FINANCIAL MANAGEMENT DIMENSIONS AND FINANCIAL DISTRESS IN COUNTY GOVERNMENTS OF KENYA

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Financial Management Dimensions and Financial Distress in County Governments of Kenya

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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

I dedicate this thesis to my dear wife and children for their moral support throughout my course.

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ACRONYMS AND ABBREVIATIONS

AHP	Analytic Hierarchy Process
AIS	Accounting Information Systems
CAT	Critical Accounting Theory
CRA	Commission on Revenue Allocation
FIS	Financial Information Systems
FSRB	Financial Stability Review Board
GLC	Government Linked Companies
ICDC	Industrial and Commercial Development Corporation in Kenya
ICT	Information Communication Technology
IEA	Institute of Economic Affairs
IFMIS	Integrated Financial Management Information Systems
LAIFOMS	Local Authorities Integrated Financial Operations Management Systems
MDA	Multiple Discriminant Analysis
RDT	Resource Dependency Theory
SPSS	Statistical Packages for Social Sciences

DEFINITION OF OPERATIONAL TERMS

Auditing Practices Auditing practices are the processes and evaluation activities aimed at ensuring that levels of compliance in financial and accounting activities are adhered to and standards are followed (Lin, Yang, & Wang, 2018).

Debt management Debt management means putting into action the policies and guidelines that guide the debt acquisition and payment by the county governments (Kuhlmann & Bogumil, 2018).

Financial Distress Financial distress means deterioration of economic status of organization which leads to insufficient financial resources to settle debt obligations and offer standardized services to the public (Sehgal, Mishra, Deisting, & Vashisht, 2021).

Financial Information Systems Financial information systems refer to the platforms of the software that aids management of financial activities of county governments (Dewi, Azam, & Yusoff, 2019).

Financial Management Dimensions Refers to the practices of ensuring revenue generation adequacy, proper management and utilization of financial resources in conformity withobjectives of County Governments and the expectations of the citizens (Kristensen, Bowen, Long, Mustapha, & Zrinski, 2019).

Revenue Management Revenue management refers to the application of mechanisms that guides optimal collection and appropriate utilization of revenue (Park, Kim, & Chen, 2022).

ABSTRACT

County governments of Kenya have experienced significant challenges in financing key development projects, paying contractors and suppliers as well as employees' salaries in time. The accumulation of these due payments and liabilities have contributed immensely to the deterioration of financial health of counties in the country. This situation necessitated the undertaking of research on financial management dimensions and financial distress in county governments of Kenya. The objectives of the study were based on dimensions of financial management in government sector and included; to examine the influence of revenue management on financial distress, to determine the influence of auditing practices on financial distress, to assess the influence of debt management practices on financial distress, to examine the influence of financial information systems on financial distress in county governments of Kenya and to determine the moderating effect of counties' resource allocation on financial management dimensions influencing financial distress in County Governments of Kenya. The research was further guided by six theories comprising; wrecker's theory, theory of critical accounting, debt management theory, entropy theory, resource dependency theory and financial distress theory. Descriptive survey research design was employed. Data was collected from auditors and accountants in Nairobi, Nakuru, Kakamega, Meru and Kilifi County Governments. A sample of 103 respondents was obtained from total 212 auditors and accountants using stratified random sampling technique. Data was collected through questionnaires and analysed using descriptive and inferential statistical methods with aid of statistical packages for social sciences. Study findings were presented by statistical tables. Descriptive findings established that financial management dimensions; local revenue management, auditing practices, debt management and financial information systems influenced financial distress. The correlation coefficient results established a strong relationship between the financial management dimensions in the county governments and financial distress. In particular, the coefficient of determination revealed that financial distress was explained by the changes in the revenue management, auditing practices, debt management, and financial information systems. Based on study findings, County governments of Kenya are recommended to formulate proper policies and strategies for revenue collection and utilization. They should come up with better collection methods and ways of sealing loopholes for revenue loss. It is also recommended that county governments should relook into competences of the auditors and increase financial support for auditing activities. The research work will be beneficial to finance departments in National and County Governments. They will guide on sourcing and utilization of financial resources, management of debts and efficiency in service delivery. It will also provide ingredients for improving the monitoring of county activities by national government through the office of auditor general to ensure compliance and efficient service delivery.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial management in the government sector involves management of resources, expenditure of public funds and provision of essential services to the citizens at different levels in a Country (Saputra, 2021). Financial management establishes the standards, systems and frameworks for effective management of resources for economic stability. Furthermore, it provides basis for allocation of public funds and accounting for public expenditures and income. Therefore, financial management incorporates management of revenue, expenditure framework, debt management, budgeting, financial reporting and audit of public funds (Hadi, Handajani, & Putra, 2018). Local governments around the world encounter the common challenge of maintaining sufficient financial resources to fulfill the needs of the public. According to Teremetskyi, Velychko, Lialiuk, Gutsul, Smereka, and Sidliar (2021) sound financial management in the government sector is critical in the enhancement of quality public service delivery at local governments. Therefore, local governments ought to promote long-term economic sustainability through effective and efficient usage of public funds.

Management of local governments' revenue is a key dimension of financial management in government/public sector (Ntoiti, 2013). Local governments usually obtain revenue from natural resources, taxes, public debts and grants. The collected revenues are utilized in provision of services such as health, environmental management services, housing, and education among others. However, these services depend on the financial management effectiveness in local governments. Inappropriate or poor financial management could imply ineffective utilization and misuse of financial resources which lead to financial distress and fiscal unsustainability. Additionally, Saputra (2021) opines that management of public funds determine the effectiveness of decision making concerning management and delivery of public services.

County governments are faced with challenge of service provision and meeting external financial liabilities in times of funds' inefficiencies (Maina, 2015). The public interests ought to prioritized thus allocation of revenue should be in the areas that are of public need. Therefore, financial accountability is imperative for County Governments. Yussuf and Abdul (2022) suggested that county governments ought to report accurate statements reflecting true financial performance of the government. Proper accounting for public funds influence transparency and accountability and foster confidence in the public sector. Financial management helps local governments to meet the demands of the people utilizing the limited and scarce financial resources (Dewi, Azam, & Yusoff, 2019). For this purpose, local governments are required to collect adequate revenue to deliver most essential services to the satisfaction of the residents. Sound financial management makes local governments financially sustainable (Alcaide-Munoz, Rodriguez-Bolivar, & Lopez-Hernandez, 2017). Conversely, financially unsustainable local governments are mainly associated with financial distress. This continues to be a common challenge among local/county governments particularly in undeveloped Countries.

Ineffective financial management among County Governments is usually attributed to inability to settle outstanding bills and service delivery inadequacy (Odoyo, Adero & Chumba, 2014). County governments in financial distress usually offer unsatisfactory services or services that does not meet the quality expectations of the local residents. Lack of quality are mainly contributed by misuse of public financial resources, particularly in developing Countries. Therefore, fiscal crisis continues to impact on local governments especially in the third world countries (Aswar, 2019). The fraud, leakages and waste of public resources is a major problem for them as it leads to failure to cater for the infrastructure and associated costs. In addition to revenue inadequacy and increases in service demands, county governments must adhere to numerous central government requirements that are not necessarily accompanied by funds from them (Mutya & Josephine, 2018).

Ali, Liu, and Su (2014) maintained that management organization's liabilities appropriately contributes to good performance and reduces chances of financial distress. As such, various corporate institutions apply debt financing but put in proper

debt management strategies. However, in government platforms such as local authorities, acquisition and utilization of debts may lead them to financial distress which is induced by misuse of such funds by managers and accumulation of interest rates regardless of the flow of funds from national governments and their own local revenue (Setyanto & Handayani, 2020). Auditing practices play a crucial role in ensuring accountability, transparency, and the effective management of public funds within the realm of financial management in the public sector. However, availability of good auditing practices does not guarantee accountability if the top management does not support the work of the internal auditors (Sari, Saputra, & Siahaan, 2018). Moreover, financial management in county governments include the aspect of managing public debts (De-Matteis & Preite, 2018). Debt management establishes and executes the fiscal strategy for local/county governments' debts to promote adequate public sector financing in a cost-effective manner (Budzeń, 2018). Therefore, debt management ought to lead to acquisition of sustainable levels of debt which can be serviced while meeting the risks and costs' objectives. Through effective debt management, county governments should be aware of public debt financing impacts, regarding the costs of borrowing. It is paramount for county governments to analyze debt suitability concerns by examining the debt service ratios and the ratio of debt to revenue. Unsustainable debt levels demonstrate inability of the county governments to meet the borrowing costs (Budzeń, 2018). This implies that county governments cannot settle debt obligations, become insolvent and financially distressed.

Financial information systems are vital in public sector financial management for facilitating proper monitoring, efficient utilization, and transparent accountability of allocated funds (Lucianelli, Citro, Santis, & Mazzillo, 2018). However, the financial information systems in Kenya's county governments could be possibly ineffective. This has contributed to inadequate monitoring and tracking of expenditures in county governments posing significant financial challenges and ultimate financial distress (Institute of Economic Affairs IEA, 2019). Financial distress manifests in the inability of county governments to meet short-term obligations such as timely payments of salaries and supplier bills. It also presents challenges in managing long-term financial commitments like revenue generation trends, public debt management, and funding essential services.

1.1.1 Global Perspectives of Financial Management Dimensions and Financial Distress

Financial management and financial distress among local governments have been issues of major worldwide. Many Countries have adopted decentralized system of government thus financial management in devolved units is of vital importance across the globe. Rodríguez Bolívar, Navarro Galera, Alcaide Muñoz & López Subirés (2016) noted that Spanish government emphasizes more on the financial management oversight and financial activities of local governments to curtail financial crisis. There is proper working relationship between local governments and Spanish national government. Financial mismanagement in form of corruption and embezzlement of funds from the local units leads to fiscal difficulties and greater discrepancy between the required resources and the available amount of revenue. Local authorities ought to consider fiscal benchmarking to track financial situations of various local governments to determine their strengths and weaknesses in regard to financial management. Greater emphasis had to be laid upon the financial ratios in regard to revenues, expenditures, operating efficiencies, debts structures and auditing practices to enable the local governments to avoid reaching the points of financial distress (Bisogno, Cuadrado-Ballesteros, & García-Sánchez, 2017).

According to O'connor, (2017) incremental approaches to develop policies for controlling financial crisis are preferred by local authorities in United States of America. Conditions such as demographic changes, decline in local business activity and assignment of public responsibilities without sufficient funds allocated to local governments to finance them influenced financial distress. Incorrect accounting methods, budgeting and financial disclosure subjects county governments to financial difficulties (Gilbert, Stevenson, Girardet & Stren, 2013). Local authorities in countries such as Australia are required to conform to accounting standards for accountability and compliance. Detailed financial statements on cash flows, cash position, liquidity and debt servicing capacity are of importance to local governments in achieving efficiency in utilization of the available resources to serve residents. They enable them to determine their financial ability to utilize their resources to serve all the people.

Decentralization in Argentina was adopted when central government was forced to contend with significant deficits in budgeting and restrictions of credit in the Country (Smith, & Revell, 2016). The Country had experienced inefficiency in public sector whereby thus the need to create sub-national governments and devolve functions. They are more aware of the problems at grassroots levels and better decisions are made at such levels (Smith, & Revell, 2016). Local governments have increased social welfare, which is the ultimate goal of decentralization policies in Argentina. Decentralization in Argentina comprise of Buenos Aires City, 23 provinces and 2,252 local governments. However, these sub-national governmental are not entirely free of financial challenges. They are battling corruption and poor leadership that contribute to financial distress (Smith, & Revell, 2016).

Financial distress is a major obstacle to service delivery by the jurisdiction of Mexican municipalities (Topal, 2015). They have the responsibilities to provide public services that include; drinking water, drainage, sanitation and sewerage services, public lighting, garbage collection, transportation, maintaining markets among other others. However, these services are not provided to the satisfaction of the local residents. Corruption is a significant deterrent to service delivery by the municipalities.

According to Tran and Dollery (2021) the size of the local authority may have a moderating effect on the level of indebtedness hence bigger local governments might be more indebted than smaller ones in Australia. They expand their level of liabilities in a bid to serve the huge population in their jurisdictions. Mismanagements of the funds at their disposal may lead to financial destabilization thus provision of essential services and functions are in jeopardy. As such, creditors, suppliers and contractors cannot be paid in time and according to the laid down procedures of engagement which leads to insolvency and failure of a local government. Furthermore, Brusca, Rossi, and Aversano (2015) noted that financial distress in local governments of Italy are influenced incompetence among the top management and the turbulent economic changes which affects the businesses paying revenue to the local authorities.

In Philippines in particular, decentralization of governance has been fully adopted by the Country (Canares, 2014). The national government is highly committed to support

the decentralized units strategically and financially. Local governments have been given more autonomy and support in spirit of promoting self-reliance in financial management of devolved units and service delivery. Local governments in the Country have the responsibilities of managing public works, health care, education, agricultural development, environmental management and natural resources (Canares, 2014). They are able to generate adequate revenue to incur expenditures in service delivery. They work together for the common benefits of the Philippines. The national governments transfer funds to boost the local revenue of the local governments to support the devolved responsibilities. The Local Government Units (LGUs) have the authority to obtain adequate taxes and other form of revenues whose management is based on existing revenue regulations and policies in the Country. Previously, the local governments were reliant on local own revenue to undertake their responsibilities. However, this changed with improved decentralization where national tax revenue is shared with local governments. The decentralization came with Internal Revenue Allotment (IRA). Under the Internal Revenue Allotment, 40% of national revenue is transferred to local governments. Allocating 40% of total revenue to local governments has significantly improved service delivery at local levels of the Country.

1.1.2 Regional Perspectives of Financial Management Dimensions and Financial Distress

In Africa, the adoption of decentralized system of government aims at economic transformation of the people through channeling resources to the local or county governments (Murana, 2015). However, devolution or fiscal decentralization has not met the expectations. For instance, many local governments have been associated with misuse of available resources and consistent mobilization and collection of inadequate revenue. Revenue sourcing by the local governments has brought significant fiscal concerns in Africa. In most cases, county governments' local revenue generation falls short of targets and cannot meet their obligations as a result. They have well-established public finance frameworks for guiding local revenue management but they seldom follow them.

Financial distress is a fundamental problem experienced by most local authorities in African region due to widening gap between the availability of financial resources and expenditure needs (Usang & Salim, 2016). There have been no effective plans for increasing fiscal gap to cater for expanding demand for public services and new public infrastructure and its maintenance. Most local governments depend largely on national government transfers since the local revenue is relatively low. Therefore, there are huge vertical imbalances in terms of sharing responsibilities and resources between central governments and local governments.

Financial distress has hindered appropriate service delivery by local governments of various countries in Africa. Ndevu and Muller (2017) indicated that many of the local municipalities faced financial difficulties because they overspend in current expenditures in South Africa. This led to financial distress due to huge spending on issues that did not benefit the residents in the country. Central governments extensive monitoring requires county governments to hire independent certified public accountants and auditors to review county finances through evaluation based on an intricate systems of various indicators regarding revenue and expenses. This can enable determination of the ability to raise cash to meet current needs and the capacity to pay long-term debts.

According to Murana (2015) local governments in Nigeria have constantly encountered the challenge of insufficient financial resources. The statutory federal allocations to the local governments have been inadequate to enhance adequacy in service delivery in the Country. Local governments depend highly on the federal allocations to engage in development projects. As such, the local governments are over dependent on federal governments for resource allocation and service delivery. Local governments collect little revenue, which is insufficient to initiate projects for the people and there has been agitations for increase revenue from federal authorities. Revenue insufficiency is a requisite for financial distress since local governments struggle in making bills payments and serving the residents in accordance to their expectations. Similarly, Usang and Salim (2016) noted that local governments' performance has deteriorated due to corruption and mismanagement of public financial resources. As such, the quality of service delivery has declined tremendously.

Performance of local governments is determined on the basis of effectiveness and quality of services delivered to the citizens through utilization of public funds. Expenditures are evaluated by internal audit. However, lack of independence and support for internal auditing mean that mismanagement and misuse of funds cannot be easily prevented.

Mutya and Josephine (2018) opined that Ugandan local authorities were associated with widespread reported misuse of resources and poor accountability. Most of their financial accounting information lack reliability and accuracy elements and are financially distressed. There are also questions about financial professionals who are supposed to adhere to reporting requirements of the legal and regulatory framework. Local governments are obliged to mobilize adequate revenue to fully execute their mandate in service delivery. Fostering political and administrative accountability through local communities' empowerment is a key responsibility of the local authorities. As such, their mandate lies in the provision clean water, public lighting systems, sanitation services; health services; education, roads' developments; drainage systems, and garbage collection services and They are experiencing financial distress since local revenue management in their jurisdictions encounter challenges of fraud and under target collections.

According to Farvacque-Vitkovic and Kopanyi (2014) expenditures on development projects did not match amount of revenue collected by local authorities in Egypt. It therefore meant that the supposed main aim of service delivery through development initiatives to the locals was not sufficiently met. In managing revenue and expenses, local governments occasionally confront deficits and periods when they lack enough cash to cover expenses accrued from their activities. Most of the time, they find ways to get through the temporary trouble by, for example, borrowing money over the short term. But when budget gaps widen and a local government cannot pay its bills, meet its payroll, balance its budget, or carry out essential services, it is viewed as distressed. Top management units may take extreme measures by responding with some combination of service cuts, worker layoffs, tax and fee increases, reserve spending, and extended borrowing (Tobbala, 2019). However, those measures may not work and the government finds itself still with no sufficient money to meet their financial

obligations. This can escalate into a financial crisis which may include defaulting on debts payment.

1.1.3 Kenyan Perspectives of Financial Management Dimensions and Financial Distress

Kenyan constitution has guaranteed unconditional transfer of 30% of national revenue for county governments which is only a minimum but remained to be inadequate in the sight of county governments given that they perform both decentralized government and typical local government functions (Mwengi, 2016). This may call for accurate assessment of revenue needs for county governments in the new constitutional order to make certain that county governments meet the broad objectives of devolved government. Financial distress has occurred in county governments of Kenya despite the national government's allocation and local revenue available to them. Finances have been mismanaged to a point that most of them are unable to settle their liabilities such as payment of salaries and debts owed to contractors and suppliers (Cheruiyot, Oketch, Namusonge, & Sakwa, 2017). As a result, they have been forced to operate on huge debts that attract higher interest rates painting a bad picture on the decentralization.

According to (Maina, 2015) financial distress is highly associated with deficiency in level of assets and high accumulation of debts. These force these organizations into negotiations with creditors about the conditions of deferment on their debt repayment during the ensuing period of distressed restructuring. Financial distress in county governments can be varied when taking into consideration the instability, vulnerability, and ultimately the deep-rooted structural change taking place in the world economy (Njihia, 2017). Financial distress arises from issues related to financial management. These issues include financial and operational risk parameters, mismanagement of funds, overleveraged institutions and expenditure inefficiencies (Yussuf & Abdul, 2022).

According to Ntoiti (2013) an incremental approach was the most appropriate for application by local governments when developing policies aimed at stemming financial crisis in their jurisdictions. It was further stated that policy makers needed to

find the right balance between the technical fix and politics for their policies to be adopted. Financial distress problem existed in Kenya even when local authorities; municipal and county councils were in operation. Moreover, the same mess has worsened since devolution started in the year 2013. Due to the presence of weak financial bases and incompetent personnel at local authorities, the adoption of e-government was impended. This was also observed by Nyanumba (2018) who claimed that inefficient financial management in municipal and county councils was caused by lack of embracement and application of information communication technology by local authorities County/Local governments continue to lose huge sums of money from parking fees, land rates and rent to corrupt officials exploiting weak financial management systems which hinders remittance and proper utilization of county funds.

