
| | Sig. (2-tailed) | | .000 |
| | N | 210 | 210 |

**. Correlation is significant at the 0.05 level (99% confidence level) (2-tailed).

**Regression results of public finance procurement practices (PFPP) on performance of county governments in Kenya**

In the study, from the correlation results shown above, it is evident that there is a positive relationship between PFPP and performance of county governments in Kenya, a regression analysis was conducted to establish the extent to which PFPP influences performance of county governments in Kenya. A hypothesis to guide the research was as follows:

***Hypothesis $H_{03}$:*** Public finance procurement practices has no significant influence on the performance of county governments in Kenya. Therefore to test this hypothesis, the model $Y = \beta_0 + \beta_3 X_3 + \varepsilon$ was fitted with PFPP as an independent variable. Table 4.23 shows that the co-efficient of determination, $R^2$ was 0.271 meaning that 27.1% of performance of county governments in Kenya can be explained by PFPP with the difference of 72.9% being described by other factors outside the model.

**Table 4. 23: Public finance procurement practices on performance of county government in Kenya Model Summary**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| $M_3$ | .520[a] | .271 | .269 | .41973 |
| a. Predictors: (Constant), Public finance procurement practices | | | | |

Results in Table 4.24 indicates that the relationship between PFPP and performance of county governments in Kenya in the model was significant ($F(1, 210) = 141.672$, $p<0.05$).

**Table 4. 24: Public finance procurement practices on performance of county government in Kenya ANOVA**

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| $M_3$ | Regression | 24.959 | 1 | 24.959 | 141.672 | .000[a] |
| | Residual | 67.298 | 209 | .176 | | |
| | Total | 92.256 | 210 | | | |
| a. Predictors: (Constant), Public finance procurement practices | | | | | | |
| b. Dependent Variable: Performance | | | | | | |

On the other hand, $\beta$ co-efficient for PFPP was significant ( $\beta$ =0.520, t=11.903 p<0.05) meaning that that for every 1unit increase in PFPP there was an equivalent increase by 0.520 units in performance of county governments in Kenya. Hence, the model equation for PFPP was;

$$\text{Model } m_3 \quad Y = \beta_0 + \beta_3 X_3 + \varepsilon$$

$$\mathbf{Y} = 1.322 + 0.584\mathbf{X_3}$$

In conclusion, the results confirm that PFPP has significant influence on the performance of county governments in Kenya and hence null hypothesis, $H_{03}$ is rejected.

**Table 4. 25: Public finance procurement practices on performance of county government in Kenya Regression Weights**

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| | | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | | B | Std. Error | Beta | T | Sig. |
| $M_3$ | (Constant) | 1.322 | .180 | | 7.357 | .000 |
| | Public finance procurement practices | .584 | .049 | .520 | 11.903 | .000 |

a. Dependent Variable: Performance

**d) Discussion of research findings on the relationship between Public Finance Procurement practices (PFPP) on performance of county governments in Kenya**

Public Finance Procurement Practices (PFPP) was measured using 5-point Likert scale with 1= ‘Strongly Disagree’ and 5= ‘Strongly Agree ‘statements. The findings show that there was a significant positive correlation between PFPP and performance of county governments in Kenya ($r (210) = 0.520$, p-value $< 0.05$) explaining that an intensification of PFPP enhanced performance of county governments in Kenya. The mathematical model shows that there is a significant relationship between PFPP and performance of county governments in Kenya ($F (1, 210) = 141.672$, $p<0.05$) and $R^2=0.271$ meaning that 27.1 % of performance of county governments in Kenya can be explained by PFPP with the difference that is 72.9% described by other factors outside the model. Furthermore, $\beta$ co-efficient for PFPP was significant ($\beta = 0.520$, $t=11.903$ $p<0.05$) meaning that that for every 1unit increase in PFPP there was an equivalent increase by 0.520 units in performance of county governments in Kenya. There are several findings from previous studies that show congruence with this study. World Bank (2006) postulates that prudent management of public procurement systems has been identified a very important to accelerated national development. For this reason, both successive national and county governments have realized that reformation in the procurement laws is a justification for judicious use of the taxpayer's money.

Hunja (2003) pointed out that procurement policies are important for developing countries: reducing poverty, improve health, education for proper purchase of goods and services and better infrastructure. Efficient public procurement policies and procedures contribute to the sound management of public expenditure. The manner in which a state implements its Public Finance Procurement practices and policies has implications for achievement of such objectives. Effective and efficient procurement policies are important for assessing the performance of governments. There is correlation between the implementation of e-procurement and transaction cost; this implies that NGOs which have implemented e-procurement have realized reduced costs for various procurement processes. (Owili, 2013).

However, Orobo and Muturi (2015) carried out a study on the factors affecting compliance with the public procurement and disposal regulations in Kenya, a case study of County Government of Nyamira. Seventy percent (70%) of the respondents held the view that stakeholders don't uphold business ethics when transacting procurement business. Three respondents (Contractors) interviewed revealed to the study that they are sometimes forced to bribe Members of the County Assembly and Resident Engineers of the projects they have won to "cement friendly business relationships". This inherent lack of embracing proper procurement ethics by stakeholders' particularly involving suppliers and elected leaders and engineers is a greater inhibitor to complying with the quality works and services to confer value for money paid by the tax payers (Orobo & Muturi, 2015).

Although Kenya has taken steps to reform their public procurement systems, the whole procurement system is still marred by corruption, secrecy, inefficiency, and unaccountability. In all these cases, huge amounts of public resources are wasted (Muli, 2017; Odhiambo & Kamau, 2003). In addition, despite the existence of the devolved funds, internal inefficiencies in their management have made them not to achieve the desired results. For instance, Wanjiru (2008) documents that poverty levels have increased from 56% in 2002 to 60% in 2008, public service delivery has failed, inequalities in resource distribution prevails and funds meant for community use have been looted by corrupt civil servants and politicians. Of specific importance is the Community Development Fund that was meant to control imbalances in regional development and combat poverty at the grassroots (TISA, 2009).

### 4.5.5 Revenue mobilization practices on performance of county governments in Kenya

Specific objective 4: To examine how revenue mobilization practices influence the performance of county governments in Kenya

a) **Descriptive analysis of revenue mobilisation practices on performance of county governments in Kenya**

In the research findings shown in Table 4.26, 84.5% (M=4.15, SD=0.786) of the respondents observed that there are efforts in the county governments to optimize their sources of revenue. Sixty-nine point five percent (69.5%) (M=3.86, SD=0.954) of the respondents indicated that revenue collection is automated. Although, 92.9% (M=4.45, SD=0.752) of the respondents showed that revenue automation will increase performance.

Furthermore, 87.1% (M=4.21, SD=0.700) of the respondents equipped that the county governments revenue management system conforms to existing national and county policies with 60% (M=3.69, SD=1.057) of the respondents noting that the county government's Finance Act is fully implemented. 100% (M=4.67, SD=0.475) of the respondents observed that raising of sufficient local revenues will empower the county governments while 42.3% (M=3.24, SD=1.075) of the respondents pointed out that the raising of local revenues has not matched the increased service delivery demands from residents with 40.3% (M=3.17, SD=1.175) of the respondents observing that their revenue administration is weak.

Nonetheless, 35.3% (M=3.13, SD=0.999) of the respondents indicated that the county governments have sufficient trained revenue staff. Thirty-six point six per cent (36.6 %) (M=2.90, SD=1.044) of the respondents revealed that in past the county governments have had disciplinary problems with its staff on revenue leakage. 54.9% (M=2.68, SD=1.093) of the respondents refuted the fact that the county governments are legally and politically doing nothing to motivate the residents to fulfil their revenue obligations. The findings of the study indicated that 40.9% (M=3.20, SD=1.064) of the respondents showed that there are so many revenue leakages involving our revenue collectors with 40.3% (M=3.07, SD=1.105) of the respondents disapproving the fact that the county governments have not developed new and sustainable strategies to improve revenue mobilization.

**Table 4. 26: Response frequencies for revenue mobilisation practices**

| Statement | | SD % | D % | N % | A % | SA % | Mean | Std. Deviation |
|---|---|---|---|---|---|---|---|---|
| a) | There are efforts in the county to optimize own source revenues | | 4.2 | 11.3 | 49.3 | 35.2 | 4.15 | .786 |
| b) | Our revenue collection is automated | | 11.1 | 19.4 | 41.7 | 27.8 | 3.86 | .954 |
| c) | Revenue automation will increase performance | | 4.2 | 2.8 | 36.6 | 56.3 | 4.45 | .752 |
| d) | The county revenue management system conforms with existing national and county policies | | 1.4 | 11.4 | 51.4 | 35.7 | 4.21 | .700 |
| e) | Our Finance Act is fully implemented | 1.4 | 14.3 | 24.3 | 34.3 | 25.7 | 3.69 | 1.057 |
| f) | Raising of sufficient local revenues will empower the county | | | | 33.3 | 66.7 | 4.67 | .475 |
| g) | The raising of local revenues has not increased service delivery demands from residents | 4.2 | 22.5 | 31.0 | 29.6 | 12.7 | 3.24 | 1.075 |
| h) | Our revenue administration is weak | 4.2 | 31.9 | 23.6 | 23.6 | 16.7 | 3.17 | 1.175 |
| i) | We have sufficiently trained revenue staff | 1.4 | 29.6 | 33.8 | 25.4 | 9.9 | 3.13 | .999 |
| j) | We have not had any disciplinary problem with our staff on revenue leakage | 7.0 | 29.6 | 38.0 | 16.9 | 8.5 | 2.90 | 1.044 |
| k) | The county is legally and politically doing nothing to motivate the residents to fulfil their revenue obligations | 7.0 | 47.9 | 26.8 | 7.0 | 11.3 | 2.68 | 1.093 |
| l) | There are so many revenue leakages involving our revenue collectors | 4.2 | 23.9 | 31.0 | 29.6 | 11.3 | 3.20 | 1.064 |
| m) | The county has not developed new and sustainable strategies to improve revenue mobilization | 2.8 | 37.5 | 20.8 | 27.8 | 11.1 | 3.07 | 1.105 |

### b) Major hindrances that the county government faces in mobilizing optimal revenue to improve its performance

The research findings sought to find out the major hindrances that the county government faces in mobilizing optimal revenue to improve performance of county government. In their responses, 25.2 % of the respondents reported that there is less reinforcement of revenue collection in terms of policy and legal framework for county revenue administration and collection. Most of the county governments reported not to have updated most of its revenue related laws as it was still operating from inherited laws of the defunct local authorities. Similar sentiments were observed by Mutua and Wamalwa (2017) who argued that Nairobi City County has to date not updated its valuation rolls that were prepared in 1982 and yet property valuation is supposed to be done every 10 years complemented by supplementary valuation rolls as and when necessary. There are indeed a number of other revenue streams, notably trading license, entertainment tax whose legislations are before the County Assembly or do not have any updated legislation at all. From their study the researchers noted that Nairobi County like most counties lacks a comprehensive policy and legal framework to manage and optimize local revenue mobilization. Twenty-two point four percent (22.4%) of the respondents observed that revenue collection staff had inadequate training.

Nineteen point five percent (19.5%) of the respondents pointed out that there are few revenue collection staff. In fact, from the perspective of some respondents what majority county governments had done was to deploy more of revenue enforcers without skills in areas like revenue potential assessment, forecasting, and cost of collection assessment, revenue management and administration and so on. 18.1% of the respondents posited that there are huge revenue leakages occasioned by corruption and other loopholes. 8.1% of the respondents indicated that there is inadequate facilitation for revenue collection e.g. transport and allowances. The logistics on revenue collection in a number of counties were exacerbated by lack of adequate vehicles, working tools and adequate allowances away from the normal duty station. Furth more, 6.7 % of the respondents observed that one of the factors that adversely affected revenue collection was low morale (de-motivation) especially by revenue collectors who were recruited by the county government. For instance, in Nairobi City County Mutua and Wamalwa (2017) observed that the new county government employees earned disproportionately lower salary compared to their counterparts inherited from the defunct local authorities. Related to this point, CRA reported that most counties including Nairobi were unable to attract and retain requisite personnel needs to maximize on their revenue potential.

**Table 4. 27: Major hindrances that the county government faces in mobilizing optimal revenue to improve its performance**

| Item | Frequency | Percent |
|---|---|---|
| a) Less reinforcement of revenue collection | 53 | 25.2 |
| b) Lack of appropriate staff training | 47 | 22.4 |
| c) Few revenue collection staff | 41 | 19.5 |
| d) Presence of revenue leakages | 38 | 18.1 |
| e) Inadequate facilitation for revenue collection e.g. transport and allowances | 17 | 8.1 |
| f) Demotivated employees | 14 | 6.7 |
| **TOTAL** | **210** | **100** |

### c) Solutions to the major hindrances that the county government faces in mobilizing optimal revenue to improve its performance

The study sought to find out the solutions to the major hindrances that the county government faces in mobilising optimal revenue to improve performance of county government. In their responses, 30.4% of the respondents recommended that the county governments should create training opportunities for the staff on revenue collection. Fifteen point two percent (15.2%) of the respondents pointed out the county governments should employ adequate staff who have the requisite knowledge and skills but on the other hand county government revenue collectors should be trained regularly on new automated payment system and at the same time the county should invest in taxpayer education for increased uptake and compliance levels.

In the study, 12.4% of the respondents observed that revenue reinforcement office should be strengthened through a comprehensive policy and legal framework within which their revenue system should operate. Some of the initial actions include ensuring that it has a clear basis for raising revenue by developing revenue bills that are currently missing including entertainment tax legislation. They should leverage on the already developed county revenue models for adoption and customization. In addition, they should implore on various county assemblies to expedite enactment of county revenue bills.

Furthermore, 18.1% of the respondents indicated that the revenue collection should be automated. It should be noted that most of the largest counties like Nairobi, Mombasa and Nakuru have made significant efforts towards e-payment systems. Mutua and Wamalwa (2017) recommends that for the county to realize improved revenue collection there is need for an integrated system that connects all revenue collection, sources thus minimizing corruption and loopholes and also making it easier to pay and collect revenues. By and large, this will create an environment for improved revenue transparency, seal leakages, and redress rent seeking. In addition, 7.2% of the respondents opined that all officers should be involved in implementation to allow them properly understand the technical aspects of the system. Similarly, 7.2% of the respondents argued out that the county government should enhance staff development. The county government should initiate regular training forum for staff in revenue administration as well as deploy qualified staff to cover all revenue streams. Five point seven per cent (5.7%) of the respondents posited that the county government should implement robust ICT systems. County governments should focus on progressively ensuring that they have a comprehensive revenue automation that factors every revenue stream. Lastly, 3.8% of the respondents recommended that there should be an increased funding for revenue systems. Revenue collection should be informed by a cost-benefit analysis, and therefore maintaining adequate facilitation and proper working tools will go a long way in improving the revenue collection.

**Table 4. 28: Solutions to the major hindrances that the county government faces in mobilizing optimal revenue to improve its performance**

| Item | Frequency | Percent |
|---|---|---|
| a) Train staff on revenue collection | 64 | 30.4 |
| b) Employ adequate staff | 32 | 15.2 |
| c) Strengthen revenue reinforcement office | 26 | 12.4 |
| d) Automate revenue collection | 28 | 18.1 |
| e) Involve all officers in system implementation | 15 | 7.2 |
| f) Enhance staff development | 15 | 7.2 |
| g) Implement robust ICT systems | 12 | 5.7 |
| h) Increase funding for revenue systems | 8 | 3.8 |
| **TOTAL** | **210** | **100.0** |

### d) Correlation results of revenue mobilisation practices on performance of county governments in Kenya

The study sought to examine the linear relationship between Revenue Mobilisation Practices (RMP) and performance of county governments in Kenya. Table 4.29 shows that there is positive correlation between RMP and the performance of county governments in Kenya, r (210) =0.321, p-value <0.05. Therefore, an increase in use of RMP led to an increase in performance of county governments in Kenya.

**Table 4. 29: Correlation results for revenue mobilisation practices (RMP) on performance of county governments in Kenya**

| **Variable** | | Revenue Mobilisation Practices | Performance |
|---|---|---|---|
| Revenue Mobilisation Practices | Pearson Correlation | 1 | .321** |
| | Sig. (2-tailed) | | .000 |
| | N | 210 | 210 |

**. Correlation is significant at the 0.05 level (2-tailed).

e) **Regression results on revenue mobilisation practices (RMP) on performance of county governments in Kenya**

From the research finding shown in Table 4.29, the correlation analysis showed that there is a positive relationship between RMP and performance of county governments in Kenya, a regression analysis was conducted to establish the extent to which RMP influences performance of county governments in Kenya. A hypothesis to guide the study was as follows:

**Hypothesis $H_{04}$**: Revenue Mobilisation practices no significant influence on performance of county governments in Kenya. Therefore, to test the hypothesis, the model $Y = \beta_0 + \beta_4 X_4 + \varepsilon$ was fitted with RMP as the independent variable. Table 4.30 shows that the co-efficient of determination, $R^2$ was 0.103 meaning that 10.3 % of performance of county governments in Kenya can be explained by FPBP with the difference of 89.7% being described by other factors outside the model.

**Table 4. 30: Revenue mobilisation practices (RMP) on performance of county governments in Kenya Model Summary**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| $M_4$ | .321[a] | .103 | .101 | .35620 |
| a. Predictors: (Constant), Revenue Mobilisation Practices | | | | |

Results in Table 4.31 indicate that the relationship between RMP and performance of county governments in Kenya in the model was significant (F (1, 210) =27.078, p<0.05).

**Table 4. 31: Revenue mobilisation practices (RMP) on performance of county governments in Kenya ANOVA**

| ANOVA[b] | | | | | |
|---|---|---|---|---|---|
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| $M_4$ Regression | 10.642 | 1 | 10.642 | 27.078 | .000[a] |
| Residual | 81.945 | 208 | .393 | | |
| Total | 92.587 | 209 | | | |

a. Predictors: (Constant), Revenue Mobilisation Practices

b. Dependent Variable: Performance

On the other hand, $\beta$ co-efficient for RMP was significant ($\beta$ =0.321, t=0.393, p<0.05) meaning that for every 1 unit increase in RMP, there was an equivalent increase by 0.321 in performance of county governments in Kenya. Hence, the model equation for RMP was:

$$\text{Model } m_4 \quad Y = \beta_0 + \beta_4 X_4 + \varepsilon$$

$$\mathbf{Y} = 2.108 + 0.193\mathbf{X_4}$$

In conclusion, the results confirm that RMP has significant influence on the performance of county governments in Kenya and hence the null hypothesis $H_{04}$ is rejected.

**Table 4. 32: Revenue mobilisation practices (RMP) on performance of county governments in Kenya regression weights**

| Coefficients[a] | | | | | |
|---|---|---|---|---|---|
| | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | B | Std. Error | Beta | T | Sig. |
| $M_4$ (Constant) | 2.108 | .192 | | 10.979 | .000 |
| Revenue Mobilisation Practices | .193 | .049 | .321 | 0.393 | .000 |

a. Dependent Variable: Performance

**f) Discussion of research findings on the relationship results on revenue mobilisation practices (RMP) on performance of county governments in Kenya**

Revenue mobilisation practices (RMP) was measured using 5-point likert scale with 1= 'Strongly Disagree' and 5= 'Strongly Agree' statements. The study findings showed that there is positive correlation between RMP and the performance of county governments in Kenya (r (210) =0.321, p-value <0.05). The model shows that relationship between RMP and performance of county governments in Kenya is significant (F (1, 210) =27.078 p<0.05) and $R^2$=0.103 meaning that 13.4 % of performance of county governments in Kenya can be explained by RMP with the difference, that is, 89.7% described by other factors outside the model. Furthermore, $\beta$ co-efficient for RMP was significant ( $\beta$ =0.321, t=0.393, p<0.05) meaning that that for every 1 unit increase in performance of county governments in Kenya there was an equivalent increase by 0.321 in performance of county governments in Kenya. These results are consistent with previous studies investigating the influence of revenue mobilisation practices and performance.

For instance, Akpa (2008) observed that revenue is a necessary tool for the effective functioning of any government machinery and no government agency can survive without adequate revenue. The counties hence could have been affected in their drive to provide services by the inadequacy of revenues. For that reason, Bahl & Bird, 2014) pointed out that there are two main categories of current revenue for decentralized government units in Africa. One of these is own revenue or internally generated revenue which includes taxes, user fees, and various licences (Decentralized governments are not completely dependent on central government and do themselves have some revenue-raising powers. Such local taxation is limited, however, with the lucrative tax fields (for example, income tax, sales tax, import and export duties) all belonging to the centre, while local government has access only to low yielding taxes such as basic rates and market tolls.