1.1.4 Financial Management Dimensions and Financial Distress Perspectives in County Governments of Kenya

County Governments in Kenya operates on the devolved system of government as established in the 2010 constitution. The political power and financial resources are decentralized thus citizens have opportunities to contribute to the governance and development matters. Devolution was established to promote development in social and economic aspects as well as provision of services in accordance to the needs of the people (Nyanumba, 2018). As such, the devolved system of government further is meant to promote fairness, equity, efficiency and prudence in allocation and use of public resources. With the devolved systems, Kenya has found a way to achieve economic growth and development since Counties present new opportunities for employment and investments that pave way for more significant progress.

County governments ought to formulate and implement developments for the purpose of improving the living standards of Local Residents (Njihia, 2017). Devolution has brought about equal chances of development in the Country as the share of resources is equal. Moreover, all citizens including the marginalized communities and those deemed minorities have the benefits of self-governance, and management of their resources. County governments are grappling with growing liabilities, including public debts, retirement benefits, and settling of suppliers' bills (Maina, 2015). National

government agencies such as the auditor general office have the mandate audit counties. This auditing promotes transparency and accountability in usage of public financial resources. Despite this responsibility, little has been done to track the budgetary well-being of County Governments. Audits are conducted based on financial reports and budgets but little is done in regard to management of financial distress among Kenyan from county Governments in the Country. County Governments in Kenya have been featured with gross financial mismanagement. In the existence of integrity, effectiveness and efficiency in utilization of resources, many counties have obtained unqualified audit opinion from auditor general.

The management of public funds in Kenya' County Governments has been a major financial management concern (Mwengi, 2016). The main aim of devolution was to bring financial resources closer to the people and allow them participate in management of their resources. There is huge deviation from this expectation since most county counties are not accountable in usage of public funds according to reports by the Auditor General. Insufficient or lack of information concerning county expenditures, and evident poor service delivery imply embezzlement (Njihia, 2017).

According to annual report of the year 2018 by Auditor general, financial improprieties have been caused by unsupported expenditure, ghost projects, irregular payments and faulty procurement. The report established that Nakuru County was unable to account to assets and liabilities valued at Ksh3.8 billion. These assets and liabilities were unsupported by bank reconciliation statements. The same report indicated that Ksh1.9 billion could not be accounted for in the year under review. Revenue management in line of collection and utilization influence the stability of Kenya County governments' management of financial distress. County governments in Kenya are struggling to meet revenue targets to cater for various obligations. Based on the auditor general report of the year ended June 2018, Kilifi County collected Kshs.159 million against target of Kshs.766 million translating to shortfall of Kshs. 607 million. This was a demonstration of poor revenue collection management and a recipe for financial distress.

Settling of pending bills has a link to the financial distress in an organization. Bomet County had outstanding pending bills amounting to KSh. 267.7 million which has not been supported by authentic documents. As a result, the validity and accuracy of the pending bills could not be fully confirmed. Financial distress can also be triggered by wrongful utilization of financial information systems. Lack of proper accounting systems has facilitated misuse of public funds contributing to county governments' financial distress. It was indicated that Nairobi County lost Sh. 51 million which was siphoned off and paid to two Nairobi based Companies through the IFMIS. The County Government did not remit all the revenue collected to the County Revenue Fund Account as required by section 109(2) of the Public Finance Management Act, 2012 which provides that all money raised or received by or on behalf of the County Government is paid into that account. In addition, there were instances where the financial statements and the IFMIS records were different and remained reconciled or unexplained thus the completeness and accuracy of the financial statements ended 30 June 2018 could not be ascertained. This meant that they lacked proper financial information systems to avoid financial flaws that led to misuse of funds and financial distress. According to the County Governments Budget Implementation Review Report by the office of the Controller of Budget of year, 2015, Nairobi was among counties that contravened the public finance management law spending more money than what had been approved. Nairobi County had expenditure total at 143.3 per cent. Moreover, it was not among the best spending counties on development expenditure.

Larkey (2015) noted that organizations have to maintain accuracy and completeness of their accounting information in order to enhance effectiveness in financial management. In the case of Mombasa County, the validity, accuracy and completeness of the balances amounting to KShs. 299 million as at June 30, 2015, could not be ascertained. The Public Finance Management act requires county governments to keep the national governmental transfers, grants and own revenue in County Revenue Fund Account. On contrary, Mombasa County bank into the county revenue fund Sh165 million collected between January and June 2015. Unnecessary and unlawful expenditures are destabilizing the financial conditions of Kenyan Counties.

Irresponsible and unaccounted payments made by local authorities contribute so much to their financial distress (Njihia, 2017). Kakamega County was blamed for making irregular payments of KShs. 200 million to pay cane farmers of Mumias Sugar Company. The county also spent KShs.64 million for domestic and subsistence travel without supporting documents. Payment vouchers amounting to Sh13 million did not indicate the voucher number and the payee. Payments vouchers of KShs. 34.7 million indicated the voucher number but not the payee, while vouchers amounting to KShs. 15.9 million indicated only the payee and not the voucher number.

1.2 Statement of the Problem

The financial state of County Governments of Kenya has to be healthy for them to deliver services to the people (Cheruiyot, Namusonge, & Sakwa, 2018). Therefore, financial management in County Governments is a matter of concern as it indicates their ability to perform the devolved functions effectively. If the county governments are financially stable, they can finance development projects to promote service delivery and settle financial obligations on timely basis. However, this has not been the case in Kenya due to financial difficulties experienced by county governments. County Governments have not been able to settle their liabilities such as payment of salaries and debts owed to contractors and suppliers hence forced to operate on huge debts that attract higher interest rates due to failure to settle bank loans. This situation has led to a financial distress painting a bad picture on the devolution in Kenya. Financial distress has been experienced in counties whereby employees' dues have been delayed in many occasions leading to numerous strikes especially in the health departments. This problem has been persistent resulting to stalling of major county development initiatives. According to annual report of the year 2018 by Auditor general, Nakuru County was not able to account for Ksh1.9 billion in the same financial year. County governments in Kenya are struggling with financial distress due to inappropriate revenue management that means revenue collected fall short of targeted revenue. The 2017/18 fiscal year saw a target of Kshs. 929 million, but the county collected Kshs. 523 million, a 43.7% shortfall. Moreover, County Governments lack proper financial information systems to avoid financial flaws that led to misuse of funds and financial distress. As a result, Counties cannot settle their obligations

using local revenue thus over depend on national government resource allocations. These funds are sometimes delayed compiling more difficulties to counties and these calls for amicable solution in regard to management and utilization of county financial resources. There has been little attention from previous studies regarding the dimensions of financial management and financial distress in County Governments. Gituma, (2017) undertook a study on determinants of effective revenue collection by Embu County, Kenya and found that government policy, rules and regulations highly influenced optimal revenue collection. Ahmed and Nganga (2019) did a study on internal control practices and financial performance of county governments in the Coastal Region of Kenya and found a positive and significant effect between risk assessment, monitoring, control environment, information and communication on financial performance. Cheruiyot, Namusonge and Sakwa (2018) assessed the effect of financial planning and budgeting practices on performance of county governments in Kenya. The above studies have not adequately explained the relationship between financial management dimensions and financial distress satisfactorily. Therefore, the current study examined the influence of financial management dimensions on financial distress in county governments of Kenya.

1.3 Objectives of the Study

The study was guided by both general and specific Objectives.

1.3.1 General Objective

The general objective of the study was to examine the influence of financial management dimensions on financial distress in county governments of Kenya

1.3.2 Specific Objectives

i. To examine the influence of revenue management on financial distress in county governments of Kenya.
ii. To determine the influence of auditing practices on financial distress in county governments of Kenya.
iii. To assess the influence of debt management practices on financial distress of county governments of Kenya.

iv. To examine the influence of financial information systems on financial distress in county governments of Kenya.
v. To determine the moderating effect of counties' resource allocation on financial management dimensions influencing financial distress in County Governments of Kenya.

1.4 Research Hypotheses

H_{01}: Revenue management does not significantly influence financial distress in county governments of Kenya.

H_{02}: Auditing practices does not significantly influence financial distress in county governments of Kenya.

H_{03}: Debt Management does not significantly lead to financial distress in county governments of Kenya.

H_{04}: Financial information systems do not significantly contribute to financial distress in county governments of Kenya.

H_{05}: Counties' resource allocation does not significantly affect the relationship between financial management dimensions and financial distress in county governments of Kenya.

1.5 Significance of the Study

The current study is of great significance as it will benefit county governments, national government, other researchers and academic scholars.

1.5.1 County Governments

The role of county governments in Kenya is to provide services to the citizens at grassroots levels. This can be performed well when they are able to settle their financial obligations effectively. Therefore, it was important to conduct a study establishing the relationship between financial management dimensions and financial distress in the county governments. Departments of finance in county governments are set to benefit from the findings of the study. County governments are important as far as livelihoods

of the local residents are concerned in County Governments. They are tasked with providing services efficiently through various development projects. However, ineffective financial management curtail their ability to deliver services and settle other financial obligations. Misuse of revenues, failure to settle bills and debts lead to financial distress. The current study will be helpful in shaping the financial management of county governments. The findings will likely guide and assist in combating the financial management ineffectiveness in County Governments.

1.5.2 National Government

The current research work will be beneficial to finance departments in National and County Governments. They will guide on sourcing and utilization of financial resources, management of debts and efficiency in service delivery. It will also provide ingredients to improved monitoring of county activities by national government through the office of auditor general to ensure compliance. The national government and county governments usually have similar goal which is effective and efficient delivery of services to the Kenyans. Therefore, the national government has concerns on the performance of County Governments. The challenge of financial distress affect citizens at large thus intervention of the central govern to remedy on such problems is of vital importance. As such, the current study's findings will be of value to the national government, particularly the agencies in the treasury and economic planning. For instance, the commission on revenue allocation and the auditor general's office are engaged in allocation and use of county financial resources. Commission on Revenue Allocation (CRA) are at the centre of fiscal transfers to counties. They determine the amount of money transferred to County Governments. Availability of funds to the counties determine their ability to meet obligations to residents, suppliers, employees and other stakeholders. The adequacy of the money sent to counties influence their ability to pay salaries in time as well as settlement of suppliers and contractors bills. Inadequacy in allocation could partly contribute to financial distress. Therefore, the study findings provides recommendations to commission on revenue allocation on policies governing fiscal transfers that will ease the challenge of financial distress. On the other hand, the auditor general's office examines the expenditures of county governments. Misuse of funds generally lead to financial distress. The current

study recommends frameworks for engaging the accountants and county auditors to work together and safeguard the public funds.

1.5.3 Other Researchers and Academic Scholars

Other researchers and scholars will refer to the research for referencing while undertaking their works particularly in the field of finance. The will adopt the findings of the study as their empirical foundations and identification of research gaps to form basis of their research works.

1.6 Scope of the Study

The study targeted auditors and accountants from selected county governments of Kenya that included; Nairobi, Meru, Kilifi, Kakamega, and Nakuru County Governments. Auditors and accountants are deemed to understand most financial issues where the problem of financial distress emanates from. It was guided by a dependent variable which was financial distress and five independent variables; financial management dimensions in government sector which included; revenue management, Auditing practices, debt management and financial information systems. Counties' resource allocation was the moderating variable in the study. It was undertaken from year 2019 to 2021.

1.7 Limitations of the Study

The research was limited to 5 selected Counties due to time and financial constraints. Some respondents took long time than expected by the researcher citing busy work schedules as the reasons for delay. Some respondents were adamant to fill the questionnaires and the researcher struggled in explaining to them the sole academic purpose of the same. The research was undertaken within stated period of time as per the limit requirements of the University.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter outlines the previous literature that is closely related to the research topic. It includes theories, empirical studies and concepts touching on the financial distress in county governments. Therefore, it is reviewed for the purpose of focusing on the research problem and the objectives of the study. It provides relevant information that gives more insight into the item under study as well as assisting in analysis of the variables in regarding financial management dimensions and financial distress in County Governments of Kenya.

2.2 Theoretical Review

This section describes the theories that assist in explaining the concepts of financial management dimensions and financial distress. They include: Wreckers theory of financial distress, theory of critical accounting, theory of debt management, entropy theory, resource dependency theory and financial distress theory.

2.2.1 Wreckers Theory of Financial Distress

The wreckers' theory was first introduced by Campbell, Hilscher, and Szilagy (2005). Wreckers theory states that organizations that financially health are superior in terms of performance than the ones in financial distress. Walela, Omagwa, and Muathe (2022) noted that wrecker's theory has been applied particularly in the field of finance by various organizations over the world in attempt to solve the problem of financial distress. The wreckers' theory describes the strengths and benefits that can be sought by companies who have stepped out of financial distress. In the context of county governments, the theory tries to describe how the counties can get themselves out of the failure to settle financial obligations and commence effective service delivery to the citizens (Wangige, 2016). A big part of the causes of financial distress is of the local governments own making in relation to financial resources (Walela *et al*., 2022). They fail to manage revenue in terms of collection and utilization. If appropriate

measures guiding the same are formulated and strictly implemented, institutions will achieve optimization in collection and avoid wastages in usage of revenue hence financial difficulties which leads to distress will have greatly decreased (Ng'eni, 2016).

Financial Performance of financially distressed institutions in the capital markets is low than that of financially stable organizations (Hummel, 2015). This is attributable to the investors desire to withdraw their investment thus company public confidence is lost. Withdraw of funds from organizations struggling with financial distress wrecks their survival and sustainability in the long run. In the case of local/county governments, agencies of good will might withdraw their support in many projects that are needed by the people when they observe that public funds are mishandled by the management.

The company stakeholders, specially the stockholders can suffer opportunity cost in case of company's financial recovery (Munguti, 2019). They will miss on earnings if after recovery, the company generate substantial returns. However, if the company continues to struggle with obligatory defaults, it can be advantageous to the investors who can commit their investments elsewhere to earn adequate returns. This situation is comparable to the wreckers' ship concept. It could have been highly expensive to repair the ship thus viable to rip its parts and develop a new ship with more efficiency (Walela *et al*., 2022). The most important aspects for consideration in prediction for long-term company failure include market to book ratios, market capitalization and volatility of equity. Companies in financial distress are usually associated with low returns on equity. They are susceptible to well performing firms interested in acquiring them and restricting for better returns. County Governments in financial distress could be compelled to hand over their functions to national government in order to continue providing services to the people.

The wreckers theory of financial distress underscores the challenges posed by inadequate oversight and inefficiencies in revenue generation. Revenue management plays a pivotal role in county governments' financial management, encompassing the distribution and utilization of financial resources to sustain public services. However,

if revenue management practices suffer from inefficiencies, corruption, or a lack of oversight, they can exacerbate financial distress. The wreckers theory posits that such mismanagement acts as a destabilizing force, threatening the financial well-being and stability of county governments. Ineffectual revenue management practices may result in revenue shortfalls, budget deficits, and unsustainable fiscal conditions, imperiling the provision of essential services and eroding public confidence. County governments can learn from past revenue management challenges to avoid financial distress. Analysing past mistakes helps identify vulnerabilities. They can then implement oversight and improve transparency to enhance financial resilience and prevent future distress.

2.2.2 Theory of Critical Accounting

Theory of critical accounting was developed by Arthur in (1993). Theory of critical accounting describes the stewardship of public money whereby local governments are required to ensure that public funds are used in a way that residents will benefit (Cortese, & Wright, 2018). Therefore, these institutions have internal audit sections tasked with investigation and verification of financial statements thus determining the utilization of the available financial resources. Theory of critical accounting further instigates that control and compliance in county governments are aimed at eliminating unnecessary expenditures which can result into wastage of public money as well as corruption practices thus advocating for appropriate audit mechanisms.

According to Dillard and Vinnari (2017) financial managers are required to handle financial resources with care and should exhibit honesty while reporting usage of the funds. There should be an effective relationship between county governments and the residents that they are serving in regard to financial accountability in order to track government's expenditures and their significance to the people. County governments ought to establish appropriate accounting and auditing systems but these items can only be effective when financial accountability has been achieved. Financial operational environment of county governments influences their financial performance and difficulties in equal measures.

Organization’s culture also influences the local governments’ accounting environment thus the need for improved awareness on factors influencing organization’s financial activities and accountability systems (Dillard & Vinnari, 2017). Compatibility between accounting control systems and organizational culture are crucial in combating financial distress in local governments. The nature of accounting personnel, financial management information system and public sector accounting and auditing standard influences the effectiveness of financial accountability hence financial distress. The effectiveness of financial accountability of county governments is influenced by the effectiveness of the budget process, financial reporting system and audit processes. On the other hand if there is poor budget process, financial reporting and ineffective external oversight, there will be corruption and mismanagement which will lead to financial distress (Dillard & Vinnari, 2017). Failure to disclose financial information leads to accountability problems in county governments and also when they are unable to settle their obligations means that the public funds were misused. Local authorities have the responsibility to use public resources properly. They ought to provide value to the local residents who pay taxes (Gendron, 2018).). Therefore, expenditures should be made based on the regulations. Auditing is meant to verify the financial statements by determining whether the reported figures are actual figures. Misinformation in financial reporting jeopardizes the financial planning in the public sector. Generally, auditing is meant to safeguard to the public resources. The theory of critical accounting puts the financial statements which are statutory financial reports as the most important element of financial reporting in the governmental sector. The content of financial reports is audited to safeguard the assets of the organization. The need for effective accounting standards in local governments cannot be overemphasized. Theory of critical accounting further states that auditing as well as accounting are utilized to meet the needs of the people by facilitating development of various projects. As such, the local government need accounting information in order is spend revenue in effective and efficient manner.

Critical financial reporting contributes to effective discharge of local government’s accountability hence increasing its financial stability (Baxter & Chua, 2019). Critical accountants and auditors over the world prefers new and enabling forms of auditing and accounting in government agencies to foster transformative accounting in order to

bring justice and fairness in regard to public funds. County/local governments have to establish and implement critical accounting policies to keep track of their financial positions to enable them make informed decisions in relation to budgets and expenditures.

Critical accounting theory emphasizes the importance of critically assessing accounting methods and their impact on transparency and accountability. Auditing practices are central to this approach, providing independent review of financial records to ensure compliance with regulations and standards. By embracing critical accounting theory principles, auditors can adopt a reflexive approach, considering broader socio-economic factors and uncovering underlying power dynamics and inequalities. This approach allows auditors to detect potential financial mismanagement, fraud, or misuse of public funds, thereby enhancing accountability and public trust. Through this critical perspective, auditing practices in county governments can foster more ethical financial management.

2.2.3 Theory of Public Debt Management

Theory of public debt management was developed by Bertocchi (1993). Theory of public debt management describes how public sector organizations strive to reduce interests' costs of borrowing through establishment and implementation of monetary and fiscal policies. According to Tarek and Ahmed (2017) organizations that fail to manage the debt obligations due to ineffective fiscal and monetary policies whose impacts are not felt in the cost minimization. In the context of local/county governments, these policies have to be structured in line with the existing debt structures. Ability of local governments to manage the composition and total amount of debt depend on management of expenditures' fluctuations. Theory of debt management states that fiscal policies influence the behaviour of county/municipal taxes, deficits in budgets and debts. Therefore, local authorities ought to make informed decisions on the type of debt and the actual amount of funds that are required to undertake their activities effectively.