The devolution of revenue mobilization and spending powers to lower levels of government in turn has had its share of challenges (Odd-Helge & Kari, 2012). Ola and Tonwe (2010) observe that lack of finance remains a major challenge to the success of devolution in many African countries. Many of the devolved units are faced by the challenges of mobilizing appropriate levels of revenue to enable effective service provision and address poverty and inequality issues at the local level (Latema, 2013). Fosu and Ashiagbor (2012) posit that many of the devolved units are financially weak and rely on financial transfers and assistance from the central government. If the local governments were to enhance their revenue collection, a lot of revenue would be generated for undertaking development projects.

### 4.5.6: Public financial governance practices on performance of county governments in Kenya

Specific objective 5: To investigate how Public financial governance practices influence the performance of County governments in Kenya.

**a) Descriptive analysis on Public financial governance practices on performance of county governments in Kenya**

In the study as shown in Table 4.33, 87.5% (M=4.19, SD=0.725) of the respondents pointed out that their county government fully complies with provisions of all relevant financial laws and regulations that guide daily operations. Additionally, 52.1% (M=3.48, SD=1.080) observed that the county government has a service charter that clearly spells out service delivery targets. Sixty-one point nine percent (61.9%) (M=3.72, SD=0.959) of the respondents noted that there are potential conflicts of interest between the County Assembly and County Executive. Besides, 61.4% (M=3.57, SD=1.124) equipped that financial understanding and decision-making rests with few officers. On the other hand, 56.9% (M=2.64, SD=1.17) of the respondents opined that all MCA’s are able to identify and comprehend the key issues contained in financial statements and financial reports.

However, 77.8% (M=3.86, SD=0.775) of the respondents indicated that all financial information is printed in a form that supports decision-making and public accountability. 88.4% (M=4.26, SD=0.741) of the respondents showed that the county government conduct public participation on all county governments policies. In addition, 81.9% (M=4.04, SD=0.721) of the respondents argued that there is a formal code of conduct defining the standards of behavior to which all employees of the county governments are required to subscribe and adhere to. Sixty-nine percent (69%) (M=3.75, SD=0.952) of the respondents pointed out that there are ways in which the behavior of those in governance roles undermine the county governments' aims and values. Similarly, 52.9% (M=3.51, SD=1.032) of the respondents indicated that the county governments had established appropriate mechanisms to ensure that all employees are not influenced by prejudice, bias, or conflicts of interest.

The research findings showed that 68.1% (M=3.86, SD=0.909) of the respondents equipped that the Governor and/or CECM take personal responsibility for the ethical standards in his or her department. Ninety-one point six percent (91.6%) (M=4.23, SD=0.637) indicated that there are values that staff are expected to demonstrate in their actions and behavior while 61.9% (M=3.72, SD=0.974) of the respondents observed that the values are documented and communicated effectively to all staff. Besides, 42.2% (M=3.45, SD=0.997) of respondents explained that the county governments have an anti-fraud and corruption policy. Moreover, 63.3% (M=3.70, SD=1.061) of the respondents highlighted that the county government's employees know what to do if they suspect misconduct, fraud, or corruption.

**Table 4. 33: Response frequencies for Public financial governance practices**

| | Statements | SD % | D % | N % | A % | SA % | Mean | Std. Deviation |
|---|---|---|---|---|---|---|---|---|
| a) | The county government fully complies with provisions of all relevant financial laws and regulations that guide daily operations. | | 2.8 | 9.7 | 52.8 | 34.7 | 4.19 | .725 |
| b) | The county government has a service charter that clearly spells out service delivery targets | 1.4 | 21.1 | 25.4 | 32.4 | 19.7 | 3.48 | 1.080 |
| c) | There are potential conflicts of interest between the County Assembly and County Executive | | 12.7 | 25.4 | 39.4 | 22.5 | 3.72 | .959 |
| d) | Financial understanding and decision-making rests with few officers | 2.9 | 20.0 | 15.7 | 40.0 | 21.4 | 3.57 | 1.124 |
| e) | All MCA's are able to identify and comprehend the key issues contained in financial statements and financial reports, | 9.7 | 47.2 | 22.2 | 11.1 | 9.7 | 2.64 | 1.117 |
| f) | All financial information is presented in a form that supports decision-making and public accountability | 1.4 | 4.2 | 16.7 | 62.5 | 15.3 | 3.86 | .775 |
| g) | We conduct public participation on all county policies | | 2.9 | 8.7 | 47.8 | 40.6 | 4.26 | .741 |
| h) | There is a formal code of conduct defining the standards of behavior to which all employees of the county are required to subscribe and adhere to | | 2.8 | 15.3 | 56.9 | 25.0 | 4.04 | .721 |
| i) | There are ways in which the behavior of those in governance roles might undermine the county's aims and values | 1.4 | 11.3 | 18.3 | 49.3 | 19.7 | 3.75 | .952 |
| j) | The county has established appropriate mechanisms to ensure that all employees are not influenced by prejudice, bias, or conflicts of interest | 1.4 | 17.1 | 28.6 | 34.3 | 18.6 | 3.51 | 1.032 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| k) | The Governor/CECM takes personal responsibility for the ethical standards in his or her department | | 8.3 | 23.6 | 41.7 | 26.4 | 3.86 | .909 |
| l) | There are values that staff are expected to demonstrate in their actions and behaviour | | 1.4 | 7.0 | 59.2 | 32.4 | 4.23 | .637 |
| m) | The values are documented and communicated effectively to all staff | 1.4 | 9.9 | 26.8 | 39.4 | 22.5 | 3.72 | .974 |
| n) | The county has an anti-fraud and corruption policy | | 16.9 | 40.8 | 22.5 | 19.7 | 3.45 | .997 |
| o) | The county employees know what to do if they suspect misconduct, fraud, or corruption | 4.2 | 8.5 | 23.9 | 39.4 | 23.9 | 3.70 | 1.061 |

**b) Ways to improve public financial governance practices to enhance performance of county government**

The study sought to find out the ways to improve public financial governance practices to enhance the performance of county government. In their responses, 20.9% of the respondents indicated that county government's staff members should be trained so that they can be equipped with knowledge, skills and experience in corporate governance. Eighteen point one percent (18.1%) of the respondents indicated adherence to integrity and transparency of staff members. On the other hand, 16.1% of the respondents opined that the county government should develop operating standards and procedures to guide the ethical conduct of all the county officials. Eleven point nine percent (11.9%) of the respondents argued that the county government should implement complete automation of the services. Ten percent (10.0%) of the respondents deploy staff to various departments in order to adequately all the tasks that are brought forth by the county citizens.

Eight point six per cent (8.6%) of the respondents recommended that involve all staff members in financial issues while 5.7% of the respondents of the respondents observed that the staff should continuously be sensitized on all the issues that affect the county governments on a regular basis to allow them to participate in the decision making processes. Four point three percent (4.3%) of the respondents indicated that the county government should practise fair distribution of resources among all the decentralized units. Two point nine percent (2.9%) of the respondents employ proper information management on all aspects of administrations and county affairs while 1.5% of the respondents indicated that the county government leadership should enhance accountability in all its structures.

**Table 4. 34: Ways to improve Public financial governance practices to enhance performance of county government**

| Item | Frequency | Percent |
|---|---|---|
| a) Train county staff members | 44 | 20.9 |
| b) Adherence to integrity and transparency of staff members | 38 | 18.1 |
| c) Develop operating standards and procedures | 34 | 16.1 |
| d) Implement complete automation | 25 | 11.9 |
| e) Deploy staff to various departments | 21 | 10.0 |
| f) Involve all staff members in financial issues | 18 | 8.6 |
| g) Continuously sensitize staff | 12 | 5.7 |
| h) Practise fair distribution of resources | 9 | 4.3 |
| i) Employ proper information management | 6 | 2.9 |
| j) Enhance accountability | 3 | 1.5 |
| **TOTAL** | **210** | **100.0** |

**c) Correlation results of Public financial governance practices on performance of county governments in Kenya**

The research findings sought to examine the linear relationship between PFGP and performance of county governments in Kenya. Table 4.28 shows that there is a significant positive correlation between FGP and performance of county governments in Kenya, r (210) =0.456, p-value < 0.05 indicating that an improvement in PFGP will lead to enhanced performance of county governments in Kenya. Therefore, an increase in use of PFGP led to an increase in performance of county governments in Kenya.

**Table 4. 35: Correlation results for Public financial governance practices (PFGP) on performance of county government in Kenya**

| Variable | | PFGP | Performance |
|---|---|---|---|
| **PFGP** | Pearson Correlation | 1 | .456** |
| | Sig. (2-tailed) | | .000 |
| | N | 210 | 210 |

**. Correlation is significant at the 0.05 level (99% confidence level) (2-tailed).

**d) Regression results of Public financial governance practices (PFGP) on performance of County government in Kenya**

From table 4.35 above, the correlation results indicate that there is a positive relationship between PFGP and performance of county governments in Kenya, a regression analysis was conducted to establish the extent to which PFGP influence performance of county governments in Kenya. A hypothesis to guide the research was as follows:

**Hypothesis $H_{03}$:** Public financial governance practices have no significant influence on the performance of county government in Kenya. Therefore to test the hypothesis, the model $Y = \beta_0 + \beta_5 X_5 + \varepsilon$ was fitted with PFGP as an independent variable. Table 4.36 shows that the co-efficient of determination, $R^2$ was 0.207 meaning that 20.7 %

of performance of county governments in Kenya can be explained by PFGP with the difference of 79.3% being described by other factors outside the model.

**Table 4. 36: Public financial governance practices (PFGP) on performance of county government in Kenya Model Summary**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| $M_5$ | .456[a] | .207 | .204 | .38253 |
| Predictors: (Constant), Public financial governance practices | | | | |

Results in Table 4.37 indicates that the relationship between PFGP and performance of county governments in Kenya in the model was significant (F (1, 210) =59.691, p<0.05).