Local government's issues debt instruments to obtain funds but even if they issue contingent securities, they can still exploit fluctuations in the yield curve and achieve

the complete market outcome. Optimal government structure of debt can be solved by choosing the maturity structure that supports the complete market allocation for fiscal policy (Sill, 2017). Using theory of debt management, and in the case of government expenditure shocks, it is optimal for them to issue long term debt instruments and invest in short-term assets. Finding the debt management positions with capital and habits requires characterizing recursively the debt positions.

According to He and Jia (2020) the size of debt positions actually increases with the introduction of capital accumulation and the recommendation to issue long term and invest short-term can readily be overturned with small variations in parameters. The suggested portfolio positions are extremely sensitive to small variations in the model structure and optimal debt issuance shows considerable volatility from one period to another. If governments hold all debts until maturity, it only worsens problems of financial distress leading to instability since optimal debt management depends on the model being stimulated as complete market approach provides for few robust insights (Sill, 2017).

According to the theory of debt management, the process of debt management strategy development entails establishment of objectives of debt management, examining and understanding the risk factors regarding various different strategies (Liu, Moldogaziev, & Mikesell, 2017). Moreover, debt management strategy development involve formulation of stable framework of governance and accountability of the officers tasked with implementation of debt management in an organization. Kozera, Standar, and Satoła (2020) further suggested that debt strategies should be implemented in recognition of the macroeconomic framework. The level of Country's development determines the feasibility and sustainability of debt strategies among the local authorities. Government debt management usually has distinct objectives from the monetary and fiscal policies despite having close links in the face of financial management in government sector. The theory of debt management states that the financing needs of governments and debt payment obligations are met in a cost effective manner and on timely basis irrespective of existing risk indicators (Kozera *et al*., 2020).

The debt management framework is a rolling, medium-term plan outlining how the government will meet the debt management objectives. Based on debt management theory, governments make borrowing decisions on an ongoing basis, it can be argued that all governments have a debt management strategy (Xu, Li, Feng, Wu, & He, 2021). However, when the strategy is implicit and not publicly available, it fails to provide the governance and accountability benefits that accompany a well-defined process where cost and risk are systematically analyzed, the environment for debt management is taken into account, and the strategy is made public. The theory of debt management further indicates that government's funding need is a function of the primary budget balance, payments of interest on outstanding debt, and debt maturing.

Debt sustainability analysis provides a long-term analysis of the development of the size of the debt (Liu *et al*., 2017). In order to build on optimally diversified portfolio, it is desirable to use a base of assets as orthogonal as possible. In the limit, assets with perfectly correlated returns are useless for insurance. If yield curve was perfectly flat in all it would be impossible to insure with a portfolio of maturities. Complete market approach of debt management with its focus on insulating optimal fiscal policy from unexpected shocks, yields implausible and unstable recommendations for optimal debt portfolios.

Considering debt management practices within the financial management of county governments, the debt management theory emphasizes the importance of prudent planning concerning debt acquisition and utilization. County governments ought to assess their borrowing needs, considering factors such as infrastructure expansion, service delivery, and economic viability. By following the principles of the debt management theory, county governments can strive to maintain reasonable levels of debt, ensuring that borrowed funds are allocated wisely to projects that provide lasting benefits for the community. Through adherence to sound debt management practices guided by the debt management theory, county governments can effectively navigate financial challenges while maintaining fiscal stability and promoting the welfare of local residents.

2.2.4 Entropy Theory

Entropy Theory was first introduced by Shannon (1948). Entropy theory describes the significance of information systems in organizational management, particularly the financial management. Information systems enhance reporting capabilities of the company and previous performance results can be utilized to plan for future performance. Entropy Theory further explains the importance of communicating the actual financial position of the organization, which is focused on analysing the assets and liabilities. According to Memba and Abuga, (2013) entropy theory suggests that an appropriate analysis of variation in financial institutions' balance sheet lead to identification of financial distress. Adverse changes in financial states of an organization may imply inability to maintain proper balance between the assets and liabilities. These variances may prove uncontrollable in the long-run. If liabilities surpass assets in significant amounts, the company may not meet its financial obligations thus ending into financial distress. Based on entropy theory, Multiple Discriminant Analysis (MDA) as well as Univariate Analysis are employed in evaluating variances or changes in the company's balance sheet

Analysis of financial statements of county governments for instance the balance sheet is highly influenced by financial information systems in place (Mwangi, Gakure, Arasa, & Waititu, 2017). Therefore, effectiveness can be achieved if there is good support for these systems by the top management hence accurate financial position of the county governments will be always indicated. Furthermore, effective financial information systems in county/local governments are very crucial in Univariate analysis and computation of accounting based ratios which determine financial distress risk. Multiple discriminant analysis is also adopted whereby more than one variable is analysed at the same time.

When considering financial information systems in county governments through the confines of the Entropy theory, the focus lies on optimizing information flow while minimizing ambiguity. These systems play a critical role in streamlining data organization, processing, and distribution to counteract entropy. Through the implementation of strong financial information systems, county governments can

elevate the transparency, precision, and promptness of financial reporting, thus diminishing informational disorder within their operations. Additionally, these efficient systems empower county governments to make well-informed decisions amidst intricate financial scenarios, fostering clearer insights and bolstering confidence in their financial management processes.

2.2.5 Resource Dependency Theory

Resource Dependency Theory was developed by Pfeffer and Salancik in the year 2003. Resource dependency theory states that organizational success is anchored its resources. The power of the company is derived from resources' accessibility. According to Zheng and Ge (2022) resource dependency theory suggests that organizations with insufficient essential resources will seek to establish relationships with others in order to obtain needed resources. Local governments' local revenue cannot be enough for their functions thus depend on disbursements of funds from central government. Therefore, there is need for healthy working relationship between the two (Frumence, 2014). Resource dependency theory is premised on the principle that an organization is involved in transactions with other companies I the operating environment with a purposes of accessing the resources it requires. Dependency on other organizations emanates from need for resources to boost core functions of the organization. The dependence theory states that companies with deficiency in financial resources could establish associations or linkages in order to obtain them. However, these relationships may decrease with increase in the level of assets and earnings.

Organizations either in the public or private sector are assumed to be in coalitions, either internally or externally that are built from social exchanges. These coalitions or alignments are established to have influence and behavioural control (Zheng & Ge, 2022). The concerned organizations may have inadequate and scarce resources which are paramount to their sustainability and survival. They could be facing financial difficulties and uncertainties pertaining to acquisition of adequate resources (Kwarteng, 2017). County governments need support from central government in terms of funds and policy making thus depend on them greatly. As such, they should

be a clear understanding between the two so as to foster a good working relationship for the betterment of the people.

Resource dependency theory is also based on the principle that a firm must engage in transactions with other stakeholders among them other organizations in order to boost its financial resources (Bullock, 2022). Resources that the organization needs may be scarce, and may be cannot be easily obtained without cooperative approach by the organizations. The major stakeholders in county governments are the national government, the suppliers, the county residents and even donors to some extent. The stakeholders influence their resources in one way or another. This means that they can dependent on them as far as resources are concerned. Therefore, they need to maintain a good relationship with them in terms of engaging them in decision making and matters concerning use of public funds (Bullock, 2022). Poor working relations can make it difficult to access necessary financial resources to continue providing essential services to the county residents. They may also end up in financial distress since insufficient resources cannot cover all their obligations. Therefore, resource dependence theory is applicable to the current study and relates to the moderating variable of county resource allocations from the national government.

According to resource dependency theory, institutions like county governments rely on external sources, such as national government funding, for vital resources. In terms of county resource allocation, an excessive dependence on national government funding can precipitate financial distress. Counties that heavily rely on central government allocations become vulnerable to shifts in budgetary constraints at the national level. This dependency restricts their autonomy and flexibility in managing resources, making them susceptible to sudden funding reductions or delays, which can disrupt service provision and infrastructure projects. Moreover, when the national government delays and fails to increase allocations, it exacerbates the financial strain on counties, potentially leading to fiscal distress.

2.2.6 Financial Distress Theory

The theory of financial distress was introduced by Gordon in 1971. Theory of financial distress states that organizations suffer financial distress as a result of failure to meet

the obligations which include debts and other liabilities. Persistent financial distress lead to insolvency. The problem of financial distress is always heightened by increased levels of operating risks (Handriani, Ghozali, & Hersugodo, 2021). It therefore concentrates on the momentary perspective, when the adverse process has reached its lowest point and the decision about insolvency or distressed restructuring has to be made. However, picking single negative events for the analysis of financial distress as a whole may be incorrect and produce biases. Distortions may arise because the examination of the deepest point of financial distress, also known as default, ignores the fact that the largest losses and increasing financial inflexibility happen several periods before this event occurs.

Financial distress problem is characterized by deterioration of financial performance may be whereby the levels of revenue falls (Bolívar, Galera & Subirés, 2014). This situation can be consistent for longer periods of time in an organization calling for more strategic approaches to provide a lasting solution. For instance, the length of insolvency depends on the maturity structure of the firm’s debt, whereas default is dependent on the date of maturity followed by renegotiation and turnaround or liquidation and is, therefore, the shortest stage of financial distress. The biggest challenge in financial distress is to recognize adverse processes as early as possible in order to gain more time for response. The later financial distress is anticipated, the more time pressure and the more questionable is the success of counter measures (Bolivar *et al*., 2014).

In county governments, the principles of Gordon's financial distress theory are relevant to financial management aspects like revenue management, expenditure control, debt management, and auditing. Inappropriate financial management result in poor handling of revenue collection and expenditures. The inability to regulate spending result in the accumulation of excessive debt, potentially triggering financial distress. Similarly, poor budgeting techniques that don't match available resources worsen financial instability, ultimately culminating in distress.

2.3 Conceptual Framework

The conceptual framework outlines the presumed association among the independent, moderating and dependent variables. It acts serves as a guiding blueprint, offering a structured approach for conceptualizing the interactions among different constructs. Through mapping out the connections between these constructs, a conceptual framework provides a clear pathway for dissecting the phenomenon being studied. As illustrated in figure 2.1 below, there are four independent variables which are; local revenue management, auditing practices, debt management practices and financial information systems and Counties' resource allocation moderating variable. Financial distress is the dependent variable.

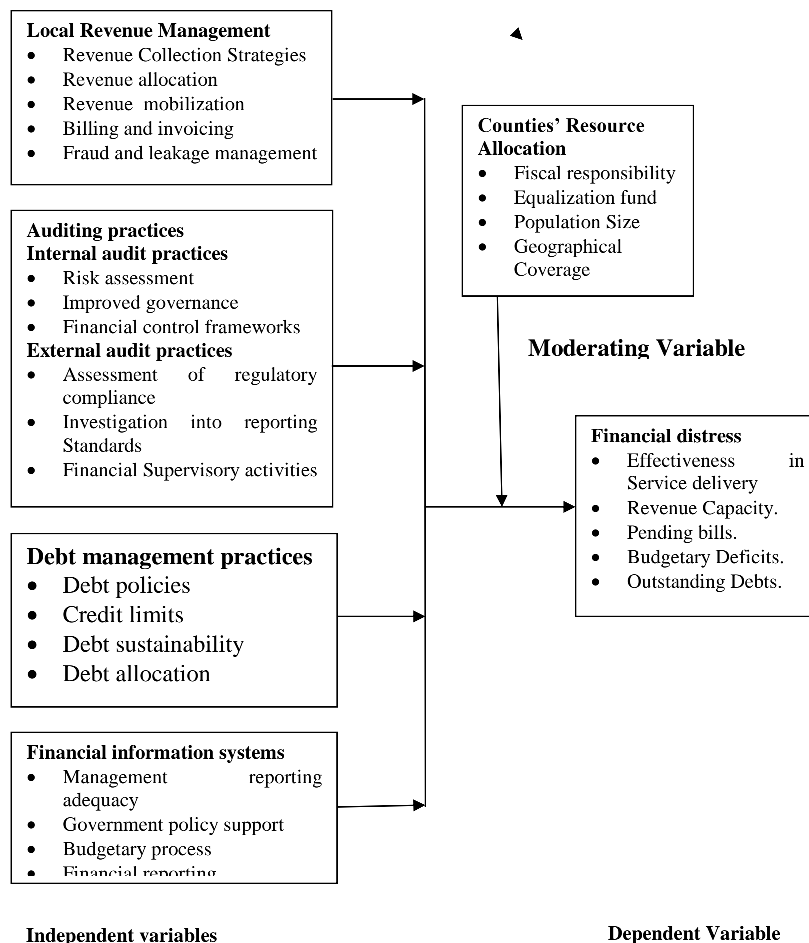

Figure 2.1: Conceptual Framework

2.4 Literature Review on Study Variables

In this section, the financial management dimensions in government sector and financial distress in county governments of Kenya have been discussed. It includes: Local revenue management, auditing practices, Debt management practices, financial information systems and Counties' resource allocation.

2.4.1 Local Revenue Management

Financial distress in local governments from most developing countries is influenced by the revenue management applied by the local government administrations (Stokan, Deslatte, & Hatch, 2021). Lack of sound revenue billing and invoicing contributes to inadequate collection destabilising the financial positions of County/local Governments. According to Saputra (2021) opined that inadequate policies and fiscal regulations concerning revenue collection and utilization by local governments hindered them from undertaking their mandate as required by the people. Therefore, ineffective revenue structures affected their capacity to carry out their obligations. Furthermore, there are inadequate advanced processes and systems in place to curtail fraud and compliance in revenue mobilization from developing countries (Teremetskyi *et al*., 2021).

Revenue collection aspect of revenue management usually involve billing the business enterprises and other entities with aim of collecting taxes, levies, fines and other mandatory charges as stated in the county/local government finance bill (Nuluva, 2015). The local/county government taxes comprise the business license fees, land rates, fines among others. The public is required to make these payments for the purposes of service delivery. Local revenue collection is a vital dimension of financial management in local authorities. The local government depend on revenue collections to undertake their mandate. Inadequate revenue collection strains the functions of the government (Maama & Marimuthu, 2021). It implies that services cannot be delivered as required and other financial obligations cannot be met as well. This leads to financial distress.

Local governments fail to achieve optimal revenue due to little information about the existing business entities (Gituma, 2017). As a result, it became difficult to mobilize revenue and attain sustainable levels. Moreover, the existing integrated revenue payer information systems did not help in resolving loopholes in the revenue payment. Abe and Omotoso (2021) noted reiterated the need for maintenance of comprehensive and accurate data in revenue sections on the businesses being operated within the jurisdiction of the local/county government. This would lead to easier identification of

enterprises. Utilization of available revenue is at the centre of the problems of financial distress in County governments. Capacity of the revenue officers' in charge of collection and utilization matters a lot because of accountability purposes (Abe & Omotoso, 2021). This means that if their capacity is low, revenue will not be collected as required and the available funds will not be effectively be accounted for.

Poor revenue decisions are as a result of incompetent officers in county governments (Gituma, 2017). This means that the money collected did not have substantive impact on the residents. The local governments' top management are required to make informed decisions in order to optimize the economic well-being of the people but this is yet to be observed particularly in the developing countries. Ndunda, Wanyoike and Ngahu (2015) opined that little effort had been put to ensure that revenue collectors have the key competencies that could lead to revenue optimization in county governments. Furthermore, organizations need strategic tools to track their revenues and ensure that they are on the upward trend and in line with the changing economic conditions. However, local governments are devoid of these instruments hence cannot be able to detect uncouth actions leading to inadequate funds which contributes to financial distress. Revenue is utilized inappropriately in many cases by the local governments through adoption of short-term views in regard to budgets. This consumed the funds that were meant for long term service delivery to the people leading to their reluctance to paying taxes as required by the law.

Management of local government is likely to fail when they don't initiate expansion of their bookkeeping in revenue activities to include advance accounting techniques (Hussain, Asif, & Ansari, 2020). Furthermore, effective bookkeeping was found to be an important tool that enhanced the recording of revenue activities and accounting activities. This assists in projections and analysis of revenue utilization. Appropriate budgets assist organizations in projecting revenues collection and utilization (AbdulKareem, Abdulhakeem, & Ajadi, (2018). Therefore, it is crucial to create budgets based on realistic revenue and expense projections to avoid financial struggles. Local governments face difficulties while attempting to minimize expenditures even when revenues are low particularly in situations where they are committed to financial obligations such as contracts based on inappropriate budget projections.

Embezzlement of funds from the counties makes them suffer financial distress as they run out cash thus entering into crisis mode. When organizations fails to perform budget variance analysis to check on the track with revenue and expense projections, they cannot take proactive steps to address any problems associated to their finances.

According to Turley, Robbins & McNena, (2015) the local government's top management have to lay emphasis on the revenue collection and ensure that all sources are exhausted. The revenue collection and spending and accounting are closely related functions in local governments. Larkey, (2015) also suggested that the government's solvency should be maintained by planning the revenue collection and utilization to satisfy its obligations by spending where it really matters. This cash basis is utilized by good organizational managers to recognize revenues and expenses only with respect to actual inflows and out-flows of funds. Therefore, the organization must have sufficient flow of funds to meet its obligations as they come due (Ochuodho & Ngaba, 2020).

Government's revenue expenditure ought to be guided by the rules and processes stated in the finance and appropriation acts (Turley *et al*, 2015). Revenue collection and utilization are crucial in ensuring the viability and sustainability of local governments and the quality of services they provide. Kenyan county governments receive a substantive amount of money every year thus account for a significant share of government spending and they are expected to perform well at grassroots levels. However, the effectiveness of their service delivery depends on the sufficiency of local revenues, which support sustainable operations and maintenance of local infrastructure and also help to finance staff salaries, members of county assemblies' emoluments and other administration expenses (Ndunda *et al*., 2015).

A sound revenue management framework for local governments is crucial for the success of devolution in Country (Turley *et al*, 2015). Additionally, local revenue mobilization enhances political and administrative accountability by empowering local residents. Generally, Counties have two categories of revenue; County own revenue and central governments transfers. Central or national government transfers consist of grants and revenue sharing (Bahardin, Alias, & Abdullah, 2019). In many

developing countries, local governments seem to raise whatever taxes, fees, and charges they are capable of raising, often without worrying excessively about the economic distortions and distribution effects that these instruments may create.

A complicated and non-transparent local government revenue system is costly to administer and it facilitates corruption and mismanagement. Furthermore, many local revenues have a distorting effect on resource allocation decisions that impact on economic growth. Such effects emerge when there is a big deviation or disparity of the revenues sought by the Country government the nature of the trade undertaken by the residents. In some cases, trade license fees may be too high for the small scale businesses to afford and survive. Multiple licenses can also result in the tax burden falling more on the poor than on the relatively better off in local residents. This is mainly due to the management of the local revenue in terms of collections and utilization. Generally, a keen focus on revenue management should emphasize 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 economy, including the compliance costs to local enterprises (Bahardin *et al*., 2019). Revenue management ought to minimize losses through reduction of corruption among the revenue collectors.

2.4.2 Auditing Practices

Auditing practices in local governments are meant for control, good governance and risk management (Lin, Yang, & Wang, 2018). They ensure effective management of public revenue and expenditure, thus efficiency within local governments by aiding internal control systems. Auditing practices in local governments are usually undertaken by internal auditors and supervisory organs from office of auditor general in the central governments. These people are required to exhibit high standards of professionalism in their respective duties to ensure accountability of the financial resources. Therefore, competent and qualified personnel are required in the audit sections to make sure that county officials are accountable and compliant.

Ferry and Ahrens (2021) opined that accounting statements are examined on regular basis by auditors to ensure that they concur with the actual transactions. Internal audit

protect and minimize asset risks by ensuring accuracy, correctness, efficiency in operations and adherence to financial and accounting regulations. This promotes reliability in financial reporting. The major problem facing auditing function in local authorities is inadequate facilities to monitor all the roles, poor segregation of duties and lack of independence of the internal auditors. Inadequate records and financial systems, and interference by the politicians also affect auditing.