**Table 4. 37: Public financial governance practices (PFGP) on performance of county governments in Kenya ANOVA**

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| $M_5$ | Regression | 20.534 | 1 | 20.534 | 59.691 | .000[a] |
| | Residual | 71.358 | 207 | .344 | | |
| | Total | 91.892 | 208 | | | |
| a. Predictors: (Constant), Public financial governance practices | | | | | | |
| b. Dependent Variable: Performance | | | | | | |

Furthermore, $\beta$ co-efficient for PFGP was significant ( $\beta$ =0.456, t=1.079, p<0.05) meaning that for every 1unit increase in PFGP there was an equivalent increase by 0.456 units in performance of county governments in Kenya. Hence, the model equation for PFGP was;

$$\text{Model } m_5 \quad Y = \beta_0 + \beta_5 X_5 + \varepsilon$$

$$\mathbf{Y} = 1.572 + 0.421\mathbf{X_5}$$

In conclusion, the results confirm that PFGP have significant influence on the performance of county governments in Kenya and hence null hypothesis, $H_{05}$ is therefore rejected.

**Table 4. 38: Public financial governance practices (PFGP) on performance of county governments in Kenya regression weights**

| Coefficients[a] | | | | | |
|---|---|---|---|---|---|
| | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | B | Std. Error | Beta | t | Sig. |
| $M_5$ (Constant) | 1.572 | .146 | | 10.767 | .000 |
| Public financial governance practice | .421 | .039 | .456 | 1.079 | .000 |
| Dependent Variable: Performance | | | | | |

**e) Discussion of research findings on the relationship between Public financial governance practices (PFGP) and performance of county government in Kenya**

Public financial governance practices (PFGP) was measured using 5-point Likert scale with 1= 'Strongly Disagree' and 5= 'Strongly Agree' statements. The research findings showed that there was a positive correlation between PFGP and the performance of county governments in Kenya ($r$ (210) =0.456, p-value $<0.05$). Therefore, an increase in use of PFGP led to an increase in performance of county governments in Kenya. The model shows that relationship between PFGP and performance of county governments in Kenya is significant ($F$ (1, 210) =59.691, $p<0.05$) and $R^2$=0.207 meaning that 20.7 % of performance of county governments in Kenya can be explained by PFGP with the difference that is 79.3% described by other factors outside the model. Furthermore, $\beta$ co-efficient for PFGP was significant ($\beta$ =0.456, t=1.079 p<0.05) meaning that for every 1 unit increase in PFGP there was an equivalent increase by 0.456 in performance of county governments in Kenya.

Kihoro, Oloko and Akicho (2017) investigated how corporate governance practices influence performance of Kenya's National government ministries. The researcher found out that corporate governance practices namely; leadership skills, risk management, transparency and accountability have a direct effect on organizational performance. Kavulya (2012) found out that good corporate governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. Indicators of good corporate governance identified in the study include independent directors, independence of committees, board size, split chairman/CEO roles and the board meetings. He concluded that better corporate governance is correlated with better operating performance and market valuation. Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments. Evidence suggests that corporate governance has a positive influence over corporate performance.

Wanyama and Olweny (2013) found out that a strong relationship exist between the corporate governance practices under listed Insurance Companies in Kenya. Board size was found to negatively affect the financial performance of insurance companies listed at the NSE. There was a positive relationship between board composition and firm financial performance. However, the most critical aspect of board composition was the experience, skills and expertise of the board members as opposed to whether they were executive or non-executive directors. Similarly, leverage was found to positively affect financial performance of insurance firms listed at the NSE. On CEO duality, the study found that separation of the role of CEO and Chair positively influenced the financial performance of listed insurance firms. Miring'u (2011) disclosed that there is a positive relationship between Return on Investment (ROE) and board size and board compositions of all State corporations.

### 4.5.7: Public financial management practices on performance of county governments in Kenya

Specific objective 6: To investigate how Public financial management practices influence the performance of county governments in Kenya.

**a) Correlation results on Public financial management practices and performance of county governments in Kenya**

The study sought to examine the linear relationship between public financial management practices (PFMP) and performance of county governments in Kenya. Table 4.39 shows that there is a significant positive correlation between PFMP and Performance, $r\ (210) = 0.303$, p-value $< 0.05$ explaining that developing and maintaining of PFMP improved performance of county governments in Kenya. Therefore, an increase in use of PFMP led to an increase in performance of county governments in Kenya.

**Table 4. 39: Correlation results of Public financial management practices on performance of county government in Kenya**

| Variable | | PFMP | Performance |
|---|---|---|---|
| **PFMP** | Pearson Correlation | 1 | .303** |
| | Sig. (2-tailed) | | .000 |
| | N | 210 | 210 |

**. Correlation is significant at the 0.05 level (99% confidence level) (2-tailed).

**b) Regression results on the combined Public financial management practices (PFMP) and performance of County government in Kenya**

From the research findings in table 4.39, the correlation results indicate that there is a positive relationship between PFMP and performance of county governments in Kenya. A multiple regression analysis was employed in order to find out whether independent variables; FPBP, ICP, PFPP, RMP and PFGP all at once have influence on the dependent variable; performance of county governments in Kenya. A hypothesis to guide the research was as follows;

**Hypothesis $H_{06}$:** Joint public financial management practices have no significant influence on the performance of county government in Kenya. Therefore, to test the hypothesis, model, the model $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$ was fitted all at once with FPBP, ICP, PFPP, RMP and PFGP as independent variables. Table 4.40 shows that the co-efficient of determination, $R^2$ was 0.303 meaning that 30.3 % of performance of county governments in Kenya can be explained by PFMP with the difference of 69.7% being described by other factors outside the model.

**Table 4. 40: Public financial management practices (PFMP) on performance of county government in Kenya Optimal Model Summary**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| $M_6$ | .550[a] | .303 | .299 | .36722 |

a. Predictors: (Constant), financial planning and budgeting practices, internal control practices, public finance procurement practices, revenue mobilisation practices, public finance governance practices.

Results in Table 4.41 indicates that the relationship between PFMP and performance of county governments in Kenya in the model was significant ($F (1, 210) = 27.615$, $p<0.05$).

**Table 4. 41: Public financial management practices (PFMP) on performance of county government in Kenya Optimal ANOVA**

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| $M_6$ | Regression | 36.535 | 5 | 7.307 | 27.615 | .000[a] |
| | Residual | 54.516 | 206 | .2646 | | |
| | Total | 91.051 | 208 | | | |

a. Predictors: (Constant), financial planning and budgeting practices, internal control practices, public finance procurement practices, revenue mobilisation practices, public finance governance practices

b. Dependent Variable: Performance

In conclusion, $\beta$ co-efficients for FPBP, ICP, PFPP, RMP and PFGP were significant

($\beta_1$=0.195, t=9.285; $\beta_2$=0.212, t=10.009; $\beta_3$=0.209, t=5.648; $\beta_4$=0.104, t=5.473; $\beta_5$=0.201, t=14.357, $p<0.05$) respectively. Hence, the model equation for combined PFMP (FPBP, ICP, PFPP, RMP and PFGP) was;

Model $m_6$ $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$ and the estimated multiple regression model was given by,

$$\mathbf{Y}=0.642+0.195\mathbf{X_1}+0.212\mathbf{X_2}+0.209\mathbf{X_3}+0.104\mathbf{X_4}+0.201\mathbf{X_5}$$

In conclusion, the results confirm that PFMP have significant influence on the performance of county governments in Kenya and hence the null hypothesis, $H_{06}$ is rejected.

**Table 4. 42: Public financial management practices (PFMP) on performance of county government in Kenya Optimal regression weights**

| Coefficients[a] | | | | | |
|---|---|---|---|---|---|
| | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | B | Std. Error | Beta | t | Sig. |
| $M_6$ (Constant) | .642 | .141 | | 4.553 | .000 |
| Financial planning and budgeting practices | .195 | .021 | .217 | 9.285 | .008 |
| Internal control practices, | .212 | .021 | .239 | 10.009 | .000 |
| Public finance procurement practices | .209 | .037 | .187 | 5.648 | .000 |
| Revenue mobilisation practices | .104 | .019 | .148 | 5.473 | .000 |
| Public finance governance practices | .201 | .014 | .241 | 14.357 | .014 |

a. Dependent Variable: Performance

**c) Discussion on research findings on the combined public financial management practices (PFMP) and performance of county governments in Kenya**

The inferential statistics shows that there is a significant positive correlation between PFMP and Performance, r (210) =0.303, p-value < 0.05 explaining that developing and maintaining of PFMP improved performance of county governments in Kenya.

An increase in use of PFMP led to an increase in performance of county governments in Kenya.

The statistical optimal model shows that the relationship between combined FPBP, ICP, PFPP, RMP and PFGP and Performance of county governments in Kenya is significant

($F (5, 210) = 27.615$, $p<0.05$) and $R^2=0.303$ meaning that 30.3 % of performance of county governments in Kenya can be explained by PFMP with the difference that is 69.9% described by other factors outside the model. In addition, $\beta$ co-efficients for FPBP, ICP, PFPP, RMP and PFGP were significant ($\beta_1=0.195$, $t=9.285$; $\beta_2=0.212$, $t=10.009$; $\beta_3=0.209$, $t=5.648$; $\beta_4=0.104$, $t=5.473$; $\beta_5=0.201$, $t=14.357$, $p<0.05$) respectively.

In summary, Table 4.43 shows that all the six hypotheses, $H_{01}$, $H_{02}$, $H_{03}$, $H_{04}$, $H_{05}$, and $H_{06}$, that were tested in the study were rejected, $p<0.05$. Hence for the five independent variables; financial planning and budgeting practices, internal control practices, public finance procurement practices, revenue mobilisation practices and public finance governance practices had significant influence on the performance of county governments in Kenya.

**Table 4. 43: Summary of results of Hypotheses Tested**

| No | Variable | *P*-value | Direction | Deduction |
|---|---|---|---|---|
| $H_{01}$ | Financial planning and budgeting practices | <0.05 | Positive | Reject $H_{01}$ |
| $H_{02}$ | Internal control practices | <0.05 | Positive | Reject $H_{02}$ |
| $H_{03}$ | Public finance procurement practices | <0.05 | Positive | Reject $H_{03}$ |
| $H_{04}$ | Revenue mobilisation practices | <0.05 | Positive | Reject $H_{04}$ |
| $H_{05}$ | Public finance governance practices | <0.05 | Positive | Reject $H_{05}$ |
| $H_{06}$ | Combined Public financial management practices | <0.05 | Positive | Reject $H_{06}$ |

## 4.6 Summary of the study variables

This chapter considered the findings and analysis of the data collected. The information gathered from the analyzed data confirmed that public financial management practices influence the performance of county governments in Kenya. The next chapter captures the summary, conclusion and recommendations made from the analyzed data.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This section gives the summary of the research findings that were obtained from the study that was anchored on specific objectives, conclusions that were made, the recommendations that were drawn, and finally, the suggested areas for further research. The study had a general objective and five specific objectives.