Internal auditing incorporates appraisal activity initiated by organization's management for accounting review and internal control systems (Lin *et al*., 2018). Independent and effective supervisory mechanisms must be capable of preventing or combating malpractice regardless of a kind leadership in place in order to help minimize incidences of incompetence, or sheer dereliction of duty. Internal controls in accounting system serves the function of ensuring that all transactions carried out are suctioned that authorized by management. This is important because all activities of the organization are performed in line with the laid down policies (Ferry, Midgley, & Murphie, 2022). All transactions should be accounted for in the relevant books of accounts regularly, correctly and systematically. It should be according to the application reporting framework, like the relevant legislation and applicable Accounting Standards. Internal control comprises the plan and methods of the organization adopted to safeguard assets, comply with the laws and regulations, ensure the completeness and correctness of accounting data, promote efficiency and encourage adherence to management policies (Mongwe, Mbuvha, & Marwala, 2021).

Auditing practices change with changing accounting systems in government sector. The need for financial accounting has increased with changing systems of governments and auditing function change accordingly (Kuhlmann & Bogumil, 2018). In the modern operations of governments, auditing has gone beyond budget-oriented evaluations to verifications of variations in assets and revenue flows. Pool of the revenue payers plays a greater role in the financial stability of local governments (Ferry *et al*., 2022). This means that the amount collected from the businesses operating within the municipality and other revenue sources matters a lot and if they cannot optimize on the same matter, chances of financial distress are increased. Local government experiences revenue shortages when some enterprises are closed or

relocated due to poor business environment (Ferry & Ahrens, 2021). As a result, they find themselves with inadequate financial resources to provide services that they are obliged to. Costs of the services are always on upward trend and local governments without mechanisms of increasing revenue are always at the danger of failing to fulfil the demands of the residents leading to poor economic development. The study fails to describe the mechanisms that can be adopted by the local governments in order to establish and maintain bearable business environment for the investors. Businesses needs government support in time of economic difficulties but the issue has not been included in the study.

Kuhlmann and Bogumil (2018) further noted that budgetary problems in local governments are caused by lack of effective communication between local government officers. It was further stated in the study that inadequate auditing and poor reporting standards in municipalities contributed to financial distress and a major signal to bankruptcy. Available technological tools were not utilized properly to track the local governments finances thus problems associated with fiscal distress were not detected earlier in order to provide room for correction. Instead, major focus was on the short term views in regard to budget portraying temporary survival mode. Budgetary issues and technology in relation to local government's finances requires proper fiscal policies in place for full implementation but this was not discussed in the study. It moreover lacks the platforms that should guide good working relationship between municipality officers' thus appropriate communication between them that can help to notice mistakes among themselves and rectify.

Auditor's opinion is the ultimate result of the accountant's investigative work in county governments (Nerantzidis, Pazarskis, Drogalas, & Galanis, 2020). Whether the auditor reports the deficiencies of the local government's financial resources depends on some considerations such as the fact that improper opinions may affect the costs. Auditor opinions are used to measure the independence of auditors in a firm. Habbe, Rasyid, Arif, and Muda (2019) noted that the organizational general focus is on the auditor's possible misgivings about the continuing operations of the financially distressed county government. This could mean that the county may suddenly face issues about the continuity of its operations.

Local governments do not receive negative auditor opinions regarding their continuing operations before experiencing financial distress. Perhaps it is because the auditor is incapable of identifying problems on continuing operations or the auditor's independence is not quite effective (Khaliq *et al*., 2014). Misgivings of auditors on an organization's continuing operations is a way of deliberating its financial situation and as a response to the organization's request not to hold back on their opinions. Therefore, if auditors are given more independence, it would be more likely for financially distressed counties to receive the auditor's misgivings on their continuing operations.

According to Wakiriba, Ngahu and Wagoki, (2014) the composition and presentation of information publish in public sector annual report constitute one of the forms of public policy. Choice of accounting policy constitutes the functions of economy and politic that is the decision of executive/legislative/bureaucracy formed by voter preference, interest group pressure, political parties' competition, institutional drive, external demand and constraint, as well as the condition of local government (Nerantzidis *et al*., 2020).Auditing is a cornerstone of effective financial management by county governments. The citizens at grass root levels require unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results. Therefore, internal and external auditors check out for accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. Auditing moreover support the governance responsibilities of oversight of the county executive arm (Wakiriba *et al*., 2014). Auditors have the task of expressing opinions on whether accurate information has been reported. Therefore, they are responsive for detecting accounting errors and making auditing report based on the accounting information accuracy.

An effective public sector audit activity promote citizens' ability to hold their public sector entity accountable (Khaliq *et al*., 2014). Accounting is conducted based on accounting standards and compliance for public fiancé management. Local governments are funded by taxes obtained from the individual persons and corporate entities. Therefore, they act as stewards of public resources and are responsible for using those funds to provide quality and adequate services to the people. Auditing

ensure that there is transparency in the utilization of public resources. As such, auditors ensure compliance with internal controls by examining the financial statements and reports. Accordingly, financial performance requires regular financial and performance reporting (Daniel, Hussein, Karim, & Nicholas, 2021). Local government finance officers and accountant s are require by law to avail accounting reports when required. Auditors can provide a direct link between transparency and the credibility of the local governments.

Supervision of the financial transactions of government owned organizations are very important as far as performance is concerned (Wakiriba *et al*., 2014). It leads to exposure of responsibility on usage of public resources and accounting activities thus requires proper attention from them. In order to provide quality accounting report, the qualification and professionalism of staff should be supportive. The pressure and incentive of external surveillance such as legislative and government strong roles also drives the need for a better financial reporting. According to Habbe *et al* (2019) socioeconomic condition influences the availability of resources and government capacity to implement program or policy. Government fiscal capacity may influence the formulation and implementation of financial reporting policy. Financial capability helps in to execution and implementation of auditing policies to render appropriate accounting information (Daniel *et al*., 2021). On the other hand, the limitation of fiscal capacity may give need signal for obtaining funding from external sources. When a county government has been connected to external funding, the need for issuing disclosure complying with financial statement will come up. County wealth construct as a part of management incentive and assumes that this factor is positively associated with the increase in disclosure because a signal of good management quality.

2.4.3 Debt Management Practices

Local governments borrow funds from financial institutions through acquisition of loans and issuance of financial debt instruments such as bonds to supplement the available resources and ensure effective service delivery (Kuhlmann & Bogumil, 2018). Mismanagement of these funds leads to failure in allocation to various functions such as development projects and payment of dues to contractors and

suppliers. When financial resources are not accounted for, the county struggles to make loan payments thus increasing interest payments and damaging their credit score (Guo, Li, & Qian, 2022). This may be the case with county governments of Kenya since it takes long to settle financial obligations. Local governments needs adoption debt policies such as credit limits and structures that are acceptable sustainable in regard to maturity and service payments.

Debt management is one of functions that require being undertaken seriously by organizational managers because it is linked to overall financial management and can contribute financial distress in local authorities (Cheng, Jia, & Meng, 2022). Local authorities have the authority to borrow from financial institutions and other areas to fund development projects. They also look look for grants and donors to boost their financing for various activities (Guo *et al*., 2022). The need for prudent use of debts is a major concern to local authorities as some end up misusing such funds thus ending into financial distress.

When debt is used prudently and in moderation, it clearly improves welfare of the local residents. However, improper use debt funds could lead to financial distress (Kuhlmann & Bogumil, 2018). Over borrowing by local authorities leads to bankruptcy and financial ruin with immense consequences to the citizens. High levels of debt may hinder delivery of essential services by the government since revenue may be committed to settlement of such debts and accrued penalties. Local authorities can play their role in stabilizing the macro economy through borrowing (Yang, Li, Jiang, & Qi, 2022).

Appropriate debt management should establish and execute a strategy for managing the local government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other debt management goals they may have set ((Yang *et al*., 2022). In a broader macroeconomic context for public policy, local governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances while meeting cost and risk objectives.

Njihia (2017) noted that fiscal authorities are supposed to be aware of the impact of government financing requirements and debt levels on borrowing costs. Debt management ought to address the issue of debt sustainability including the public sector debt service ratio, and ratios of public debt to tax revenue. Poorly structured debt in terms of maturity, interest rate composition and large and unfunded contingent liabilities have been important components in inducing or propagating financial distress among local authorities (Park, Kwon, & Choi, 2022). Local governments have focused more on cost savings associated with large volumes of short-term or floating rate debts leaving their budgets seriously exposed to changing financial market conditions, including changes in the country's creditworthiness, when this debt has to be rolled over.

Local authorities' debt portfolios contain complex and risky financial structures, and can generate substantial risk to the government's balance sheet and to the financial stability (Cheruiyot *et al*., 2018). Sound debt structures help governments reduce their exposure to interest rate risks. Many governments seek to support these structures by establishing, where feasible, portfolio benchmarks related to the desired duration and maturity structure of the debt to guide the future composition of the debt portfolio. Public debts in local authorities are designed to boost the already existing revenue from the national governments and own collectors in serving citizens (Drew, 2022). However, the local authorizes are obliged to pay these debts and accrued interests. Therefore, they ought to maintain appropriate mechanisms of raising funds to finance debts. There are various debt management goals that explain the need for the debt in local authorities. The goals are inclined to the government monetary and fiscal policies. Long term developments such as construction of hospitals, roads and other infrastructural facilities may not be funded by government funds only. Therefore, local governments are forced to obtain debts to promote economic and social welfare of the people. The developments funded by the debts should up light the lives of the people financially and economically (Rocaboy, Vaillancourt and Hugounenq, 2013). In this sense, it should widen the tax base of the County governments in order to obtain funds to repay the debts. These calls for prudential use of debts to guarantee improve revenue base. The levels of revenue deteriorate if the county governments do not spend wisely or the collected taxes are not used for the intended purposes. Additionally, debts may

be used for personal gains rather than public good. In such cases, the county governments will be unable to settle the debts leading to financial distress since the county government's financing needs with use of debts and its payment obligations are violated (Rocaboy *et al*., 2013). Public debts ought to be guided by the fiscal policies in the confines of government spending and taxation. However, most local authorities particularly in developing countries does not have effective fiscal policies and debts have contributed to their financial distress instead of financial and economic progress.

Wakiriba *et al* (2014) noted that financial conditions of many local authorities were negatively affected by fluctuations in the interests' rates of the debts in Kenya. Therefore, they found themselves with huge amounts of debt to pay and deliver services as well. Inappropriate Debt management by county governments leads to irresponsible borrowing whereby these funds are utilized for unintended purposes and also in ways that are of no substantive importance to the people. Local governments are required to borrow considering their flexible and diversified borrowing powers as outlined within local government acts. Moreover, many local governments fail or ignore to acknowledge the existence of liquidity and credit risks that arises from borrowing so as to protect the budgeted interest rates and stabilize cash flows (Drew, 2022). Performance of local governments depend on their ability to formulate frameworks and strategies for attracting cost effective creditors and establishing strong linkages with them.

Rocaboy *et al* (2013) asserted that debt acquisitions are focused on boosting the existing financial resources to fund development projects at local jurisdictions. However, some local governments may borrow to undertake other functions rather than development projects. Commitment of debts to other areas which does not earn value to the people may make it difficult for local governments to honour the debt obligations. The debt affordability and capacity to repay are key aspects that ought to be considered in local governments' borrowing decisions (Kim, 2022). The revenue base of the local governments also indicate their ability to meet the debt obligations. However, revenues may be subject to unavoidable economic downturns, whereby businesses fail to do well and guarantee revenue payments. Those conditions should

be considered and local governments have to determine the affordability and sustainability of debt financing (Drew, 2022). Local governments with high capacity of generate high amounts of revenue can afford debts than those with limited sources of revenue. Therefore, the ability to raise revenue should be commensurate with the amount of debt sought by local governs. Local governments have encountered financial distress after acquiring debts which are not corresponding to their revenue generation capability.

Local governments ought to determine the amount of funds available for future financing of their activities (Bastida *et al*., 2013). It is also crucial to adjust the size and schedule of expenditure so as to maintain budget liquidity thus long-term financial planning is a major requirement for local governments. Long term financial plan is desirable for the purpose of achieving long-term objectives and implementation of programmes. Local governments fail due to poor strategies on long term plans which are facilitated by mismanagement of the raised funds. Long term financial plan is a forecast of revenues, current expenditure and debt proceeds. Many local governments in developing countries are unable to systematize the execution of the projects planned in the strategy thus ending into financial distress (Kim, 2022). They lack appropriate optimum financing path for undertaking the planned initiatives for the residents.

Financial plans prepared by the management of local governments should be able to account for the costs of raising loans and maintaining the financial budget liquidity (Lam & Jingsen, 2019). However, this is lacking in local authorities and can be the reason that they are always in financial difficulties. For instance, local governments may go beyond the acceptable level of expenditure and debt. Due to excessive expenditure on non-development issues and the excessively high debt incurred by the government, they get themselves into tight positions in regard to performance (Kaganova & Telgarsky, 2018). Therefore, for county governments to control financial distress, indebtedness levels and expenditure ceilings must be maintained at sustainable levels.

2.4.4 Financial Information Systems

According to Handoko, Pamungkas, Syakhroza, and Hermawan (2019) financial information systems contribute to improved accountability and openness in financial activities of organizations. County/ local governments especially in developing countries have failed to settle their obligations in relation to service delivery due to financial mismanagement as a result of weak financial information systems (Kaywood, 2021). There has been ineffectiveness and inefficiency in local administration thus delivery of essential services to the people has been deemed unaffordable in most third world countries. Projects initiated by local/county governments stalls due to failure to implement the existing financial systems that that can contribute to their systematic funding to their completion (Dogo, 2020). In Kenya, Integrated Financial Management Information Systems (IFMIS) has been ignored by Some County governments. They are reluctant to use it. However, those who have utilized it have done so to steal public funds (Njau & Kinoti, 2020). On contrary, financial information systems are intended to help in accounting, financial planning and expenditure management. The local government financial management systems need to be improved in order to achieve revenue enhancement which is crucial for improving the financial condition of a local government.

Muiruri (2018) noted that Financial Management Information System (IFMIS) is applied at county and national levels of government in promotion of financial management in terms of financial and operational efficiency, effectiveness, accountability, transparency, and financial reporting. IFMIS tracks financial transactions and help in summarizing financial information of the government (Chalu, 2020). IFMIS is a vital fiscal tool for County Governments for all financial management functions. Being a budgeting and accounting system, IFMIS assist the government both national and county levels in budgeting planning and accounting for public expenditures (Mulyani, Puspitasari, & Yunita, 2018).

Financial systems enables improved compatibility and consistency of fiscal and financial information and also reduces governments overall investment in the development of expensive accounting systems (Lundu & Shale, 2015). IFMIS lead to

effective fiscal management, optimization in allocation of resources, reduction of corruption and theft of public funds, improvement in transparency and public accountability and transaction costs' minimization. The role of IFMIS is to promote governance effectiveness by providing accurate financial information to enable the County government to manage revenues, make budgets among other public financial management functions (Ogachi & muturi, 2016). Management of budgets and expenditures depend on the effective of public financial management in County governments. Therefore, County governments have to strive to improve financial information systems to promote transparency and accountability as well as minimizing financial distress. Proper financial information, inclusive of IFMIS systems has the ability to enable County Governments to control use of financial resources through minimizing corruption and misuse of public funds (Kaywood, 2021).

According to Muli & Rotich (2016) financial information systems are meant to facilitate financial statements preparations in local governments. The financial statements are utilized internally by the governments and externally by other stakeholders, especially the residents. Therefore, financial statements and reports ought to be made from accurate and reliable information that is obtained from financial information systems. Financial information systems thus provide information for financial reporting, budgeting and other financial analysis activities (Setiawan, Mulyani, Sueb, & Winarningsih, 2021). These activities can only be performed well if local governments have financial information systems that are in proper functioning state.

Financial management in the government sector involve development planning aimed at improving in the livelihoods of the people (Handoko et al., 2019)). However, financial planning depend on implementation of financial information systems. Financial information systems, such as integrated financial management information systems in Kenya County Governments are yet to be fully implemented. This explains the existence of challenges in allocation of financial resources. Setiawan et al (2021) maintained that Organizations stands a good chance of operating efficiently with proper financial management information systems. FIS avails the information and control needed to avoid misuse of financial resources of the organization (Chalu,

2020). In public sector organizations, financial information systems are important in mitigation of financial risks.

Financial information systems help in analysis of past information on performance and assist in projection of future (Kaywood, 2021). In county Governments, past revenues are analyzed through financial information systems. Revenue projections and targets are set based on previous collections and potential of the County (Ogachi & muturi, 2016). However, infective financial information systems can lead to inaccurate unrealistic targets. This is dangerous to budgeting process which carried on basis available funds and revenue estimations. Financial information systems provides frameworks for leveraging overall financial management and enhancing delivery of the services to the people. The finance managers are able to track County funds and can respond to the signs of financial distress in a timely manner.

Financial management information system ease the integration process where financial management dimensions are controlled in a centralized system (Kaywood, 2021). Therefore, through financial information systems, County transactions can be processed in a timely manner and financial information can be conveyed to the County leadership for decision making. Local government's financial information system are expected to wide range of functions in different departments. This means that they should be compatible and integrative to the activities performed in different departments (Kaywood, 2021). Local Authorities Integrated Financial Information Systems (LAIFORMS) have coordination problems since they are not well integrated. Financial reporting in local governments is an important part of the accountability process (Njonde & Kimanzi, 2014). In spite of enactment of financial reporting obligations as a form of financial accountability, the quality of financial statements of local governments is still ineffective.

Financial information systems should support government decision making by proving the needed information in timely manner (Kaywood, 2021). This information depend on the effectiveness of existing FIS that is expected to meet the qualitative characteristics so that it can be used in decision making (Njonde & Kimanzi, 2014). The financial management in the County government can be improved by the

establishment and maintenance of effective accounting systems for financial statements, budgets and expenditure reports. Previously, the management of government expenditures has been focused on a system of expenditure control, which is based to ensure that budgets are not exceeded by expenditures (Chalu, 2020). This basis of accounting does not measure the financial resources utilized during the period under review, thus the actual costs of local government initiatives may be incorrectly measured and reported.

According to Gitaru (2017) financial information systems link accounting activities of the departments of county governments. The vital importance of financial information systems lies in the financial monitoring in county/local governments. Financial transactions of county governments result into huge and complicated data. Financial information systems are crucial in processing this information into reports that can easily be understood. Top managers need reports that are simple to understand and make a decision (Setiawan et al., 2021). However, unscrupulous county officers use financial information systems for unintended purposes such as unauthorized withdrawal of public funds. Moreover, financial information systems examines the source and destination of public funds. FIS is applicable in situations of tight budget controls and helps in evaluating the financial position of the government. Financial information systems allow accountants and auditors to examine financial data and projection future financial needs (Usang & Salim, 2016).

2.3.5 Counties' Resource Allocation

According to Wamuyu and Ndiege (2018) Countries adopt devolution in order to bring improve governance and development. Counties' resource allocation is meant to enhance effective service delivery to the local residents in a Country. County governments are therefore expected to initiate and implement development projects that are of importance to the local residents. Fiscal decentralization contributes to the efficiency and effectiveness at which the local governments deliver services to the people (Alonso & Andrews, 2019). As such, Central governments have the responsibility of transferring financial resources to the local governments so that they can serve residents at local levels without many difficulties. For instance in Kenya,

fiscal responsibility is always put into account in resource sharing. Counties which are able to make effort to obtain and use their financial resources well are rewarded. The Commission on Revenue Allocation have set out 2% of all money meant for Counties from National Government for that purpose (Kamiru & Mwilaria, 2020). This is an incentive towards effective financial management in Counties and financial distress minimization. Moreover, well established financial information systems contribute to sound financial management for effective budget planning and preparation, implementation, accounting and financial reporting.

Resource allocation and proper working relationships between central and devolved governments influence service delivery (Mugambi & Theuri, 2014). All County governments of Kenya are allocated funds from national government in form of consolidated funds to keep them running. Marginalized counties receive equalization funds on top to enable them provide essential services such as water and health facilities to promote equality in the whole country. According to the report of the year 2015 by Commission on Revenue Allocation, Nairobi, Nakuru, Meru, Kakamega and Kilifi Counties received Kshs. 12,945,531,236, Kshs. 7,538,207,675, Kshs. 7,314,182,293, Kshs. 8,934,566,933 and Kshs. 6,634,886,590 respectively in the 2014/2015 financial year. These amounts were inclusive of grants. County governments have however, taken advantage of these allocations by utilizing them contrary to what the law states. According to Frumerence et al., (2014), local governments characterized with ineffective auditing always have problems in accountability of public funds.

Resource allocations from central governments should only supplement but should not be largely be depended on by the local authorities (Tsofa, Molyneux, Gilson & Goodman, 2017). However, they turn to borrowing particularly from financial institutions and also issue municipal bonds to the public. This is done when revenue amounts are little in order to implement budgets and deliver services. Insufficient revenue collection is partly influenced by poor revenue management structures. Lack of proper debt management structures and overdependence on central governments

has strong negative impact on their financial stability and sustainability. For instance, the amount of revenue collected by counties in the 2013/2014, 2014/2015 and 2015/2016 was Kshs. 25.7 billion, Kshs. 32 billion and Kshs. 35 billion respectively, accounting for only 8.1 percent of the total county budgets according to Commission on Revenue Allocation.

Allocations from central governments to local governments are based on various factors such as land mass cover (Cepiku, Mussari & Giordano, 2016). Local authorities require a lot to be done particularly in development projects such as roads. Therefore, they keep on demanding large amounts of money and sometimes take advantage of that to overprice such projects. This issue is a major hindrance to proper working relationships between the two levels of governance since they seem to spend in disregard to the law. Expenditure by local governments particularly in developing countries. Funding for various activities such as poverty reduction initiatives has resulted to many questions about financial management in regard to local government's expenditures. Financial crisis is evident when funds are not released earlier as expected leading to a question of whether local residents are reaping the fruits of devolved governments or not. Therefore, the county top management has to advocate for effective cash management in regard to expenditure management if they want to avoid financial distress (Ntoiti, 2013).

Fiscal decentralization presents an opportunity to reinforce local government and involve it more closely in project participation (Cepiku *et al*., 2016). However, the size of the population is a key determinant of failure or success in service delivery. The devolution of taxing and spending powers to lower levels of government has become an important theme of governance in many developing countries and is normally expected to provide greater transparency, accountability, probity, frugality, efficiency and equity. Large populations definitely mean more financial resources are needed to provide services to them. In Kenya, resources are allocated considering the parameter of population size and the counties given large amounts of money have misappropriated it according to the 2015 annual report by the auditor general.

In most developing Countries, National governments may assign more responsibilities to local governments whose expenditures cannot be met by local revenues (Cepiku *et al*., 2016). This makes local governments over dependent fund transfers from national governments. These transfers may be in the form of surcharges or revenue sharing whereby a county government receives a share of the revenues from taxes collected by the national government. Effective fiscal responsibility at county levels require implementation of a stable and transparent system of transfers, geared to filling any gap between the assigned spending and revenue-raising responsibilities of the County governments (Muli & Rotich, 2016).

2.3.6 Financial Distress

Undesirable service delivery by local governments in developing countries is usually caused by inadequate financial management practices (Glasser & Wright, 2020). Local governments in financial distress cannot settle their various obligations satisfactorily hence economic and social wellness of the people is negatively affected. Local authorities' financial distress may be caused by inferior revenue bases thus face difficulty in providing satisfactorily obligatory services to the residents (Kroukamp & Cloete, 2018). Local governments are associated with over expenditures and after exhausting the existing financial resources, they seek debts (Meyer & Neethling, 2021). This decreases the short-term solvency thus bringing their financial indices down and welcoming financial distress in their organizations.

Financial distress among county governments has enormous economic consequence that that results into failure and cripple service delivery to the people (Brown, 2017). Poor service delivery among county governments is highly contributed by financial distress since distress precedes failure. Therefore, determination of financial distress in County governments is definitely a matter of considerable interest to the national government, county employees, creditors, suppliers, investors and the residents. These stakeholders are concerned about the county government's financial health (Hadi *et al*., 2018). Payments to the suppliers and service delivery to the people are not assured should the County governments struggle financially. The national government also has concerns about the consequences of financial distress for County Governments where

they have delegated most fundamental services such as health and agriculture (Meyer & Neethling, 2021).

County government in financial distress usually falls in a tight cash situation in which it is difficult to pay the owed amounts on the due time (Nderitu & Jeremiah, 2018). Prolonged financial distress can force the owing local authority into bankruptcy and transfer of responsibilities to the National government. Local authorities under financial distress lose the confidence of potential investors, the public and the supplies. Insolvency is a function of financial distress (Biwott, 2015). For instance, financial distress takes place when the organization is unable to earn revenues sufficient to cover its costs, exclusive of costs of financing and such organization is said to have negative economic value. Social welfare is maximized when economically distressed organizations are liquidated but financially distressed firms are continued. Creditors are less interested in saving firms than in whether assets exist to satisfy their claims (Njeru, 2016). When an organization is experiencing only financial distress, however, the creditors' total insolvency-state payoff would be maximized were the firm continued.

Meyer and Neethling (2021) noted that accumulation of debts by county governments ranging from suppliers and contractors' dues, bank loans among other liabilities deterred service delivery. Deterioration of their fiscal conditions has damaged their economic status leading to overdependence on the national governments funds allocation. Financial distress in local governments moreover means not only failure to satisfy service obligations but also contributes to budgetary insolvency (Zafra-Gómez, Pedauga Plata-Díaz & López-Hernández, 2014). Lack of services to the business owners may lead to closure of enterprises meaning that revenue base is reduced the local government revenue projections is affected.

Financial distress in county governments is a highly complicated issue since the institution cannot be dissolved with ease (Ibrahim, 2017). The legal framework for dealing with financial distress and bankruptcy in local government is different from the privately owned corporate entities. They are public services providers to the Country's residents and therefore need to continue catering for the needs of the people.

Financial distress affect the development and livelihoods of the residents at a great extent. The national or central government ought to be proactive in identifying and providing remedies to financial challenges through oversight of county finances and providing the much needed guidance. Country finances' monitoring could lead to identification of financial crisis warnings and can be avoided (Njeru, 2016). However, this intervention depend on the working relationships between county governments and the national governments. Lack appropriate intergovernmental relations may mean that County Governments can end into financial distress due to lack of technical support from the national government. Financial distress is highly associated with ineffective management of revenue and expenses in local/county governments. Revenue deficits presents inability to provide adequate essential services. Moreover, the county governments in financial distress may not be able to meet the debt obligations as well as settling of pending bills to the suppliers and other service providers. The County governments cannot settle its bills and salaries to the employs thus financially distressed (Biwott, 2015).

Kroukamp and Cloete (2018) noted that financially distressed local governments may be associated with reduced population thus when productive residents migrate, the amount of taxes reduces and this contributes to fiscal difficulties. In that situation, potential investors may shy away meaning that the expected improvement in investments and revenue capacity may be achieved under the conditions of financial distress (Meyer & Neethling, 2021). Therefore, many local governments emphasize appropriate financial management to enhance economic development out of a realization that financial distress means huge failure in all aspects of their operations.

Outstanding debts in county governments serve as poignant indicator of financial distress (Kroukamp & Cloete, 2018). These debts, akin to relentless creditors, signify a precarious discrepancy between financial obligations and available resources, casting a pall of uncertainty over the stability of public coffers. They encumber the ability of county governments to navigate the turbulent environment of economic uncertainty, potentially leading to a tempest of insolvency and fiscal ruin (Meyer & Neethling, 2021). They indicate fiscal mismanagement that erode public trust and unravel the fabric of governance. Additionally, budgetary deficits in county

governments signals financial distress (Ibrahim, 2017). These deficits, highlight a stark imbalance between government expenditures and revenues, casting a shadow of uncertainty over the financial health of local governance. They impede the government's ability to meet its financial obligations and jeopardizes essential services. Consequently, the presence of budgetary deficits emphasizes the imperative of prudent financial management in the county governments.

2.5 Empirical Review

The researcher reviewed the past studies that are related to revenue management, auditing, debt management, financial information systems, county resource allocation and financial distress.

2.5.1 Revenue Management and Financial Distress

Gituma, (2017) carried a study on determinants of effective revenue collection by Embu County, Kenya. Findings indicated that government policy, rules and regulations highly influenced optimal revenue collection. Furthermore, corruption, employee qualification, skills and training moderately affected revenue collection. Technology and information systems were found to have little influence optimal revenue collection. All above variables had significant influence on optimal revenue collection at 95% confidence level. A study by Mathew (2014) on effects of an integrated revenue collection system and challenges facing its implementation in Machakos County established that implementation of integrated revenue collection system influenced revenue collection positively. However, they encountered challenges related to inadequate resources, staff capacity and political interference.

A research study by Mugambi and Wanjohi (2018) on the factors affecting implementation of revenue collection systems in county governments in Kenya. The study found that local tax payments through platforms of mobile money payments. Further, payments through banks avoidance of cash payments at county governments' offices improved management of revenue. Establishment and use of revenue collection systems enabled county governments to collect more revenue and improved tax payment compliance by the business owners and other local tax payers. The study

concluded that implementation of revenue collections systems improved financial position of county governments due to stabilized revenue collection capacities.

Koskei, Cheruiyot, and Naibei (2019) researched on the revenue collection efficiency in the county government of Kericho. Findings established that revenue collection efficiency is increased by increased sources of revenue. The results further indicated that adoption of technology increase the revenue collection efficiency. A research study by Owino, Senaji, Eng, and Ntara (2017) investigated the effect of revenue innovation collection processes on Nairobi County's organizational performance. In data analysis, content analysis was employed to examine, process and report on qualitative data. Furthermore, multiple regressions model was used to establish associations among the parameters of the study. It was revealed that County Government of Nairobi had adopted online billing in revenue collection. Results showed that online billing significantly contributed to improved organizational performance. Furthermore, results indicated that the process of online receipting reduced revenue loss at a greater extent and presented the County Government with increased levels of revenue. It increased electronic communication between the government and the tax payers which enhanced organizational performance.

Maina, (2013) did a study on factors Affecting Revenue Collection in Local Authorities in Municipal Council of Nyeri, Kenya. The study was done in an attempt to solve the problem of low revenue collection despite the existence of adequate revenue bases. It was guided by government policies and regulations, local authority information financial and operations management systems (LAIFOMS), revenue enhancement plans and employee skills on revenue collection. The study findings showed that LAIFOMS had highest while government policies had the least influence on revenue collection. The study concluded that application of LAIFOMS was not well implemented due to limited availability and accessibility of computers. The study recommended for increased number of computers and revenue collection officers.

2.5.2 Auditing Practices and Financial Distress

Ehaji (2019) sought to establish the effect of Internal Audit Practices on Financial Performance in Kenya using a Case of Vihiga County Government. Findings indicated

that internal audit practices affect financial performance significantly, evidenced by F-statistics of + 0.679 at 95% confidence level. A research study by Kyalo, Kalio, and Ngahu (2014) on the role of fraud prevention in enhancing effective financial reporting in county governments in Kenya revealed that prevention of fraud influenced financial reporting effectiveness in the county government of Nakuru. There was a positive and significant relationship between fraud policy and financial reporting effectiveness in the county government of Nakuru. Pearson's correlation coefficients revealed a moderate positive relationship between fraud policy and effective financial reporting.

Maina, Muturi, Atambo, and Nyamasege (2016) established the relationship between internal control systems and development projects' implementation among Kenyan County Governments. Explanatory survey research design was employed in undertaking the study. The study was conducted using secondary data and analyzed through multiple regressions statistical analysis technique. The research revealed that internal control systems determined the extent to which development projects are implemented. Internal controls systems ensures efficiency in utilization of public funds. Weak internal control systems lead to misuse of funds meant for development projects. It implies that lack of appropriate and strong internal control systems lead to slow implementation of projects and poor service delivery to the County residents.

Nyaga, Kiragu, and and Riro (2018) did a study on the influence of internal audit independence on internal audit effectiveness in the Kirinyaga county government, Kenya. Findings showed that independent internal audit influenced the auditing effectiveness in Kirinyaga County. According the findings of multiple regressions analysis, relationship between independent internal audit and auditing effectiveness was significant at 95% confidence level. The implication from the finding is that an increased internal auditor independence led to increased auditing effectiveness in County Government of Kirinyaga. Lumasei and Muturi (2019) did a study on factors influencing performance of internal auditors in county governments in Kenya. They carried out a survey of auditors across the 47 counties in Kenya. The study adopted both descriptive and inferential statistical analysis methods. Findings indicated that audit committee independence, affiliation to professional bodies, top management

support and resources availability significantly influenced internal auditiors' performance among County Governments in Kenya.

Thuge and Kimemia (2018) did a study on the determinants of financial transparency in county governments in Kenya. Findings indicated that majority of respondents agreed that financial transparency was affected by auditing, accounting policies, financial accounting disclosure and financial management systems. The study had an overall P-value which less than 0.005 (5%). The regression model summary indicated a coefficient determination R square as 0.612 meaning that 61.2% of the relationship was explained by the identified four variables namely auditing, accounting policy, financial accounting disclosure and financial management systems. Analysis of Variance results indicated that the model was significant at F=34.328, p-value = 0.000, showing that that the overall model was significant and that financial management systems, auditing, accounting policies and financial accounting disclosure significantly affects financial transparency in Mombasa County government.

Musya (2014) did a study on the effect of internal controls on revenue collection by county governments in Kenya. The study findings established that weak internal controls activities and lack of proper information and communication systems have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. A study by Nderitu and Jeremiah (2018) examined County governments' financial reporting and accounting standards for public sector financing in Kenya. Findings indicated that there was limited access of information from the county governments regarding the matters that concern county residents. As such, most residents were not aware on how public funds were being spent by county governments. Financial reports and statements are required for decision making. They are also needed for monitoring and evaluation of County expenditures. The study findings showed that the standardization of financial reporting affect budgeting process among County Governments.

Lekamario (2017) carried out a study on factors affecting the quality of financial reporting of county governments in Kenya. The study found out that counties have

effective and efficient recruitment systems in place and that staff were best suited to perform the job. Top management professional background and previous experience has significant influence on the quality of financial reporting according to the study. IFMIS system was found to be reliable in the production of financial data for reports preparation. The regression analysis revealed that staff capacity significantly influenced the quality of financial reporting. All the other three variables, had an influence on the quality of financial reporting but not as significant as staffing capacity. The study revealed that adequate training on IFMIS system is necessary for the attainment of quality financial reporting.

2.5.3 Debt Management Practices and Financial Distress

A research by Gitau and Muendo (2017) examined the factors influencing effective debt management in Nairobi County Government. The study revealed that debt management effectiveness was dependent on institutional framework enhancement. The framework for managing risks in debt in Nairobi County was critical in promoting effective performance. However, the Nairobi County lacked proper institutional framework to aid debt management and sustainability. It was further revealed that accumulation of debts and pending bills negatively influence county service delivery.

Kibor (2019) examined the effect of financial management practices on financial performance of County Governments in Kenya with reference to Nakuru County Government. Findings revealed that financial performance of Kenya's county governments, Nakuru County Government in particular was determined by financial management practices at a great extent. It was found that management accounts payables influenced financial performance. It implied that the practices of accounts payables management/debt management played a significant role in enhancing financial position and performance of the county governments in Kenya.

Cheruiyot, Namusonge, and Sakwa (2018) did a study on effect of financial planning and budgeting practices on performance of county governments in Kenya. The study aimed at contributing new dimensions in policy formulation for management of public financial resources and delivery of services. Findings indicated that County Integrated Development Plan was the main document used by county governments to plan for

development projects and programmes. However, resource allocation and disbursement of funds from the national government determined the extent to which County Integrated Development Plans are implemented. Counties, sometimes fail to implement their development plans due to late disbursement of funds from national government.

Muli and Rotich (2016) did a study on the effect of financial management practices on budget implementation of county governments using a case of Machakos County. Results showed that budget laws provide guidelines that improve efficiency and accountability. The cash system of accounting had made implementation of budgets easy and secure. Internal control systems, financial planning and well trained staff promoted successful implementation, while high debts lead to financial constraints that hindered implementation. Budget planning that promoted participation, was allocated enough time and resources and prioritizes projects tend to reduce financial constraints and promoted accountability. It was also established that financial management constraints were caused by delays in disbursements from the national government and under collection of revenues. These constraints lead to partial implementation of projects. Regression analysis established that all the four variables considered (budget regulation, accounting systems, financial management and budget planning) had a significant positive influence on the success of budget implementation in county governments. The variable with the highest influence was budget planning, followed closely by accounting systems.

Simon and Mohamed (2017) undertook a study on the effects of Financial Management Practices on Financial Performance for County Governments in Kenya. Data analysis and interpretation was based on descriptive statistics as well as inferential statistics mainly regression analysis and Pearson correlation which was employed during analysis of data. The relationship between the independent variables (financial planning, sourcing of funding, allocation of funds, and control of funds) and financial performance was tested using regression analysis and then presented in tables. The results reveal that, financial planning, sourcing of funding, allocation of funds and control of funds has positive significant correlation on performance. The

study concluded that Mombasa County has established proper financial planning and allocation funds mechanisms that have enhanced performance.

2.5.4 Financial Information Systems and Financial Distress

Gitaru (2017) did a study on the impact of system automation on revenue collection in Kenya Revenue Authority using a Case of SIMBA. The results established that the revenue collected was directly proportional to the exchange rates due to the positive sign in the coefficient. In conducting analysis of variance in the Gretl software, the probability value of p-value 2.6e-013 was obtained showing that the regression model was significant in predicting the relationship all the coefficients and revenue collected at 95% level of significance. The study findings also established that there was a significant increase in the revenue collected after the automation to the simba system. The Exchange rates had an inverse effect on the revenue collected after the automation to the Simba system.

Lundu and Shale (2015) did a study on the effect of integrated financial management information system (IFMIS) implementation on supply chain management performance in the devolved government systems in Kenya using a case of Nairobi city county government. Findings indicated that IFMIS was moderately implemented in Nairobi City County Government. However, the County employees were equipped with skills from constant trainings and capacity building initiatives. The County Government of Nairobi City has internal and external policies guiding the implementation of integrated financial management information systems. It was also noted that the top management of County Government of Nairobi supported the implementation of integrated financial management information systems However, the county government lacked reliable infrastructure to fully support the implementation of IFMIS. Based on results from multiple regression analysis, implementation of IFMIS was dependent on competency of the county employees, financial policies, support from top management, and technological infrastructure. The implementation of IFMIS has the ability to improve supply chain performance, efficiency and quality of services.