## 5.2 Summary of findings

The main objective of the study was to examine the effect of financial management practices on the performance of county governments in Kenya. In particular, the study sought to investigate how: financial planning and budgeting, internal control, public finance procurement, revenue mobilization and public financial governance practices influence the performance of county governments in Kenya.

### 5.2.1 Effect of financial planning and budgeting practices on performance of county governments in Kenya

The first specific objective was to investigate how financial planning and budgeting practices (FPBP) influence the performance of county governments in Kenya. From this objective, it was hypothesized that FPBP has no significant influence on the performance of county governments in Kenya. Notwithstanding, the results showed that a positive statistically significant relationship existed between the two variables with FPBP explaining 13.4% of performance of county governments in Kenya leaving 86.6% by other factors outside the model.

Financial planning offers important tools that help county government determine their current conditions and plan for its future. Financial Planning and Budgeting Practices involve evaluating the current financial condition of government, analysing the future growth prospects and options, appraising the development options to achieve the stated growth objectives, estimating funds requirement and considering alternative financing options and measuring actual performance with the planned performance. The Financial Planning and Budgeting Practices include budget and budgetary practices, financial forecasting practices and financing decisions practices. Therefore, budgeting allows a county government's treasury to plan, make proper choices, and decide on the mission and direction of a county government. However, the study found out that while various counties utilize County Integrated Development Plan as its primary planning document for all the projects and programmes, timely disbursement and resource allocation have always remained the principal means of implementing them.

### 5.2.2 Effect of internal control practices on performance of county governments in Kenya

The second specific objective was to examine how internal control practices (ICP) influence the performance of county governments in Kenya. Despite the fact that the study hypothesized that ICP has no significant influence on performance of county governments in Kenya the findings showed that a positive statistically significant relationship existed between the two variables with ICP explaining 32.8 % of performance of county governments in Kenya leaving the difference of 67.2%

described by other factors outside the model. Internal controls practices that include control activities, control environment, internal audits are intended primarily to enhance the reliability of performance, either directly or indirectly by increasing accountability among information providers in an organization. Therefore, for any county governments, an effective internal control unequivocally correlates with county governments' success in meeting its revenue target level. These will include; a regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with government policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which county governments achieve their objectives.

### 5.2.3 Effect of public finance procurement practices on performance of county governments in Kenya

The third specific objective was to establish how Public Finance Procurement practices (PFPP) influence the performance of County governments in Kenya. In spite of the fact that the study hypothesized that PFPP has no significant influence on the performance of county governments in Kenya, the results rejected the null hypothesis re-stating that there is a positive statistical significance between the two variables with PFPP explaining 27.1 % of performance of county governments in Kenya, leaving the difference of 72.9 % described by other factors outside the model. Even though, reform agenda in public procurement systems in the country led to enactment of PPADA, 2015, as a way to; maximize economy and efficiency, promote competition and be sure that competitors are treated fairly, promote the integrity and fairness of procurement procedures, increase openness and accountability in those procedures, increase public assurance in those procedures, assist in the promotion of local industry and economic development, the public procurement process still faces numerous hurdles. The whole procurement system is still marred by corruption, secrecy, inefficiency, and unaccountability. In all these cases, huge amounts of public resources are wasted. In addition, despite the existence of the devolved funds, internal inefficiencies in their management have made them not to achieve the desired results.

### 5.2.4 Effect of revenue mobilisation practices on performance of county governments in Kenya

The fourth specific objective was to examine how revenue mobilization practices (RMP) influence the performance of county governments in Kenya. From this objective, it was hypothesized that RMP has no significant influence on the performance of county governments in Kenya. Notwithstanding, the results showed that a positive statistically significant relationship existed between the two variables with FPBP explaining 13.4% of performance of county governments in Kenya leaving 86.6% by other factors outside the model. Therefore, sound revenue mobilization practices for government units are an essential pre-condition for the success of public service delivery. This is because, apart from raising revenues, local revenue mobilization has the potential to foster political and administrative accountability by empowering communities, hence, ineffective revenue mobilization practices may hamper service delivery. In addition, the findings showed that in many counties, the decentralized governments act as a tier of government requiring adequate finances to enable them cope with numerous developmental activities within their jurisdiction. Nevertheless, many of them are coupled with dwindling revenue generation, remaining overwhelmingly dependent on central government for its financial resources, with limited revenue raising ability which hampers their service delivery to the citizens.

### 5.2.5 Effect of Public financial governance practices on performance of county governments in Kenya

The fifth specific objective was to investigate how Public financial governance practices (PFGP) influence the performance of county governments in Kenya. Despite the fact that the study hypothesized that PFGP has no significant influence on performance of county governments in Kenya, the findings showed that a positive statistically significant relationship existed between the two variables with PFGP explaining 32.8% of performance of county governments in Kenya leaving the difference of 67.2% described by other factors outside the model. Public authorities' corporate governance, through the delivery of public services, aims at satisfying the citizens' needs and the public benefit, respectively. Therefore, the model of corporate governance in the private sector does not differ greatly from the public financial governance practices. In the same way that the corporate governance in the private sector in the early '90s aimed at improving corporate management, increasing responsibility and transparency, for regaining the trust of the shareholders, the public authorities corporate governance aims at developing and improving management and control mechanisms, taking and fulfilling responsibilities of the public personalities (politicians, public servants, etc.), for regaining the trust of the citizens.

## 5.3 Conclusions

From the findings in the study, the following conclusions were made:

### 5.3.1 Effect of financial planning and budgeting practices on performance of county governments in Kenya

The study concluded that there was a positive statistically significant relationship that exist between financial planning and budgeting practices and performance. The study found out that reforming Financial Planning is critical to the success of any county governments. An essential purpose of financial planning is to assess the financial resources that will be required to implement the programmes and activities to achieve the goals and targets of the county integrated development plan, to ensure that funding is available as and when needed, and to monitor the efficient use of resources and of progress towards reaching the goals and targets. In addition, financial planning helps to determine the objectives, policies, procedures and programs to deal with the financial activities of the county government. The study established that, the budgeting practices have a positive significant influence on performance of selected county governments in Kenya. It was also established that policy makers would obtain knowledge of the financial sector dynamics and the responses that are appropriate. On the other hand, forecasting practices had a positive impact on performance of selected county governments in Kenya and therefore the county governments' treasury officials may obtain guidance from this study in designing appropriate policies that will regulate the public finance. The study established that, financing decision practices are useful for the county governments and therefore would obtain guidance from this study in designing appropriate policies that would regulate the sector. In the end, the study revealed that, a few county governments officials still struggled with the need to synthesize financial and non-financial data and performance measurements in a single system in which they would also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time.

### 5.3.2 Effect of internal control practices on the performance of county governments in Kenya

Similarly, the study concludes that there is positive statistically significant relationship between internal control practices and performance. From the findings of the study, it was concluded that those county governments that had invested in effective internal control systems had more improved performance as compared to those county governments that had a weak internal control system. From the findings, it was revealed that those county governments that observed integrity, ethical values, risk assessment, control activities, and monitoring procedures recorded high performance. Although internal audit is one area with the expertise to assess efficient utilization of public financial resources and help improve oversight and performance, public administration has paid little attention to the role of internal audit in the improving public financial management process. Therefore, there was need for county governments to fully invest in strong internal control systems that will help to mitigate fraud.

### 5.3.3 Effect of public finance procurement practices on performance of county governments in Kenya

Equivalently, the researcher conclude that public finance procurement practices and performance have a positive significant relationship. The study concludes that effective implementation of Public Finance Procurement practices in a county government influences its performance. Procurement policies factors such as level of compliance with Public Procurement and Asset Disposal Act 2015, procurement planning, county executive support, budgetary allocation, and preparation of procurement progress reports, procurement records management methods and type of the employed procurement methods to a large extent influence the performance of the county government.

### 5.3.4 Effect of revenue mobilisation practices on performance of county governments in Kenya

In many countries, majority of the county governments seem to raise taxes, fees and other charges, notwithstanding their possible adverse economic effect on the masses. The levels and types of local revenue instruments by themselves can result in the tax burden falling more on the poor than on the rich. This is mainly due to the basic design of the county governments revenue system and the way revenues are collected in most part of Africa. The study found out that a complicated and non-transparent county government revenue system is costly to administer and it facilitates corruption and mismanagement. Despite the fact that there was a positive statistically significant relationship between revenue mobilisation practices and performance, the study concludes that there should be frequent capacity building training programmes for all stakeholders of budget formulation and implementation, both at the County Executives and County Assemblies. Their involvement in the budgeting process will ensure that revenue targets are realized. County governments should create massive public awareness by reaching out to all stakeholders through meetings, seminars, conferences, tax education and sensitization programmes to inform them and establish the problems of payment of taxes, rates, fees etc. Through these programmes all the challenges in revenue collection will also be unearthed.

### 5.3.5 Effect of Public financial governance practices on performance of county governments in Kenya

Similarly, the study concluded that there is positive statistically significant relationship between Public financial governance practices and performance of county governments in Kenya. The study concluded that despite the fact that the public and private sectors are two different entities with different responsibilities, there are corporate governance principles applicable for both entities: accountability, transparency, a focus on performance, commitment and integrity, among others. The object of good public financial governance practices is attained when institutions both at national and county levels demonstrate their public accountability and conduct their business within acceptable ethical standards. This demonstration will take the form of effective financial reporting, both internally and externally, and the unqualified encouragement of public debate in respect of such financial reports. Effective corporate governance in the public sector means that public officials must be composed of people with the knowledge, ability and commitment to fulfil their responsibilities in line with the national goals and values.

## 5.4 Recommendations

The study made recommendations to those in-charge of county governments', stakeholders and policy makers in line with the objectives, findings and conclusions of the study as outlined in sections 5.41 and 5.4.2 below.

### 5.4.1 County government recommendations

Firstly, the study recommends that the county governments should consider adopting sound budgeting practices as envisaged in relevant legislative framework and particularly PFM Act. This will allow the management to create a comprehensive understanding that can be leveraged to influence stakeholders and create better decisions on performance of county governments. The study recommends that the county governments in Kenya should keep on availing finances as well as re-assessing the financial policies. This will help to identify whether the adopted financial forecasting practices are making any acceptable difference. The study also recommends that it is very crucial that the county governments in Kenya put in place financing decisions practices; this will help the institutions to gather useful information that will provide valuable insights in the strategy and the necessary input to find effective responses to optimize the performance of county governments in Kenya.