A research by Njonde and Kimanzi, (2014) on the effect of integrated financial management information system on public sector performance. The study revealed that IFMIS influenced financial reporting effectiveness, budget performance, and the internal controls. Further, IFMIS influenced the implementation of county development projects and delivery of services at large. Regression analysis finding revealed that performance in public sector was predictable from changes regarding utilization of IFMIS. Therefore, all indicators of integrated financial management information systems (internal controls, financial reporting and budgeting) affected public sector performance.

A research study by Micheni (2017) analyzed the integrated financial management information systems and its key success factors in Kenya. The research revealed that IFMIS had a significant effect on the financial management in County Governments. It improved the development of human capital, use of technology in financial analysis, adoption to change management as well as commitment by the top management. Therefore, IFMIS is a key aspect promoting effective financial management and preventing financial distress in County Governments.

Ngirigacha and Kwanya (2016) investigated the impact of information management practices on the performance of County Governments in Central Kenya. The study used questionnaires and interview schedules to collect data. The study found out that effective use of information management practices has enabled the Nyeri County government to be more responsive and consistent in service delivery as well and projected an image of good faith in a bid to audit and improve governance. These practices were effective mainly because they improved service delivery in the county office, and maintained convenient, secure and efficient storage and retrieval of county government information in the county government offices.

Wamuyu (2018) found out that IFMIS was attributable to significant improvement in both public financial management and service delivery in Kenya government ministries. Correlation analysis shows a strong positive relationship between IFMIS and service delivery at +0.714. In addition, IFMIS has led to improved resource allocation and reduced fraud rate. All are in agreement that IFMIS has not only

enhanced accountability, efficient allocation of resources and encouraged more transparency but has also led to improved public financial management and ultimately service delivery. The system has brought about greater budget utilization, improved service delivery and enhanced capacity to track budget implementation. The system has further led to the reduction of fraud and corruption by a great extent, although some reservations exist. Worth noting is the fact that the system has led to reduced pending bills and this has been occasioned by the high accountability standards, enhanced transparency and efficient allocation of resources. IFMIS has also brought about timely production of accurate reports for monitoring and decision making purposes.

Njeru (2016) examined the influence of integrated financial management information system implementation on effective management practices in Nairobi and Lamu Counties. Results revealed that management practices were influenced by integrated financial management information systems usage. Biwott (2015) investigated the influence of integrated financial management information systems implementation on public procurement Performance at national government of Kenya. Results from multiple regression analysis showed that electronic-procurement practices contributed to improved procurement performance among ministries of the national government. Findings further indicated that adoption and utilization of integrated financial management information systems significantly affected performance regarding procurement activities among ministries. IFMIS promoted transparency and accountability in processes.

A study by Odoyo, Moses, John, Aila, Ojera and Siringi (2013) on effect of Information Systems on Revenue Collection by Local Authorities in Homa Bay County, Kenya found that regular auditing complements the good efforts towards effective financial management in organizations. Therefore, audit is more or less a practice which may be called a technique for ensuring a more effective internal check on financial management in county governments.

2.5.5 Counties' Resource Allocation and Financial Distress

A study by Kathungu (2016) examined the effect of budget utilization on the performance of County Governments. The study used descriptive statistics to analyze the collected data and regressed data on Statistical Package for Social Sciences to illustrate the variable outcomes in the adopted regression model for analysis. The results were presented in form of tables and explained clearly on the impact existence in the variables. In joint budget utilization including the Budgeted County Expenditure to the Budgeted County Revenues, Actual County Expenditures to Actual County Revenues and County Resources to the County Poverty Index has a positive influence on the financial performance of the counties.

A research study by Odeyo and Kihara (2017) aimed at determining the effect of financial management practices on procurement performance of county governments in Nakuru County. The results of correlation and regression analysis revealed that that there was a significant relationship between internal controls, planning and budgeting, internal audit practices and financial reporting and procurement performance. Improving financial management practices resulted to improved procurement performance. The study showed that proper financial management practices were essential in procurement performance in county government in Kenya.

Mohamed (2018) conducted a research on resource allocation, experiences and challenges in County Governments. Results indicated that there was a challenge in achieving separation between the two levels of government. There is no specific policy on resource allocation to the devolved function which should have guided counties on resource allocation when undertaking budgeting in their endeavour to fulfil the objectives of devolution. On the absorption rate, the study concludes that counties face a greater challenge largely due to slow exchequer release from the national government impacting programs and development negatively.

Keraro and Isoe (2015) sought to establish the relationship between good governance and the enhancement of effective service delivery for accelerated economic development of counties in Kenya. The study findings established that governance

structures play a key role in Enhancing Service Delivery for Social Economic Development of Counties in Kenya.

2.5.6 Financial Management and Financial Distress

Mbithi (2017) examined the factors influencing implementation of public financial regulations in national sub-county treasuries in Nakuru County, Kenya. Results of the study revealed that the costs incurred by County authorities did not have any significant effect on financial regulations implementations in County Governments. However, information technology usage influenced the financial regulations' implementation. An increased in use of technology improved the implementation of financial regulations. Additionally, financial regulations' implementation were influenced by policy based budgeting. Findings revealed that the correlation coefficient depicting the association between policy based budgeting and public financial regulations implementation was r=.426. On the other hand, internal accountability did not affect financial regulations implementation significantly.

Muiruri (2018) researched on the effect of integrated financial management information system on the effective management of public funds in county government of Kiambu. The findings on effectiveness of IFMIS on the transparency in the management of public funds revealed that IFMIS enhances transparency within the financial system, IFMIS enhances efficiency of the financial processes, IFMIS has improved accountability of public finances and IFMIS has enhanced easy access to financial information whenever required. It was also revealed that there is uncertainty of IFMIS leading to the effective management of Public Funds, IFMIS leading to easy access of financial information to external users and IFMIS improving service delivery to the Public. The findings on effectiveness of IFMIS in accounting and financial reporting revealed that IFMIS has improved the quality of financial reports, IFMIS has improved accuracy in financial reporting, IFMIS has improved government accounting processes and IFMIS has also improved the reliability of financial records and timely financial reporting in compliance with Financial Reporting Standards.

Dewi, Azam, and Yusoff (2019) examined the factors influencing the information quality of local government financial statement and financial accountability. The result

revealed that internal control system and human resource competence positively influenced on the information quality of local government financial statement. Internal control system and human resource competence also influence positively on financial accountability both directly and indirectly mediated by the information quality of local government financial statement. Moreover, the information quality of local government financial statement directly and positively influence the financial accountability.

Mwengi, (2016), undertook a research work on 'Enhancing Good Governance under Kenya's Devolved System of Government' Machakos County, Kenya. This study was triggered by lack of implementation of development projects at County levels. Corruption, supremacy battles and waste of resources were also linked to the problem. The findings from the study indicated that lack of adherence to principles of good governance (transparency, rule of law and effectiveness), lack of accountability, transparency, and adequate institutional capacity contributed to poor governance. This indicated existence of inadequate financial management that was detrimental to effective service delivery at county levels.

Ntoiti (2013) carried out a study on determinants of Financial Distress Facing Local Authorities in Service Delivery in Kenya. It was guided by financial management practices, human resource management practices, corporate governance practices, information technology and government regulation constructs. Findings indicated that all these variables had negative and significant relationship with financial distress. Therefore, financial distress in local authorities would have decreased with their increased effectiveness. This hence implied that improved effectiveness of financial management practices, human resource management practices, corporate governance practices, information technology and government regulation would lead to decreased financial distress in local authorities. The study recommended that a portion of corporation tax should be allocated to the devolved governments. The research also recommended that the parliament should liaise with devolved governments when making laws especially those affecting their revenue bases.

A study by Memba and Abuga, (2013) on the causes of financial distress in the firms funded by Industrial and Commercial Development Corporation (ICDC) in Kenya found that finance, accounting system; liquidity; management and policy changes factors influenced financial distress. The study observed that financial health of the firm depended on financing adequacy, credit accessibility and capital decision effectiveness. Financial distress was hence caused by inadequate financing, affordable credit inaccessibility, and lack of proper capital decisions. Capital is critical in offering buffer against losses and cushion for low returns. Inadequate capital imply that the company lacks ability to meet cash obligations and this lead to financial distress. This study did not explain the significance of the proper debt management practices in organizations. The major issues raised in the county government are the management of the available resources; borrowed funds, local revenue and revenue allocated by central government. Misuse of these resources leads to obligatory failures.

In their study, Khaliq *et al* (2014); Identifying Financial Distress Firms: A Case Study of Malaysia's Government Linked Companies (GLC), they applied financial ratios to determine the financial distress of companies. The study found that the higher the current ratio, the higher the capability of paying their obligations. That meant that the organizations with more current assets than current liabilities were able to manage the situations of financial distress. It further asserted that a current ratio of less than one meant that the company would be incapable to pay off its commitments if they came due at that point. Higher debt ratio indicates that the company is more leveraged and is prone to greater financial risks. This research used financial ratios to identify financial distress but they did not emphasize on the determinants of the level of current assets and liabilities and how they can be controlled and managed to the extents that distress can be avoided. This would be the most important thing in regard to financial distress ion county governments since utilization of financial resources and acquisition of debts highly influences their financial sustainability.

A research study by Njau (2016) investigated the effect of adoption of public financial reforms on the performance of County Governments in Kenya. The study revealed County Governance depend on the effectiveness of public financial management. PFM

provides import information for development planning. It also helps in budgeting and management of public financial resources.

2.6 Critique of Existing Literature Relevant to the Study

However, the study by Mwengi (2016) lacks detailed explanation on contribution of the applied variables to the county's ability to settle short-term and long-term obligations. Therefore, the outcomes of inadequate governance in county governments with reference to Machakos County are scantly described. This means that the research gave little information that relates to County Governments' financial distress in Kenya. The research was done on basis of case study while the current study was a survey 5 selected County governments which are likely to provide more information.

A research study by Ntoiti, (2013) was carried out from the defunct City councils, Municipal councils, Town councils and County councils thus there is difference. The variables used in the study seem more general meaning that they require a lot of inquiry before adequately establishing their influence on County Governments' financial distress in Kenya. Currently, more funds allocated to county governments by central governments. Therefore, most cases of funds mismanagement could not have been captured in Ntoiti's research study from the local authorities. The research study by Khaliq *et al* (2014) used financial ratios to identify financial distress but they did not emphasize on the determinants of the level of current assets and liabilities and how they can be controlled and managed to the extents that distress can be avoided. This would be the most important thing in regard to financial distress ion county governments since utilization of financial resources and acquisition of debts highly influences their financial sustainability.

Lumasei and Muturi (2019) did study on factors influencing performance of internal auditors in county governments in Kenya. Findings indicated that audit committee independence, affiliation to professional bodies, top management support and availability of resources had a significant effect on performance of internal auditors in County Governments. The research study consisted of qualitative rather than quantative variables. Furthermore, it did not address financial distress among County Governments.

A study by Nderitu and Jeremiah (2018) investigated Public sector accounting standards and financial reporting in central region County governments and revealed that the counties had limited access to financial information sources. They did not discuss financial information systems adequately. Njihia and Makori (2015) investigated the determinants of performance of Integrated Financial Management Information System in Public Sector in Kenya. Findings from the analysis showed that ICT Infrastructure had the strongest positive (Pearson correlation coefficient =.801; p-value= .012< .05) influence on Performance of IFMIS in the organization. The research was confined to IFMIS thus information concerning financial systems was still scanty.

Hassan and Simiyu (2013) examined the influence of financial management practices in public sector on absorption of budget by County Government of Madera. Based on study results, budget absorption was highly influenced by practices of financial reporting. The processes of financial control further determined the level of budget absorption. Budget preparation and absorption depend on resource allocations from national government but this was not well discussed in the research study.

Thuge and Kimemia (2018) undertook a study on the determinants of financial transparency in county governments in Kenya. Findings indicated that majority of respondents agreed that financial transparency was affected by auditing, accounting policies, financial accounting disclosure and financial management systems. Implications of transparency determinants on financial distress were not established in the research study. Ongeri, Okioga, and Okwena (2013) established that the internal audit systems were averagely effective in the management of LATF funds. This study was done from defunct local governments and there are changes in the decentralized system of government.

Musya (2014) did a study on the effect of internal controls on revenue collection by county governments in Kenya. The study findings established that weak internal controls activities and lack of proper information and communication systems have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The role of auditing practices was not well discussed in the research study.

Ngirigacha and Kwanya (2016) investigated the impact of information management practices on the performance of County Governments in Central Kenya. The study found out that effective use of information management practices has enabled Nyeri County government to be more responsive and consistent in service delivery as well and projected an image of good faith in a bid to audit and improve governance. The issue of financial distress was not explained.

A research by Lundu and Shale (2015) investigated the performance of Nairobi County in terms of supply chain management using integrated financial management information system's implementation as the predictor. Findings showed that IFMIS had a moderate effect on performance in supply chain management. The study was limited to the supply chain departments and not the entire county government departments. Moreover, IFMIS touches more on financial management but this was not well explained in the study.

Muli and Rotich (2016) did a study on the effect of financial management practices on budget implementation of county governments using a case of Machakos County. Results showed that budget laws provide guidelines that improve efficiency and accountability. This was a case study whose findings did not contain information concerning county governments in general.

The study by Ncube, (2014) discussed about the management of funds that are already available to the local authorities. The issue of sourcing for funds was not explained. Financial distress is all about settling financial obligations by organizations. To achieve this, the source of funds is critical hence cannot be ignored. Exhausting the revenue sources by the local government has a direct linkage to financial stability. Therefore, the issue of financial distress cannot be fully covered if the issue of revenue management in terms of collection is not well discussed.

Gituma, (2017) established the effect of corruption, employee qualification, skills and training on revenue collection. There was no connection between the variables used and financial distress. Revenue collection is major source of funds for the county governments. However, explaining collection only is not enough to unfold the problems associated with county governments' revenue management in Kenya. A

study by Mathew, (2014) describes the challenges facing the implementation of integrated revenue collection system in Machakos County. He did not go further to explain the consequences associated with lack of implementation. The aspect of financial management in regard to revenue collection was not discussed either. The variables used were skewed towards administrative and political direction thus financial distress did not come up clearly.

2.7 Research Gaps

The researcher has identified and filled existing knowledge gaps from the area of financial distress in county governments. It was found that most studies were done before counties started functioning. For instance, the study by Ntoiti, (2013) was undertaken from defunct local authorities. The studies related to financial distress undertaken on defunct City councils, Municipal councils, Town councils and County councils did not incorporate the current financial problems faced by county governments. Currently, more funds are allocated to county governments and misuse and mismanagement of the same lead to financial distress. Therefore, allocation of more funds has been put into account while discussing financial distress which was not the case with the previous studies.

Moreover, most current research works did not use variables that could have helped to understand and offer solutions to problem of financial distress. Mwengi, (2016) focused on Machakos County only. The level of financial distress is not the same across all the county governments. Therefore, considering one county cannot adequately cover the County Governments' financial distress in Kenya. The current study identified this gap and has carried out the study from five counties that covers the major regions of Kenya. This helped to obtain information to cover the issue of financial distress sufficiently in Country.

Revenue collection was discussed with disregard of revenue management as whole in the study by Maina, (2013). Optimal revenue collection can possibly be linked to the utilization of the revenue collected previously. It involves service delivery thus can determined if the tax payers sees the need to continue paying licenses and other charges levied by county governments. This gap was identified and the current study examined

financial distress and Counties' revenue management. Embezzlement of funds from local governments has been identified as major financial problem in local authorities. This has been attributed to lack of transparency, accountability and employee incompetency. However, these issues have not been adequately explained along auditing. This was identified and the current study examined Counties financial distress and auditing practices.

Financial systems establishment and implementation affects revenue collection according to previous studies like the one by Odoyo *et al* (2013). Specific systems and how they function was not well explained. The current study identified the need to establish the relationship between financial information systems and financial distress in county governments of Kenya. Debt management in county governments is a major cause of financial distress but it had not been adequately researched on before. This knowledge gap has now been filled in the current research study.

Nderitu and Jeremiah (2018) examined County governments' financial reporting and accounting standards for public sector financing. The anomalies in financial reporting regarding accounting in public sector was not clearly explained. The current study has described the auditing practices incorporating financial reporting and accounting standards in relation to county financial management and financial distress.

Hassan and Simiyu (2013) assessed the impact of financial management practices in public sector on absorption of budget by County Government of Madera. Based on study results, budget absorption was highly influenced by practices of financial reporting. The processes of financial control further determined the level of budget absorption. Budget preparation and absorption depend on resource allocations from national government but this was not well discussed in the research study. The current study incorporated counties' resource allocation as a moderator for financial management dimensions and financial distress in Kenyan County Governments.

Thuge and Kimemia (2018) undertook a study on the determinants of financial transparency in county governments in Kenya. The current study incorporated internal and external auditing practices in County Governments. Musya (2014) did a study on the effect of internal controls on revenue collection by county governments in

Kenya. The study findings established that weak internal controls activities and lack of proper information and communication systems have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The current study analyzed auditing practices where internal controls were taken as an element of the auditing function of county governments. The study discussed the financial information systems in a more detailed manner to build on the study by Lundu and Shale, (2015) who examined the effect of integrated financial management information system (IFMIS) implementation on supply chain management performance in the devolved government systems in Kenya. The current study was a survey of selected counties and is different from Muli and Rotich (2016) who did a study on the effect of financial management practices on budget implementation of county governments using a case of Machakos County. Moreover, their findings were about efficiency and accountability. The current study connected efficiency and accountability to financial distress.

2.8 Summary of Literature Review

Theoretical foundations and concepts have given insights and more understanding of the problem under study and the variables. Financial distress in county governments has been partly influenced by lack of optimal revenue collection and misappropriation of the collected amount. The wreckers' theory describes the strengths and benefits that can be sought by companies who have stepped out of financial distress. If appropriate measures guiding revenue collection and utilization are formulated and strictly implemented, county governments can achieve optimization in collection and avoid wastages in usage of revenue hence financial difficulties which leads to distress will have greatly decreased. Theory of critical accounting suggests that financial managers are required to handle financial resources with care and should exhibit honesty while reporting usage of the funds. Therefore, there should be an effective relationship between county governments and the residents that they are serving in regard to financial accountability in order to track government's expenditures and their significance to the people.

Debt management theory states that organizations fail to manage the debt obligations due to ineffective fiscal and monetary policies whose impacts are not felt in the cost minimization. Fiscal and monetary policies depend on the county government's ability to offset unexpected fluctuations in expenditures or revenue by managing the size, composition and the amount of debt. Entropy theory notes that financial statements of county governments are influenced by financial information systems in place. Therefore, effectiveness can be achieved if there is good support for these systems by the top management hence accurate financial position of the county governments will be always indicated.

Resource dependency theory was relevant to the study since County governments depend on resource allocation from central government to be able to undertake all their functions. Therefore, there is need for healthy working relationship between the two. Financial distress theory seeks to describe the conditions inherent in organizations faced with financial instability. It emphasizes on the need to recognize the adverse processes as early as possible in order to gain more time for response.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section looks into the methodology that was used in the study. It outlines research design, target population, sampling frame, sample size and sampling technique, data collection instruments, data collection procedure, pilot study, data collection procedure, data analysis and presentation.

3.2 Research Design and Philosophy

This section outlines the research design and philosophy. They are essential as they offer a framework and guiding principles for conducting a study, ensuring coherence, rigor, and alignment with research objectives. This vitally enhances the credibility of findings while minimizing biases and ensuring consistency in the research process.

3.2.1 Research Design

Research design is the framework under which the study is undertaken. As argued by Smith (2015) research design is an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance with purpose. Research design can be considered as the structure of research that holds all of the elements in a research project together (Bell, Harley, & Bryman, 2022). Research design provides the procedures for gathering information needed for structuring and providing solutions to the problem prompting undertaking of the study. Therefore, it indicates the plan for carrying research works.

Research design normally specifies the techniques or methods for obtaining information needed by a researcher (Rea & Parker, 2014). As such, the overall framework for research is stipulated in the research design. Moreover, research design promote accurate and economical manner of data collection. The need for an appropriate research design lies in its facilitation role for various operations which reduce costs and contribute to time efficiency. It is also important in enhancing the

reliability of results and relevance of the entire research report in terms of meeting study objectives and practical applications of the findings (Smith, 2015). The suitability and applicability of research design depend on the research problem. Therefore, the selected research design ought to determine the tools for data collection, procedure and analysis measurement. An effective research design promote accuracy, correctness and outcome desirability.

This study therefore adopted descriptive survey design to come up with sufficient and relevant information for the research (Lakshmi & Mohideen, 2013). Descriptive research design gathers quantifiable information that can be used for statistical inference on target population through data analysis. It mainly favors the form of closed-ended questions, which are time saving and convenient for the respondents. It helps the researcher to better measure the significance of characteristics of respondents in a study. Therefore, it is expected to enable detailed description of each study variable in a bid to emphasize on the issue of financial distress in county governments of Kenya. Descriptive research design also includes multiple variables effectively while employing methods of analysing correlations between them by using tests such as Pearson's Product Moment correlation, regression, or multiple regression analysis (Easterby-Smith, Jaspersen, Thorpe, & Valizade, 2021). It also utilizes data collection and analysis techniques that yield reports concerning the descriptive and inferential measurements. Therefore, it helped to organize the findings of the study in order to fit them with explanations, and then tested and validated those explanations leading to important recommendations.

According to Lo, Rey-Martí, and Botella-Carrubi (2020) descriptive survey research design leads to identification of suitable data collection methods and analysis in accordance to the study objectives. It is critical in obtaining information for answering the research questions and testing research hypothesis studies with aim of making conclusions and useful recommendations. Therefore, this design also helped to explain and facilitate critical evaluation of county governments of Kenya in regard to revenue management, auditing practices, debt management practices, financial information systems, counties' resource allocation and financial distress constructs.

3.2.2 Research Philosophy

Research philosophy is a research strategy employed to guide on the instruments to be utilized in the pursuit of study objectives (Rea & Parker, 2014). Research philosophy is also expressed as the belief about the way data should be gathered, analyzed and used. The current study used positivism research philosophy based on reality that is stable and can be observed and described from an objective viewpoint without interfering with the item being studied. Adopting positivism as a research philosophy ensured objective measurement and empirical validation, providing a solid foundation for analyzing financial management and financial distress based on observable facts and data.

3.3 Target Population

Population is the aggregate or total number of people or items that possess similar characteristics (Rea & Parker, 2014). A complete enumeration approach entail census where the entire population is involved in a study. The target population of the study is the population from which respondents are drawn, data collected from them and study findings are generalized. In this study, the target population was the five selected county governments with a population of above one million people as per 2009 census. These included; Nairobi, Nakuru, Kakamega, Meru and Kilifi as shown in appendix V. These counties covers the country's all key regions including Coast, Nairobi, Rift-Valley, Eastern, And Central regions. As such, the entire Country was well represented. The selected county governments were the unit of analysis while the accountants and auditor were the unit of observation.

In particular, the researcher targeted all the 212 accountants and auditors from ministries and sub-counties in the five selected County governments of Kenya. They are engaged in financial activities of the organization thus were deemed capable of giving insights into the problems that they are facing in their work in relation to financial distress. They provided information that was helpful in determining how financial management in terms of revenue management, auditing practices, debt management practices, and financial information systems influence financial distress.

3.4 Sampling Frame

Sampling frame refers to list of all individuals from the target population (Yin, 2017). A representative sample is drawn from the sampling to represent views of the entire population. The sampling frame of the research study consisted of all the accountants and auditors of Nakuru, Kakamega, Nairobi, Meru and Kilifi Counties.

3.5 Sample Size and Sampling Technique

Sampling refers to the process of selecting people or items from group or groups for the purposes of obtaining information for a research work (Easterby-Smith *et al*., 2021). The selected people or items should possess the features of the population from where they are selected from. Sampling is usually when the population of interest is large and somehow the researcher could not reach each and every intended person. Moreover, sampling is conducted when the researcher is constrained in terms of time and cost involved in undertaking research. A sample is the selected individuals who are involved in the study and represents the entire population and its characteristics (Rea & Parker, 2014). Sampling is majorly categorised as probabilistic and non-probabilistic. Probabilistic sampling gives each every individual the chance of being picked from the population and included into the sample. On the other hand, members of the population have unequal chance of selection into the sample. In this sampling technique, the researcher picks people or items selectively with no definite probabilistic approach to sample selection (Yin, 2017).

The current employed probabilistic sampling. Probabilistic sampling was suitable for the study which is quantitative in nature. It supported categorization and measuring of the data. Generally, probabilistic sampling comprise simple random sampling, systematic sampling and stratified sampling. All components of a population have equal chance of selection into the sample in simple random sampling. In Systemic sampling, samples are obtained on a well-defined order. First and foremost, the total sample size is determined, the population is divided by the sample size to get the nth selection. Then sample is picked from every n^{th} point in the population list. In stratified sampling, the population is divided in groups and sampling is done from each and every group. The summation of samples from the groups constitute the total sample

for the study. Moreover, stratified sampling can proportionate or non-proportionate. In proportionate stratified random sampling, samples are picked proportionately based on the population size of each stratum. The current study adopted proportionate stratified random sampling.

A sample of 103 respondents was obtained from the target population of 212 auditors and accountants through proportionate stratified random sampling method; 50 from ministries' strata and 53 from sub-counties strata' respectively as illustrated on Appendix V. Stratified random sampling gives all items of the sampling frame equal probability of being selected ((Yin, 2017).This method was suitable for the study since the respondents are deemed to have similar characteristics in regard to the information that the researcher will be seeking. Therefore, those who were picked adequately represented the target population. Proportionate stratified random sampling minimized the bias and enhanced simplification of results' analysis. Through random sampling method, the variance between individual results within the sample is a good indicator of variance in the overall population, which makes it relatively easy to estimate the accuracy of results.

Sample size was determined through Nasiuma's formula (2000). The population was divided into two strata; the respondents from the ministries who are 100 in number and 112 from the sub-counties. Sample size was calculated from each strata and then added together to comprise the total sample for the study.

Sample size was obtained as follows:

$$n = \frac{NC^2}{C^2 + (N-1)\, e^2}$$

Where;

n=Sample size

N=Population size

C=Coefficient of variation which is 50%

e= Error margin which is 0.05

Substituting the values in the equation, the estimated sample size (n) was:

Sample size for accountants and auditors in sub-counties

$$n = \frac{112\,(0.5)^2}{0.5^2 + (112-1)\, 0.05^2}$$

n=53.080 n=53respondents

Sample size for accountants and auditors in County government ministries

$$n = \frac{100\,(0.5)^2}{0.5^2 + (100-1)\, 0.05^2}$$

n= respondents

Total sample was; 53+50= 103 respondents

3.6 Data Collection Instruments

According to Ho, Plewa and Lu, (2015), the data collection instruments should be chosen in consideration of the research design, target population, analysis methods, time frame and budget for information collection. The researcher collected both primary and secondary data.

3.6.1 Primary Data

Primary data was collected from the accountants and auditors of 5 selected County Governments. Questionnaires provide an opportunity for adoption of practical ways in data gathering. Descriptive surveys are quantitative in nature thus questionnaires are suitable for them for easy analysis of results (Chatterjee & Hadi, 2015). Therefore, the study used questionnaires to collect primary data from accountants and auditors in the selected County Governments of Kenya. Questionnaire gives an opportunity for data collection from large sample whereby time is saved and confidentiality is upheld. Closed-ended questions are most suitable for sensitive matter such as financial distress thus was applied by the researcher. According to Bell, Bryman and Harley, (2018),

closed-ended questions provide an appropriate framework for comparison of opinions from different respondents. Moreover, the response choices in this case clarify the meaning of the questions to the respondents (Chatterjee & Hadi, 2015). They were administered in a 5-point likert scale for easier coding and each point indicates the level of agreement with the statements provided. It ranged from point 1-5 whereby each point means the following;

5- It means that the respondents strongly agrees with what has been stated by the researcher

4- The respondents agree with the statement

3- It means that the respondents are indifferent; he or she has not indicated whether he is in agreement with the statement or disagreement

2- The respondent disagrees with what has been stated by the researcher

1- It means that the respondents strongly disagree with the statement

Administration of questionnaire on the likert scale made the work easier for the respondents and will also lead to effective data analysis.

3.6.2 Secondary Data

Secondary data improves the clarity of the problem and the circumstances surrounding the issues in data collection procedure (Ruel, Wagner & Gillespie, 2015). It was sourced from financial reports of the county governments and those from the commission on revenue allocation, controller of the budget and auditor general from 2013/2014 to 2022/2023 fiscal years as shown in appendices VII-XII.

3.7 Data Collection Procedure

Data Collection Procedure comprises of the processes followed in obtaining information right from seeking permission from the relevant authorities to the engagement with the respondents (Bell, Harley, & Bryman, 2022). The researcher obtained data collection authorization letters from Jomo Kenyatta University of Agriculture and Technology and National Commission for Science, Technology and Innovation (NACOSTI) before starting carrying out the research. The county

administrations were also requested for permission to undertake a study from their institutions. The questionnaires were distributed by the researcher and two assistants and collected later for analysis. The data was collected from the accountants and auditors through questionnaires. They provided information on revenue management, auditing practices, Debt Management practices, financial information systems, counties' resource allocation and financial distress.

3.8 Pilot Study

According to Yin (2017) effectiveness and suitability of data collection depend on its results from a pre-test exercise before the main data collection activity. Therefore, a pilot test was conducted for before the final study. The researcher engaged 6 accountants and 6 auditors from Kiambu County since it has similar characteristics with counties such as Nairobi which gave nearly same results. These respondents were excluded from the final study. The purpose of the pilot study was to establish the reliability and validity of data collection tools. It was done upon prior to the research work in order to determine whether the questionnaires need any adjustments to fit the requirements of the current study. These processes are vital because they enhance information quality for purposes of achieving the research objectives and recommending solutions to the problem. As a result, reliability and validity of the data collection instrument was achieved.

3.8.1 Reliability of the Instrument

As described by Bell *et al* (2022) reliability entails data collection instrument's consistency. A reliable data collection instrument should lead to results that are consistent in different retests. The current study applied Cronbach alpha in determining the reliability of the questionnaire. Kimberlain & Winterstein (2008) noted that cronbach alpha is most suitable test for reliability in quantitative research. The values for cronbach alpha range from 0-1. A value of 0.7 and above means that the tool is reliable and anything below lead to adjustment of the tool. After analysis, all variables; revenue management, auditing practices, debt management practices, financial information systems, counties' resource allocation and financial distress met the threshold of 0.7.

3.8.2 Validity of the Research Instrument

According to Easterby-Smith et al (2021) data collection instrument's validity means that it actually measures what is intended to measure. However, data collection instrument's validity cannot be determined statistically. Therefore, expert opinion was sought from the university supervisors. The content validity was determined through expert opinion of the supervisors as they possess adequate knowledge in the field finance. They evaluated the extent to which the content of the questionnaire accurately represented the financial management and financial distress. Their judgment ensure that the questionnaire comprehensively covered the important aspects of the revenue management, auditing practices, debt management practices, financial information systems, counties' resource allocation and financial distress in county governments of Kenya, thus establishing its content validity. Ultimately, the supervisors found that questionnaire was fit and suitable for data collection in the main study.

3.9 Data Analysis and Presentation

Data analysis refers to the process of breaking complex information into smaller elements that can be easily clarified and understood (Smith (2015). Therefore, data collected from the accountants and auditors was sorted, edited, coded and analysed by descriptive and inferential statistics. Descriptive analysis incorporated measures of central tendency; means and measures of variation such as standard deviations to describe how revenue management, auditing practices, debt management practices, financial information systems and counties' resource allocation lead to county governments' financial distress in Kenya.

Prior to inferential data analysis, the diagnostic tests were conducted. These included the test for normality, test for multicollinearity, test for linearity and test for homoscedasticity. Normality tests were undertaken on the descriptive statistics. Normality tests are based on the notion that statistical tests require that normally distributed and it is important not to violate this assumption (Das & Imon, 2016). Tests which make inferences about means or about the expected average response at certain factor levels are generally robust to normality. Shapiro-Wilk test is used to test for normality for data less than 2000 using distribution platform to examine a continuous

variable (Park, 2015). Therefore, it was applied in the current study. The null hypothesis for this test is that the data set are normally distributed. Therefore, the p value should be more than the alpha value chosen. If it is less, the null hypothesis is rejected. Normality tests were vital because regression analysis presupposes normality in residuals. 5% significance level was adopted and p-values above the same signified normal distribution. By verifying residual normality, these tests bolstered the credibility of statistical conclusions derived from regression analysis, thereby fortifying the precision and suitability of the regression model.

The researcher carried out multicollinearity test on the study variables. Multicollinearity is a case of multiple regressions in which the predictor variables are themselves highly correlated (Yu, Jiang & Land, 2015). The multicollinerity means a situation in which there is exact (or nearly exact) linear relation among two or more independent variables. One of the purposes of a regression model is to find out to what extent the outcome (dependent variable) can be predicted by the independent variables (Sinan & Alkan, 2015). Multicollinearity was meaused through the Variance Inflation Factor (VIF), which determines how much the variance of a regression coefficient is inflated due to multicollinearity. The Variance Inflation Factor (VIF) ranges between 1 and 10, signified that there was no significant multicollinearity issues among the predictor variables in the regression model. Multicollinearity tests were used to detect the presence and severity of multicollinearity among independent variables. These tests helped the researcher to assess the reliability of regression coefficients and ensure the validity of statistical inferences drawn from the model.

Linearity test determines the relationship between the independent variables and dependent variable is linear or not (Sinan & Alkan, 2015). Dependable data should exhibit a linear relationship between independent variables and dependent variable. If the value sig. for deviation from linearity is greater than the level of significance chosen, the relationship between independent variables is linearly dependent. 5% significant level was adopted and values above the same signified existence of linear relationship. Linearity tests were leveraged to model and forecast variations in the dependent variable, considering alterations in the independent variables. Through the fitting of a linear equation to the dataset, regression analysis quantified this association,

enabling the estimation of the influence of each independent variable on the outcome of the dependent variable.

Homoscedasticity is central to linear regression models. It describes the situation in which the error term as known as the noise or random disturbance in the relationship between independent variables and dependent variables) is the same across all values of independent variables (Hasanali & Ismayilova, 2017). Heteroscedasticity is the violation of homoscedasticity and is present when the size of error term differs across values of independent variable. Ordinary least squares (OLS) regression seeks to minimize residuals and in turn produce the smaller possible standard errors. It gives equal weight to all observations but when heteroscedasticity is present, the cases with larger disturbances have more pull than other observations with larger observations. A more serious problem associated with heteroscedasticity is the fact that the standard errors are biased. Because the standard error is central to conducting significance tests and calculating confidence intervals, biased standard errors lead to incorrect conclusions about the significance of regression coefficients (Jamshidian & Jansen, 2014). For homoscedastic data, the p-value is greater than 5% significance level. Homoscedasticity tests were used to evaluate if the residuals' variance remains uniform across different levels of the independent variables. They ensured the reliability of regression model estimates by confirming the assumption of constant variance through examination of residual scatter against predicted values.

Correlation and regression analysis methods were employed in inferential analysis. Correlation analysis serves as a statistical tool for evaluating the strength and direction of the connection between two variables. Pearson's correlation coefficient (r) measures the extent of linear correlation between variables, with a scale from -1 to 1. A correlation coefficient nearing 1 suggests a robust positive linear relationship, where increases in one variable correspond with proportional increases in the other. Conversely, a coefficient close to -1 indicates a strong negative linear relationship, signifying that increases in one variable coincide with proportional decreases in the other. A correlation coefficient approaching 0 indicates a weak or negligible linear relationship between the variables. Generally, correlation coefficients ranging from 0.1 to 0.3 denote a weak correlation, coefficients between 0.3 to 0.5 indicate a

moderate correlation, while coefficients surpassing 0.5 represent a strong correlation. These thresholds aid in interpreting the strength of the relationship between variables within correlation analysis. Linear regression analysis determines the connection between a dependent variable and one or more independent variables by formulating a linear equation that aligns with the observed data (Mark, Philip & Adrian, 2015). Its primary aim is to ascertain the optimal line that characterizes the association between these variables, facilitating forecasts or elucidation of the dependent variable based on the independent one(s).

While simple linear regression involves a solitary independent variable, multiple linear regression encompasses several. Typically expressed as $Y = a + bX$, where Y represents the dependent variable, X denotes the independent variable, (a) signifies the intercept; the point where the line intersects the Y-axis, and (b) represents the slope; the rate of change of Y concerning X. In other terms, the linear regression model can be illustrated as; $Y=\beta 0 + \beta X$, where β_0= Constant and β=beta coefficient. The efficacy of the fit is evaluated using diverse metrics, such as the coefficient of determination (R-squared), which illuminates the proportion of variability in the dependent variable explicable by the independent variable(s), with values nearing 1 indicating superior alignment (Mark, Philip & Adrian, 2015). The beta coefficient measured the degree of change in the financial distress for every one-unit change in the financial management element. It indicated the standardized effect size of each independent variable on the dependent variable (financial distress), allowing for comparison of the relative effect of the predictors (financial management).

Analysis was executed through Statistical packages for social sciences (SPSS). The findings and discussions from the research were presented by statistical tables. The researcher sought to determine whether the dependent variable (Financial Distress) was linked with the four independent variables (Revenue management, auditing practices, debt management and financial information systems). The researcher also sought to determine whether the moderating variable (Counties resource allocation) was linked to the resultant influence of the independent variables on the dependent variable.

The simple linear regression analysis was conducted for each independent variable and the dependent variable. The following equations were applied:

$Y = \beta_0 + \beta_1X_1 + \varepsilon$

$Y = \beta_0 + \beta_2X_2 + \varepsilon$

$Y = \beta_0 + \beta_3X_3 + \varepsilon$

$Y = \beta_0 + \beta_4X_4 + \varepsilon$

Where;

Y=Financial Distress

β_0= Constant (Coefficient of intercept of β_0)

X_1= Local Revenue Management

X_2= Auditing Practices

X_3= Debt Management practices

X_4= Financial Information Systems

ε = Error of Margin

Secondly, multiple regression analysis was conducted to establish the relationship between revenue management, auditing practices, debt management and financial information systems taken together and the financial distress. The following model was applied:

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$.......................Equation 1 (Direct relationship with variables)

Moreover, to test the moderating effect of county resources allocation on the relationship between financial management and financial distress, the following model was applied: establish its overall moderating effects on financial distress. The following model was applied:

$Y = \beta_0 + Z(\beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4) + \varepsilon$ …………………………........Equation 2

Where;

Z= The moderating variable (Counties' resource allocation)

The findings were presented through tables.

The hypotheses were tested based on the beta coefficients, t-values and the significance values (p-values). This was tested at 95% confidence level. If the p-value was less than 0.05, the hypothesis was rejected. Consequently, a significant relationship between the independent variable and dependent variable. If the p-value was more than 0.05, the hypothesis was accepted, since the relationship between the independent variable and dependent variable was insignificant.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter outlines the response rate, background information of the respondents, descriptive and inferential analysis of the data obtained from the respondents. The study variables; revenue management, auditing practices, debt management practices, financial information systems, counties resource allocation and financial distress have been analysed. The Findings have been discussed, interpreted based on the research problem and objectives and compared to other related research works. The results are presented in statistical tables.