Secondly, the study found out that county governments in Kenya did not fully implement internal audits recommended by the Auditor General to improve management of financial resources. In order to attain transparent financial management and reporting in public offices, there should be strict adherence to the nations' constitutional framework in terms of preparation and presentation of financial statements, submission and review as well as timely report of the Auditor General to the National Assembly Public account committee. Also, the financial statements should be timely published for easy accessibility by the citizens. In addition, an external body should be established by the national government to audit county governments regularly for accountability. The study recommends that the relevant county government officials should be constantly updated and well-grounded on international financial reporting standards (IFRS) and principles in order to enhance their knowledge and skills in application of accounting practices and to keep them updated on the contemporary issues.

Thirdly, to ensure that procurement policies support effective implementation of procurement practices in majority of the county governments in Kenya, both county executive and county assembly institutions should improve on the level of compliance with procurement regulations compliance, design and apply better procurement policies. Use effective procurement procedures, improve on relationship between management and stakeholders and employ better methods of managing public resources. Both national and county governments, ministries and state corporations should adopt ICT in procurement of works, goods and services. This will enhance the process of effective tendering through advertising, sourcing reviews, prequalification, potential for cost savings and greater awareness of new development. It will also enable Kenya government ministries to provide excellent service to their suppliers in an effective and transparent manner. The county governments should also train its procurement staff and stakeholders on the procedures, procurement matrix, methods of procurement, professionalism and excellence in implementation of PPDA Act 2015 so as to provide consistency in tender decision- making and reduce costs that may relate to non-compliance such as poor quality costs and legal charges arising from litigations filed by aggrieved parties for discrimination in awarding of procurement opportunities in the county governments.

Fourthly, the county governments are therefore expected to put in place measures that are expected to result in sustainable increase in revenue collection. A fundamental requirement when redesigning county governments revenue systems is greater emphasis on the cost-effectiveness of revenue collection, taking into account not only the direct costs of revenue administration, but also the overall costs to the local economy, including the compliance costs to taxpayers. The county government should seek for enhanced autonomy, acquisition of skilled staff, increased integrity and effective use of automated system. In addition, the county governments are expected to adopt private sector-style management practices in its administration, with competitive staff remuneration, high calibre staff and adopt a code of conduct to guard against corruption. In addition, losses through corruption and evasion need to be reduced. Clearly, improved revenue administration cannot compensate for bad revenue design. Thus, reforming the revenue structure should precede the reform of revenue administration.

Lastly, since, public financial governance practices basically concerned with structures and processes for decision-making and with the controls and behavior that support effective accountability for performance outcomes, the study recommends the following; firstly, there must be an effective body responsible for financial governance separate and independent of management to promote accountability, efficiency, effectiveness, integrity, responsibility at county governments' level. The county governments' leadership should be transparent and open with accurate and timely disclosure of information relating to all economic and other activities taking place in their respective sections and departments. Secondly, there must be an all-inclusive approach to governance that recognizes and protects the rights of all citizens and all stakeholders –internal and external. Thirdly, the county governments must strictly be governed and managed in accordance with the mandate granted by the Constitution of Kenya and other related legislations.

### 5.4.2 Policy recommendations

The study provides information that enables the national and county government to come up with policy measures that will foster proper functioning of the devolved governments. Since the study addresses most of the emerging issues affecting county governments with a view to improving the implementation of the devolved system of government and to achieve optimal service delivery. It guides policy makers at both levels of government to align their respective policies to the devolved system of government by consolidating devolution, clarifying and strengthening roles and responsibilities of both the national and county governments.

Researchers and academics working in the fields of public policy and public finance management will be the immediate beneficiaries of the research. The research documents good practices and challenges of the public financial management and performance of county government with reference to Kenyan devolution model that help to inform teaching and research at universities and other research institutions in Kenya and around the world.

## 5.5 Areas for further research

Although the measure of performance of county governments in Kenya incorporated financial and non-financial performance dimensions, there may be other financial and non-financial dimensions that measure the performance, but are not addressed in this study. Therefore, further study is needed to incorporate other financial and non-financial dimensions of county governments' performance. Moreover, there may be some practices that influence the performance of county governments that are not included in this study. Therefore, further study is needed to investigate other practices affecting the performance of county governments in Kenya.

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## APPENDICES

### Appendix I: Letter of Introduction

**Mr Patrick Cheruiyot Mutai,**
PO BOX 62000-00200,
**NAIROBI.**

**Dear Participant,**

**RE: Invitation to Participate in a Study**

My name is **Patrick Cheruiyot Mutai,** a PhD candidate at Jomo Kenyatta University of Agriculture and Technology (JKUAT). I am undertaking a research entitled" ***Effect of public financial management practices on performance of county governments in Kenya".*** It is hoped that the findings of the research will help improve the performance of all the county governments in Kenya in their effort to deliver services to the respective county residents.

I would be pleased if you find time to complete the attached questionnaire to facilitate the study. Your participation is voluntary and any information that you will give will be treated with utmost confidentiality. No personal data will be divulged for whatever reasons and therefore take some time and answer the questions as honestly as possible. As conclusions of the study, a summary of the results and associated reports will be made available. Should you have any queries, please forward them to the undersigned.

Yours sincerely,

**Patrick Cheruiyot Mutai**
Mobile No: +254 704688511
Email: patmutai@gmail.com

**Appendix II: Questionnaire**

## PART 1: GENERAL INFORMATION

**a)** Gender (Kindly tick appropriately)
Male [ ] Female [ ]

**b)** Education level (Kindly tick appropriately)
Graduate [ ] Postgraduate [ ]

**c)** Professional qualification (Kindly tick appropriately)
CPA [ ] CIFA [ ] CIPS [ ]

**d)** Job Title (Kindly tick appropriately)
Accounting Officer [ ] Director [ ]

**e)** Duration of time employed at the county government (Kindly tick appropriately)
Less than 1 year [ ] 1-2 years [ ] 2-3 years [ ] Over 3 years [ ]

## PART 2: SPECIFIC INFORMATION

## PART 2A: PERFORMANCE

Please indicate the extent of your agreement with the listed statements about **Performance** of county governments in Kenya. Kindly tick appropriately where; SD=Strongly Disagree, D=Disagree, N=neither Disagree nor Agree, A=Agree, SA=Strongly Agree.

| STATEMENT | SD | D | N | A | SA |
|---|---|---|---|---|---|
| a) The county government has regularly been attaining the annual local revenue targets for the past four years. | | | | | |
| b) The county government has sufficient staff to administer and collect own revenue sources. | | | | | |
| c) The own-revenues sources of county government is cost effective and adequately covered by a legal framework. | | | | | |
| d) The county government has a debt collection unit that follow taxpayers who have defaulted or delayed in paying tax/fees. | | | | | |
| e) Outsourcing has led to better revenue administration performance compared to collection by the county | | | | | |
| f) Automation of revenue collection operations has increased collections and reduced leakages. | | | | | |
| g) The county has enhanced food security through improved veterinary services, increased crop and livestock production. | | | | | |
| h) The county provides affordable and accessible healthcare services. | | | | | |
| i) The county has improve access to education through bursaries and other support programmes at prep-primary and vocational levels. | | | | | |

j) The county has improved access to quality, affordable water and sewerage services for all citizens.
k) The county has efficient infrastructure that ensures effective and efficient transport.

Suggest ways that can be instituted to improve performance of your county government.

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## PART 2B: FINANCIAL PLANNING AND BUDGETING PRACTICES

Please indicate the extent of your agreement with the listed statements about **Financial Planning and Budgeting Practices** of county governments in Kenya. Kindly tick appropriately where; SD=Strongly Disagree, D=Disagree, N=neither Disagree nor Agree, A=Agree, SA=Strongly Agree.

| STATEMENT | SD | D | N | A | SA |
|---|---|---|---|---|---|
| a) The county government utilizes county Integrated Development Plan as its primary planning document. | | | | | |
| b) The process of preparing the planning documents (CIDP, ADP, CFSP, and Budget) is consultative. | | | | | |
| c) The county budget is linked to the ADP and CIDP. | | | | | |
| d) Departmental allocations are based on priorities in ADP and CIDP. | | | | | |
| e) The county budget is implemented as approved by the Assembly. | | | | | |
| f) My department is allocated what is budgeted for. | | | | | |
| g) There is timely disbursement of resources to my department. | | | | | |
| h) Financial planning can be used as a tool to prevent financial challenges. | | | | | |
| i) The county's plan includes an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance. | | | | | |
| j) The financial plan(s) has/have monitoring mechanisms that indicates financial health. | | | | | |
| k) The county government conducts monthly and yearly budget variance analysis. | | | | | |

Suggest other ways to improve in Financial Planning and Budgeting Practices to enhance performance of county governments in Kenya.

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## PART 2C: INTERNAL CONTROL PRACTICES

Please indicate the extent of your agreement with the listed statements about **Internal Control practices** of county governments in Kenya. Kindly tick appropriately where; SD=Strongly Disagree, D=Disagree, N=neither Disagree nor Agree, A=Agree, SA=Strongly Agree.

| STATEMENT | SD | D | N | A | SA |
|---|---|---|---|---|---|
| a) I am aware of the existence of the Audit Committee | | | | | |
| b) Activities are carried out as planned | | | | | |
| c) I have confidence in the internal audit team | | | | | |
| d) The internal accounting system is manual | | | | | |
| e) There are incentives to discover and report control deficiencies | | | | | |
| f) There is separation of duties and responsibilities in the audit team (for bookkeeping, deposits, reporting and auditing) | | | | | |
| g) Access is controlled to different parts of an accounting system via passwords, lockouts and electronic access | | | | | |
| h) There are robust access tracking mechanisms that serve to deter attempts at fraudulent access. | | | | | |
| i) Physical audits are frequently conducted on any physical asset tracked in the accounting system, such as inventory, materials and tools. | | | | | |
| j) The county has standardised documents used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, to maintain consistency in record keeping over time. | | | | | |
| k) Occasional accounting reconciliations is done | | | | | |
| l) There are specific managers/officers required to authorize certain types of transactions | | | | | |
| m) Audit personnel have high integrity and ethical values. | | | | | |
| n) The governor has “hands-on” oversight involvement in the audit activities. | | | | | |
| o) Management personnel communicate internal controls through frequent contact with accounting personnel. | | | | | |

Suggest other forms of internal control practices that can be implemented in order to increase the performance of county government.

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## PART 2D: PUBLIC FINANCE PROCUREMENT PRACTICES

Please indicate the extent of your agreement with the listed statements about **Public finance procurement practices** of county governments in Kenya. Kindly tick appropriately where; SD=Strongly Disagree, D=Disagree, N=neither Disagree nor Agree, A=Agree, SA=Strongly Agree.

| STATEMENT | SD | D | N | A | SA |
|---|---|---|---|---|---|
| a) The county government conforms to the existing public procurement and asset disposal act and its regulations. | | | | | |
| b) The county government utilizes the e-procurement module which is aimed at improving financial performance. | | | | | |
| c) The county's overall supply chain management system is effective in sourcing and payment of goods, works and services. | | | | | |
| d) The county's procurement process is time sensitive. | | | | | |
| e) The county government procurement process is anchored on fairness to all bidders. | | | | | |
| f) There is separation of financial authority and purchasing authority. | | | | | |
| g) There is separation of duties between personnel who make contracts, those who receive the goods or services, and those who authorize payments. | | | | | |
| h) Requirements which are above a certain financial threshold are normally advertised in accordance with particular regulations on public procurement. | | | | | |
| i) Competition is used to acquire goods and services. | | | | | |
| j) Purchasing is based on value for money. | | | | | |
| k) All procurement transactions are undertaken in an ethical and honest way. | | | | | |
| l) Suppliers and customers are informed and protected. | | | | | |
| m) The price quoted and terms of payment are clearly negotiated to avoid non-delivery and partial-deliveries which lead to stock-outs. | | | | | |
| n) We are required to prepare procurement plans in time for consolidation in line with annual budget estimates. | | | | | |

In your opinion, indicate the public finance procurement practices that can be implemented to improve the performance of county government.
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## PART 2E: REVENUE MOBILISATION PRACTICES

Please indicate the extent of your agreement with the listed statements about **Revenue Mobilisation practices** of county government in Kenya. Kindly tick appropriately where; SD=Strongly Disagree, D=Disagree, N=neither Disagree nor Agree, A=Agree, SA=Strongly Agree.

| STATEMENT | SD | D | N | A | SA |
|---|---|---|---|---|---|
| a) There are efforts in the county to optimize own source revenues | | | | | |
| b) Our revenue collection is automated | | | | | |
| c) Revenue automation will increase performance | | | | | |
| d) The county revenue management system conforms with existing national and county policies | | | | | |
| e) Our Finance Act is fully implemented | | | | | |
| f) Raising of sufficient local revenues will empower the county | | | | | |
| g) The raising of local revenues has not increased service delivery demands from residents | | | | | |
| h) Our revenue administration is weak | | | | | |
| i) We have sufficiently trained revenue staff | | | | | |
| j) We have not had any disciplinary problem with our staff on revenue leakage | | | | | |
| k) The county is legally and politically doing nothing to motivate the residents to fulfil their revenue obligations | | | | | |
| l) There are so many revenue leakages involving our revenue collectors | | | | | |
| m) The county has not developed new and sustainable strategies to improve revenue mobilization | | | | | |

Identify the major challenges that the county government faces in mobilizing optimal revenue.
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Suggest the appropriate solutions to the major challenges hindering maximum mobilisation of revenue by the county government.
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## PART 2F: PUBLIC FINANCIAL GOVERNANCE PRACTICES

Please indicate the extent of your agreement with the listed statements about **Public financial governance practices** of county government in Kenya. Kindly tick appropriately where; SD=Strongly Disagree, D=Disagree, N=neither Disagree nor Agree, A=Agree, SA=Strongly Agree.

| STATEMENT | SD | D | N | A | SA |
|---|---|---|---|---|---|
| a) The county government fully complies with provisions of all relevant financial laws and regulations that guides daily operations | | | | | |
| b) The county government has a service charter that clearly spells out service delivery targets | | | | | |
| c) There are potential conflicts of interest between the County Assembly and County Executive | | | | | |
| d) Financial understanding and decision-making rests with few officers | | | | | |
| e) All MCA's are able to identify and comprehend the key issues contained in financial statements and financial reports | | | | | |
| f) All financial information is presented in a form that supports decision-making and public accountability | | | | | |
| g) We conduct public participation on all county policies | | | | | |
| h) There is a formal code of conduct defining the standards of behavior to which all employees of the county are required to subscribe and adhere to | | | | | |
| i) There are ways in which the behavior of those in governance roles might undermine the county's aims and values | | | | | |
| j) The county has established appropriate mechanisms to ensure that all employees are not influenced by prejudice, bias, or conflicts of interest | | | | | |
| k) The Governor/CECM takes personal responsibility for the ethical standards in his or her department | | | | | |

l) There are values that staff are expected to demonstrate in their actions and behavior
m) The values are documented and communicated effectively to all staff
n) The county has an anti-fraud and corruption policy
o) The county employees know what to do if they suspect misconduct, fraud, or corruption

In your opinion, suggest Public financial governance practices that can be instituted by the county government to enhance their performance.

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**THANK YOU FOR YOUR TIME AND PATIENCE**

**Appendix III: Data Collection Sheet for Locally Collected Revenue**

| S/NO | COUNTY | FYI 2015/2016 (SHS) | FYI 2016/2017(SHS) |
|---|---|---|---|
| **1.** | Nairobi | | |
| **2.** | Mombasa | | |
| **3.** | Kiambu | | |
| **4.** | Nakuru | | |
| **5.** | Narok | | |
| **6.** | Machakos | | |
| **7.** | Kisumu | | |
| **8.** | Uasin Gishu | | |
| **9.** | Nyeri | | |
| **10.** | Kilifi | | |

## Appendix IV: Correlation Matrix

| | | Financial planning and budgeting practices | Internal control practices | Public finance procurement practices | Revenue mobilization practices | Public financial governance practices | Performance | Public financial management practices |
|---|---|---|---|---|---|---|---|---|
| **Financial planning and budgeting practices** | Pearson Correlation | 1 | | | | | . | |
| | Sig. (2-tailed) | | | | | | | |
| | N | 210 | | | | | | |
| **Internal control practices** | Pearson Correlation | .430** | 1 | | | . | | |
| | Sig. (2-tailed) | .000 | | | | | | |
| | N | 210 | 210 | | | | | |
| **Public finance procurement practices** | Pearson Correlation | .359** | .532** | 1 | | | | |
| | Sig. (2-tailed) | .000 | .000 | | | | | |
| | N | 210 | 210 | 210 | | | | |
| **Revenue mobilization practices** | Pearson Correlation | .687** | .305** | .284** | 1 | . | | |
| | Sig. (2-tailed) | .000 | .000 | .000 | | | | |
| | N | 210 | 210 | 210 | 210 | | | |
| **Public financial governance practices** | Pearson Correlation | .401** | .598** | .633** | .354** | 1 | | |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | | | |
| | N | 210 | 210 | 210 | 210 | 210 | | |
| **Performance** | Pearson Correlation | .367** | .573** | .520** | .321** | .456** | 1 | |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | .000 | | |
| | N | 210 | 210 | 210 | 210 | 210 | 210 | |
| **Public financial management practices** | Pearson Correlation | .592** | .327** | .271** | .522** | .288** | .303** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | .000 | .000 | |
| | N | 210 | 210 | 210 | 210 | 210 | 210 | 210 |

****. Correlation is significant at the 0.05 level (2-tailed).**

**Appendix V: List of County Governments in Kenya**

| S/NO | County Name | Physical Location | Contact Address |
|---|---|---|---|
| 1. | Mombasa | Annex Wing on the 4th Floor of Bima House, Mombasa Town. | P.O. Box is 81599-80100 GPO<br>Telephone contacts: 0721328829.<br>Email address: info@mombasa.go.ke<br>Website: www.mombasa.go.ke |
| 2. | Kwale | Ukunda-Likoni Road, through Kombani Junction to Kwale Town | P.O. Box 4-80403, Kwale<br>Telephone contacts: 0721883464.<br>Email address: info@kwale.go.ke<br>Website: www.kwale.go.ke |
| 3. | Kilifi | Kilifi Town | P.O. Box 519- 80108, Kilifi.<br>Telephone contacts: 0713884625<br>Email address: government@kilifi.go.ke<br>Website: www.kilifi.go.ke |
| 4. | Tana River | Trade House, County Council Road Hola | 29 -70101 Trade House,<br>Telephone contacts: +254-730-626000<br>Email address: info@tanariver.go.ke<br>Website: www.tanariver.go.ke |
| 5. | Lamu | Lamu County Council Offices in Lamu Town | P.O. Box 74-80500, Lamu<br>Telephone contacts:0715 000555, 0715 555111<br>Email address: info@lamu.go.ke<br>Website: www.lamu.go.ke |
| 6. | Taita Taveta | Taita Taveta Town | P.O. Box 1066-80304 Wundanyi<br>Telephone contacts:0788186436, 0718988717<br>Email address: info@taitataveta.go.ke<br>Website: www.taitataveta.go.ke |

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|---|---|---|---|
| 7. | Garissa | Garissa County Assembly Building found opposite Garissa Posta Offices along Posta Road. | P.O. Box 57-70100, Garissa<br>Telephone contacts: (020) 2586235.<br>Email address: info@garissa.go.ke.<br>Website: www.garissa.go.ke |
| 8. | Wajir | East Gate Building along Airport Road Wajir. | P.O. Box 9-70200, Wajir<br>Telephone contacts: 0723405202, 0722521244 and 0721820952.<br>Email address: info@wajir.go.ke<br>Website: www.wajir.go.ke |
| 9. | Mandera | Granada Building in Mandera Town | P.O. Box 13-70300, Mandera.<br>Telephone contacts:+254 046 210 4000<br>Email address: info@mandera.go.ke<br>Website: www.mandera.go.ke |
| 10. | Marsabit | Marsabit District Commissioner`s Office,1st Floor | P.O. Box 210-60500.<br>Telephone contacts: 0722654168, 0733273506.<br>Email address: info@marsabit.go.ke<br>Website: www.marsabit.go.ke |
| 11. | Isiolo | Isiolo Town, Hospital Road | P.O. Box 36-60300, Isiolo.<br>Telephone contacts: 0722423405<br>Email address: info@isiolo.go.ke<br>Website: www.isiolo.go.ke |
| 12. | Meru | Meru Town | P.O. Box 120-60200, Meru.<br>Telephone contacts: 0709 241000<br>Email address: merucounty@meru.go.ke<br>Website: Meru.go.ke |
| 13. | Tharaka Nithi | Kathwana County Headquarters | P.O. Box 2-60400, Chuka |

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|---|---|---|---|
| | | | Telephone contacts: 064-630071, 0706477670<br>Email address: info@tharakanithi.go.ke<br>Website: www.tharakanithi.go.ke |
| 14. | Embu | Embu Town Hall (Former Embu Town Municipal Council Offices) | P.O. Box 36-60100, Embu.<br>Telephone contacts:+254 68 30686, +254 68 30656, +254 771 204 003, +254 703 192 924<br>Email address: info@embu.go.ke<br>Website: www.embu.go.ke |
| 15. | Kitui | Tana Athi Water Services Board Building, Ground Floor | P.O. Box 33-90200, Kitui.<br>Telephone contacts: 0702 615 444, 0731 717 100<br>Email address: info@kitui.go.ke<br>Website: www.kitui.go.ke |
| 16. | Machakos | Along Machakos Highway | P.O. Box 262-90100, Machakos<br>Telephone contacts: 045 66 22 121<br>Email address: info@machakosgovernment.co.ke<br>Website: www.machakos.go.ke |
| 17. | Makueni | Off Wote-Makindu Highway | P.O. Box 78-90300, Makueni.<br>Telephone contacts: 20 2034944.<br>Email address: info@makueni.go.ke<br>Website: www.makueni.go.ke |
| 18. | Nyandarua | Nyandarua County Commissioner Compound | P.O Box 701 – 20303 Ol'Kalou<br>Email: info@nyandarua.go.ke<br>Telephone contacts: (+254) 0792735720, 0792735736<br>Email address: info@nyandarua.go.ke<br>Website: www.nyandarua.go.ke |
| 19. | Nyeri | Nyeri Town Hall found along Kenyatta Road | P.O. Box 1112-10100, Nyeri<br>Telephone contacts:+254 (721/722)-019019, +254 774 050050 |

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|---|---|---|---|
| | | | Email address: info@nyeri.go.ke<br>Website: www.nyeri.go.ke |
| 20. | Kirinyaga | Oasis of Hope Building in Kutus Town | P.O. Box 260-10304, Kutus<br>Telephone contacts: 020-8010181<br>Email address: info@kirinyaga.go.ke<br>Website: www.kirinyaga.go.ke |
| 21. | Murang'a | Opposite the Information Office and Murang`a County Police Headquarters | P.O. Box 52-10200, Murang`a.<br>Telephone contacts: (060)2030271, 0716833073.<br>Email address: info@muranga.go.ke<br>Website: www.muranga.go.ke |
| 22. | Kiambu | Kiambu town | P.O. Box 2344-00900, Kiambu<br>Telephone contacts:+254 709 877 000<br>Email address: info@kiambu.go.ke<br>Website: www.kiambu.go.ke |
| 23. | Turkana | Turkana Town | P.O. Box 11-30500, Lowdar.<br>Telephone contacts:0723730513.<br>Email address: info@turkana.go.ke<br>Website: www.turkana.go.ke |
| 24. | West Pokot | Kapenguria Town | P.O. Box 222-30600 Kapenguria.<br>Telephone contacts: 05 320 14000.<br>Email address: info@westpokot.go.ke<br>Website: www.westpokot.go.ke |
| 25. | Samburu | Along Maralala-Baragoi Road on Former Samburu County Council Offices | P.O. Box 3 – 20600,<br>Maralal, Kenya.<br>Telephone contacts:+254 065 62456, +254 65 62075<br>Email address: info@samburu.go.ke<br>Website: www.samburu.go.ke |
| 26. | Trans Nzoia | County Assembly Building. | P.O. Box 4211-30200, Kitale |

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|---|---|---|---|
| | | Kitale Town | Telephone contacts:(054)30301, (054)30302.<br>Email address: info@transnzoia.go.ke<br>Website: www.transnzoia.go.ke |
| 27. | Uasin Gishu | Uganda Road in Eldoret Town | P.O. Box 40-30100, Eldoret.<br>Telephone contacts:0723412161<br>Email address: info@uasingishu.go.ke<br>Website: www.uasingishu.go.ke |
| 28. | Elgeyo Marakwet | Former Sandrep Building in Iten Town | P.O. Box 220-30700, Iten.<br>Telephone contacts: 254 (0) 704 220 220<br>254(0)734 220220<br>Email address: info@elgeyomarakwet.go.ke<br>Website: www.elgeyomarakwet.go.ke |
| 29. | Nandi | Kapsabet | P. O. Box 802-30300, Kapsabet, Kenya<br>Telephone contacts:053-5-252355<br>Email address: info@nandi.go.ke<br>Website: www.nandi.go.ke |
| 30. | Baringo | Kabarnet Town | P.O BOX 53-30400, Kabarnet<br>Telephone contacts:+254 (0) 53 - 22115<br>Email address: info@baringo.go.ke<br>Website: www.baringo.go.ke |
| 31. | Laikipia | Nanyuki Town, Former Municipal Laikipia County Councils Offices | P.O. Box 1271-10400, Nanyuki.<br>Telephone contacts:0733446830<br>Email address: info@laikipiacounty.go.ke<br>Website: www.laikipia.go.ke |
| 32. | Nakuru | Government Road/Moi Road in Nakuru Town | P.O. Box 2870-20100, Nakuru<br>Telephone contacts:0775-096861, 0711133005, (051) 2216379/80, (051) 2214142<br>Email address: info@nakuru.go.ke<br>Website: www.nakuru.go.ke |

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| 33. | Narok | Off Mau Narok - Nakuru Road, Narok Town | P.O. Box 898-20500, Narok.<br>Telephone contacts:0721894485, 0721241577, 0725904436<br>Email address: info@narok.go.ke<br>Website: www.narok.go.ke |
| 34. | Kajiado | Kajiado Town | P.O. Box 11, Kajiado<br>Telephone contacts: 045 2123000<br>Email address: info@kajiado.go.ke<br>Website: www.kajiado.go.ke |
| 35. | Kericho | Kericho-Nakuru Highway, County Executive Building in Kericho Town | P.O. Box 112- 20200, Kericho.<br>Telephone contacts: (052)20214 and (052)20624<br>Email address: info@kericho.go.ke<br>Website: www.kericho.go.ke |
| 36. | Bomet | Bomet Town, next to Bomet County Commissioners Office | P.O. Box 19-20400 Bomet.<br>Telephone contacts: 0202084069/70, 0772 99 11 44, 0700938585.<br>Email address: info@bomet.go.ke<br>Website: www.bomet.go.ke |
| 37. | Kakamega | Kakamega-Mumias Road Junction , Kakamega County | P.O. Box 36, Kakamega.<br>Telephone contacts: 056 2031850, 056 2031852, 056 2031853<br>Email address: info@kakamega.go.ke<br>Website: www.kakamega.go.ke |
| 38. | Vihiga | Mbale Town, Majengo-Luanda Rd | P. O. Box 344 – 50300<br>Telephone contacts: +254 0720 375 045<br>Email address: info@vihiga.go.ke<br>Website: www.vihiga.go.ke |

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| 39. | Bungoma | Former Bungoma Town, Municipal Council Building | P.O. Box 437-50200, Bungoma.<br>Telephone contacts: (055) 30343, 0725 571556.<br>Email address: info@bungoma.go.ke<br>Website: www.bungoma.go.ke |
| 40. | Busia | Office of The Governor on Busia-Kisumu Road | P.O. Box Private Bag 50400, Busia.<br>Telephone contacts: 0715404040<br>Email address: info@busiacounty.go.ke<br>Website: www.busiacounty.go.ke |
| 41. | Siaya | Siaya Town, IFAD Building | P.O. Box 803-40600, Siaya.<br>Telephone contacts: +254 727 898309<br>Email address: info@siaya.go.ke<br>Website: www.siaya.go.ke |
| 42. | Kisumu | 2nd floor, The Prosperity House Kisumu | P.O. Box 2738-40100, Kisumu.<br>Telephone contacts:+254 773 456 711, 057-2025366, 057-2025388, 057-2025377, 0773 456 711<br>Email address: info@kisumu.go.ke<br>Website: www.kisumu.go.ke |
| 43. | Homa Bay | Office of the Governor,County Government of Homa Bay, | P.O. Box 469-40300, Homabay.<br>Telephone contacts: 0734 889977.<br>Email address: governor@homabay.go.ke<br>Website: Homabay.go.ke |
| 44. | Migori | Former Municipal Council Offices, Migori County | P.O. Box 195-40400, Migori.<br>Telephone contacts:+254 726 319 450, 770 304 976, 736 860 086<br>Email address: info@migori.go.ke<br>Website: www.migori.go.ke |
| 45. | Kisii | Kisii Town, Old Municipal Town Hall Building | P.O. Box 4550-40200, Kisii. |

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| | | | Telephone contacts: +254 709 727 000/+254 730 184 000<br>Email address: info@kisii.go.ke<br>Website: www.kisii.go.ke |
| 46. | Nyamira | Old Nyamira South District Headquarters, Nyamira town. | P.O Box 434 - 40500, Nyamira.<br>Telephone contacts:+254-058-6144288, (+001) 234 5678<br>Email address: info@nyamira.go.ke<br>Website: www.nyamira.go.ke |
| 47. | Nairobi | City Hall, along City Hall Way in Nairobi | P.O. Box 30075-00100, Nairobi.<br>Telephone contacts:020-344194, 0725-624489<br>Email address: info@nairobi.go.ke<br>Website: www.nairobi.go.ke |

## Appendix V: Counties' Accounting Departments and Directorates

1. Finance and Economic Planning Department
2. Agriculture, Livestock, Fisheries and Cooperative Department
3. Environment, Water, Energy and Natural Resources Department
4. Administration and Coordination of County Affairs Department
5. Education, Science and Technical Vocational Education Training Department
6. Transport, Infrastructure and Communication Department
7. Health Services Department
8. Physical Planning, Land and Housing Department
9. Youths, Sports, Culture and Social Services Department
10. Trade, Industry, Tourism and Entrepreneurship Department
11. Governor's office
12. County Assembly
13. County Public Service Board
14. Directorate of Finance
15. Directorate of Accounting Services
16. Directorate of Internal Audit
17. Directorate of Revenue
18. Directorate of Supply Chain Management
19. Directorate of Budgeting
20. Directorate of Economic Planning
21. Directorate of Monitoring and Evaluation