4.2 Response Rate

The researcher prepared 112 structure questionnaires according to number of accountants and auditors and issued them. 99 of them were fully and correctly filled leading to response rate of 88% that adequate for the study. Smith (2015) noted that response rate of 70% and above is adequate for a quantitative study.

4.3 Pilot Test Results

Pilot tests were conducted to determine the validity and reliability of the data collection tool. These included the validity and reliability tests. The reliability test results are presented in Table 4.1:

Table 4.1: Reliability Test Results

No.	Variable	Number of items tested	Alpha Value
i.	Revenue Management	7	.788
ii.	Auditing Practices	6	.774
iii.	Debt Management Practices	6	.758
iv.	Financial Information Systems	7	.755
v.	County Resource Allocations	6	.906
vi.	Financial Distress	5	.730

Reliability test results shows that the revenue management had alpha value of .788 hence implying that data on revenue collection strategies, revenue allocation, revenue mobilization, billing and invoicing, fraud and leakage management was consistent and suitable for analysis. The information pertaining to risk assessment, audit governance, financial control frameworks, assessment of regulatory compliance, reporting standards and supervisory activities taken together had a cronbach alpha value of .774. The data was fit for determining the influence of auditing practices on financial distress. Debt management practices had cronbach alpha of .758 which was above the 0.7 threshold. It implied that the data obtained from accountants and auditors regarding debt policies, Credit limits, Debt sustainability, and Debt allocation was reliable. Financial information systems surpassed the threshold of 0.7 and had alpha value of .755 meaning that information on management reporting adequacy, budgetary process and financial reporting was consistent and fit for descriptive and inferential analysis. The data collected on the moderating variable (county resource allocations) was also reliable as it had alpha value α=.906. It meant that the information on elements of county resource allocations; fiscal responsibility, equalization fund, population size, geographical coverage was consistent and fit for diagnostic tests and descriptive and inferential analysis. Finally, the data pertaining to indicators of financial distress; effectiveness in service delivery, level of budgetary solvency, strength of revenue base, and level of pending bills. Financial distress had alpha value of α=.730 hence suitable for analysis.

4.4 Background Information of the Accountants and Auditors

The researcher sought to establish the background of the respondents in regard to period of time in the current position and period of time working with county governments/municipal and county councils.

4.4.1 Period of time in the Current Position

The study sought to establish the period of time that the respondents had been in accountant and auditor positions. Table 4.2 shows the findings.

Table 4.2: Period of Time in the Current Position

Years	Frequency	Percent
Below 1 year	6	6.1
1-5 Years	17	17.1
6-10 Years	40	40.4
10-15 Years	31	31.3
Over 15 Years	5	5.1
Total	**99**	**100.0**

The findings indicate that the majority of the respondents at 40.4% had been in accountants and auditors for a period of 6-10 years. 6.1% and 17.1% had been in their current positions for a period of below 1 year and 1-5 years respectively. 31.3% had been accountants and auditors for a period of 10-15 years while 5.1% were in those positions for more than 15 years. Analysing the duration of accountants' and auditors' tenure in their current positions provided valuable insights into their expertise and familiarity with financial management practices specific to county governments. This information enabled the researcher to gain insights into how experience influences decision-making and the capacity to effectively manage financial distress.

4.4.2 Period of Time Working with County Government/Municipal and County Councils

The researcher sought to establish the amount of time in years that the respondents had spent working with county government/municipal and county councils. Table 4.3 illustrates the results.

Table 4.3: Period of time working with County Government/Municipal and County Councils

Years	Frequency	Percent
Below 1 year	10	10.1
1-5 Years	28	28.3
6-10 Years	46	46.5
10-15 Years	13	13.1
Over 15 Years	2	2
Total	**99**	**100.0**

The findings indicate that the majority of the respondents at 46.5% had been working with county governments/municipal and county councils for a period of 6-10 years. The least experienced respondents were at 10.1% having worked with county governments/municipal and county councils for less than 1 year. The most experienced respondents (2%) had been with county governments/municipal and county councils for more than 15 years. Overall, accountants and auditors were fairly experienced. The duration of working time (in terms of number of years) among accountants and auditors in County Governments was important. It increased the understanding on experience and familiarity with governmental financial management procedures. This was useful in undertaking accounting, auditing and other financial management related tasks. The respondents that have worked with county governments for longer period have extensive experience in financial management tasks. It is probable that they may have a deeper comprehension of financial processes, regulations, and practices in county governments.

4.5 Descriptive Findings and Discussions

The researcher undertook descriptive analysis to determine how revenue management, auditing practices, debt management practices, financial information systems and county resource allocation influenced county governments' financial distress in Kenya.

4.5.1 Influence of Revenue Management on Financial Distress

The researcher sought views and opinions of the respondents to establish whether revenue management contributed to county governments' financial distress in Kenya. The results are presented on Table 4.4 in terms of percentages, mean and standard deviation.

Table 4.4: Influence of Local Revenue Management on Financial Distress

Statement	SA 5	A 4	N 3	D 2	SD 1
1. Revenue management has a direct link to county governments' ability of to settle financial obligations	35.4%	47.4%	16.2%	1%	-
2. Appropriate revenue collection strategies strengthens financial position hence affects financial distress in County Governments.	32.3%	43.4%	22.3%	1%	1%
3. Lack of capacity among revenue collectors leads to insufficient collection.	24.2%	55.6%	17.2%	3%	-
4. Allocation and utilization of collected money affects the willingness of taxpayers to pay revenue to county governments.	5.1%	25.2%	39.4%	25.2%	5.1%
5. Revenue payments mobilization initiatives influence financial stability.	3%	35.4%	31.3%	21.2%	9.1%
6. Level of accuracy in revenue billing and invoicing contributes to financial distress.	37.4%	41.4%	19.2%	2%	-
7. Lack of proper fraud and leakage management in revenue leads to financial distress.	30.3%	52.6%	13.1%	3%	1%

According to the descriptive findings in Table 4.4, it was established that the nature of revenue management determined the county governments' ability to fulfill their financial obligations. 35.4% of the accountants and auditors strongly agreed with this assertion, while 47.4% were also in agreement. Therefore, at least 82.8% of the respondents agreed that financial management in terms of revenue management influenced the capacity to meet financial obligations. Thus, effective revenue

management contribute to a consistent revenue flow and its optimal allocation, ultimately bolstering the county government's ability to meet its financial obligations. The study also revealed that 75.7% of the respondents cumulatively agreed that appropriate revenue collection strategies are instrumental in determining county governments' financial position. This implies effective revenue collection strategies are instrumental in optimizing revenue collections and stabilizing the financial positions. The descriptive study findings further showed that 24.2% of the respondents strongly agreed while 55.6% concurred that insufficient revenue collection was contributed by lack of capacity among the collectors. The implication of this finding is that the competence of the revenue collectors is key in management of local taxes in County Governments. Only 1% of the accountants and auditors disagreed that lack of capacity among revenue collectors influence financial distress in County Governments. Moreover, 39.4% of the respondents were indifferent that the tax payers' willingness to pay revenue was somehow pegged on the way county governments utilizes public money. Notably, 25.2% of the accountants and auditors disagreed that allocation and utilization of already collected revenue influenced tax payers' willingness to pay revenue to County Governments. It was not clear whether county residents paid revenue based on prudential use of the previously collected revenue. Additionally, 31.3% of the respondents had differing opinions that revenue payment mobilization initiatives could affect financial stability of the county governments. There was no clarity on whether there existed appropriate revenue payment mobilization initiatives and their effect on financial distress could not be directly established. As such, the financial distress may or may not have been as a result of lack of revenue mobilization initiatives in place.

Furthermore, 37.4% of the respondents strongly agreed while 41.4% agreed hence 78.8% at least agreed that billing and invoicing ways influenced revenue management in County Governments. The billing and invoicing indicates the amount of revenue received by the County Government thus a direct indicator of revenue management and influence financial distress. Nonetheless, 19.2% of the accountants and auditors had differing opinions regarding the link between billing and invoicing and financial distress. 52.6% of the respondents agreed that lack of proper fraud and leakage management in revenue leads to financial distress. In particular, fraud and revenue

leakages contribute to loss of revenue, thus denying county governments adequate funds to meet their financial obligations. Therefore, lack of proper management on revenue fraud and leakages influence financial distress.

Based on the above descriptive findings, it has been established that revenue management, within the realm of financial management in county governments influenced financial distress. Overall, the findings demonstrates that there exists ineffective revenue management within county governments. This has contributed to inadequate revenue collection and allocation for essential services and debt repayments. This is also attributable to budget deficits, liquidity problems, and ultimately, an inability to meet financial obligations leading to financial distress. The research findings relate to the findings by Maina, (2013) who revealed that Local Authority Information Financial and Operations Management Systems (LAIFOMS) and government policies had greatest effect on revenue collection in Nyeri Municipality. These findings also concur with Findings by Gituma, (2017) which showed that revenue collection in Embu County was affected by government regulations, corruption and employee competence. Fraud and revenue leakages are supported by corrupt revenue officers. Employee competence matters in the areas of billing and invoicing of county revenues.

4.5.2 Influence of Auditing Practices on Financial Distress

The researcher sought to determine whether existing auditing practices among county governments led to financial distress. Descriptive findings on the same matter are presented on Table 4.5.

Table 4.5: Influence of Auditing Practices on Financial Distress

Statement	SA 5	A 4	N 3	D 2	SD 1
1. Assessment of risk and regulatory compliance reduces chances of financial distress.	38.4%	43.4%	18.2%	-	-
2. Regular and routine investigation of the county books of accounts ensures accountability.	7.1%	24.2%	40.4%	23.2%	5.1%
3. Effective auditing practices leads to reliable financial reporting standards in county governments.	39.4%	34.4%	20.2%	4%	2%
4. Insufficient control frameworks contribute to financial distress.	7.1%	25.3%	44.3%	17.2%	6.1%
5. Adequate auditing supervisory activities minimize financial distress.	32.3%	43.4%	20.2%	3%	1%
6. Our auditing activities have adequate financial support of the top management	38.4%	40.3%	15.2%	6.1%	-

Descriptive findings illustrated on Table 4.5 shows that 38.4% of the respondents strongly agreed while 43.4% also agreed that lack of appropriate risk and regulatory compliance in county governments of Kenya leads to financial distress. Absence of appropriate risk and regulatory compliance in auditing exposes the public financial resources to embezzlement. This contributes to the inadequacy of funds to meet financial obligations and the eventually the financial distress. In addition 24.2% of the respondents agreed that regular and routine investigation of the county books of accounts ensures accountability. According to findings, 40.4% of the accountants and auditors had differing opinions that accountability was determined by regular and routine investigation of the county books of accounts. 23.2% of the respondents also disagreed that accountability was directly influenced by routine investigation of books of accounts in county governments.

Loss of public funds means that county governments' insufficiency of funds to settle their obligations hence financial distress. 73.8% of the accountants and auditors further revealed that reliable financial reporting standards depends on effective auditing practices and attributed financial distress to insufficient control frameworks among

county governments. Furthermore, 44.3% of the respondents had differing opinions on whether insufficient control frameworks contributed to County Governments' financial in Kenya. 32.3% of the respondents strongly agreed while 43.4% also agreed hence 75.7% at least agreed that adequate supervisory activities minimizes challenges of financial distress. They ensure oversight and accountability, thereby reducing the likelihood of mismanagement, fraud, or inefficiencies in financial operations within county governments. Findings further showed that 38.4% and 40.3% strongly agreed and concurred respectively that auditing activities had support of the top management. This influences the management of funds by promoting transparency, accountability, and adherence to financial regulations within county governments.

The study's findings shows that that auditing practices integrated into financial management play a vital role in enhancing efficiency and accountability. Through regular audits, financial inefficiencies can be identified and addressed, ensuring optimal utilization of financial resources. These implies that financial distress in county governments is attributable to auditing practices could be possibly ineffective. The findings relate to a study by Khaliq 2014) which found that financial problems in local authorities were aggravated by auditors' misgivings. This led to inaccurate financial reporting by municipalities. Similarly, Nyaga, Kiragu, and and Riro (2018) found that independent internal audit influenced the auditing effectiveness in Kirinyaga County.

4.5.3 Influence of Debt Management on Financial Distress

In the situations of budget deficits, county government borrows to spend. The researcher wanted to establish the effect of debt management on financial distress. The findings are illustrated on Table 4.6 below.

Table 4.6: Influence of Debt Management on Financial Distress

Statement	SA 5	A 4	N 3	D 2	SD 1
1. Inappropriate and Insufficient debt policies leads to financial distress.	26.3%	60.6%	12.1%	1%	-
2. Adherence to organizational credit limits assists in managing financial distress.	27.3%	47.5%	23.2%	2%	-
3. Lack of debt sustainability consideration in acquisition of loans leads to financial distress.	7.1%	39.4%	34.3%	7.1%	12.1%
4. Development projects should be prioritized when allocating borrowed funds.	17.2%	56.6%	24.2%	2%	-
5. Our county government keeps debt records properly.	38.4%	45.6%	14.1%	1%	-
6. Our county government adopts modes of debt payments that are economically viable	23.2%	63.7%	12.1%	1%	-

The findings presented in Table 4.6 revealed that 60.6% of the respondents agreed that financial distress in county governments was caused by inappropriate debt policies. Effective debt management policies underscore the debt objectives, sustainability, and financial capacity. Conversely, the county governments borrowing beyond their repayment capabilities reflects unsustainable debt policies. 47.5% of the respondents agreed that adherence to organizational credit limits assists in managing financial distress. However, 39.4% of the respondents had differing opinions that financial distress was caused by inability to sustain the requirements of the loans borrowed. Moreover, 56.6% of the accountants and auditors suggested that debts should be utilized for development projects preferably. 84% of the respondent concurred that county governments keep debt records properly. Debt records are crucial in planning for payments. Furthermore, 87.9% of the respondents cumulatively agreed that their county debt payments modes were economically viable. However, the viability of debt payments modes had little effect in combating financial distress in County governments. The findings related to research findings by Gitau and Muendo (2017) on the factors influencing effective debt management in Nairobi County Government. Their findings revealed that debt management effectiveness was dependent on

institutional framework enhancement. The framework for managing risks in debt in Nairobi County was critical in promoting effective performance.

4.5.4 Influence of Financial Information Systems on Financial Distress

In a bid to establish how financial information systems influence financial distress, the research found the following as show on Table 4.7.

Table 4.7: Influence of Financial Information Systems on Financial Distress

Statement	SA 5	A 4	N 3	D 2	SD 1
1. Financial information systems enhance management reporting adequacy.	40.4%	50.5%	9.1%	-	-
2. Government policies support are achieved through stable financial information systems.	8.1%	34.3%	32.3%	18.2%	7.1%
3. Financial information systems plays a key role in budgetary process.	5.1%	38.4%	38.4%	13.1%	5.1%
4. Misuse of IFMIS has contributed to financial distress.	35.4%	49.4%	4%	15.2%	-
5. Weak security policies for financial information systems contribute to financial distress.	33.3%	43.4%	17.2%	5.1%	1%
6. Effective accounting information systems (AIS) contribute to efficient financial planning.	4%	29.3%	43.4%	16.2%	7.1%
7. Integration of financial information systems leads to effective communication between departments in regard to financial activities.	34.3%	50.6%	6.1%	13.1%	2%

According to the descriptive findings 40.4% of the respondents strongly agreed that financial information systems influenced the adequacy of management reporting. This demonstrated the importance of financial information systems in management reporting on county performance and planning for county expenditures. However, 32.3% of the accountants and auditors had differing opinions that stability in financial information systems helps local governments to support their policies. Therefore, the influence of stability in financial information systems on financial distress was unclear.

38.4% of the accountants and auditors were also indifferent on whether right application of FIS brings great assistance to budget making process. This means that County Governments lacked appropriate financial information systems or failed to utilize the existing systems in the right manner to aid budgetary process. Moreover, misuse of financial information systems such as Integrated Financial Management Information Systems IFMIS leads to financial distress. 43.4% of the accountants and auditors agreed that weak security policies for financial information systems contributes to financial distress. This implies that financial information systems' effectiveness depend on systems security. Therefore, lack of security policies to safeguard use of financial information systems indicate that FIS was used to loot funds from the County Governments and this contributed to financial distress. Moreover, 43.4% of the respondents had differing views that effective Accounting Information Systems (AIS) contribute to efficient financial planning. It implies that the concept of Accounting Information Systems was not well understood and manipulation of the same could lead to financial distress.

Furthermore, 50.6% of the respondents agreed that financial information systems ought to be well integrated with the organization structure for effective communication between departments in regard to financial activities. This means that integration of FIS into organizational structure promoted departmental communication effectiveness. However, lack of FIS and organizational structure integration inadequate departmental communication, whereby errors in financial issues could have gone unnoticed thus leading to financial distress. These findings concurs with Micheni (2017) who revealed that IFMIS had a significant effect on the financial management in County Governments. They also relate to Biwott (2015) who found that electronic-procurement practices contributed to improved procurement performance among ministries of the national government.

4.5.5 Moderating Influence of County Resource Allocation on Financial Distress

The researcher aimed at establishing the effect of county resource allocation on financial distress and results are presented on Table 4.8 below:

Table 4.8: Moderating Influence of County Resource Allocation on Financial Distress

Statement	SA 5	A 4	N 3	D 2	SD 1
1. Fiscal responsibility is directly linked to financial distress.	6.1%	28.3%	41.3%	19.2%	5.1%
2. County's population size served by the government can influence financial distress.	37.4%	32.3%	28.3%	2%	-
3. Central government put into account the financial capacity of the county governments to effectively manage the intended allocation of funds.	31.3%	53.5%	11.2%	4%	-
4. Geographical area covered by county determines revenue allocation and influences financial distress.	9.1%	40.4%	36.2%	13.1%	1%
5. Mismanaged expenditure on poverty reduction may influence financial distress.	7.1%	34.3%	35.4%	16.2%	7.1%
6. The working relationship between national and county governments in Kenya is not fairly good	32.3%	45.5%	20.2%	2%	-

Findings established that 28.3% of the respondents' fiscal responsibility is directly linked to financial distress. This could suggest that the financial distress could be attributable to lack of fiscal responsibility among the county governments. 69.7% of the accountants and auditors at least agreed that funds were allocated on the basis of the population size. However, this allocation lacked proportionality in some counties. It implies that some counties are not allocated funds proportionate to their population. Moreover, 53.5% of the respondents agreed that the financial capacity to spend was a contributing factor in allocation of funds to county governments. However, 36.2% of the accountants and auditors had indifferent views on whether geographical coverage as a determination of share for each County influenced financial distress. Therefore, there was no clear connection between geographical coverage and financial distress. 35.4% of the respondents had differing opinions concerning the influence of expenditure management in poverty reduction on financial distress. The respondents were thus unable to find the linkage between expenditure management, poverty reduction and financial distress. 58.6% of respondents also had differing opinions on the relationship between national and county governments. It was hence not clear on

the effect the same association had on financial distress. The findings agree with those of Mohamed (2018) on resource allocation, experiences and challenges in County Governments. The study indicated that there is no specific policy on resource allocation to the devolved function which should have guided counties on resource allocation when undertaking budgeting in their endeavor to fulfil the objectives of devolution. As such, counties face a greater financial distress challenges that impact negatively on their programs and development.

4.5.6 Descriptive statistics for Financial Distress

The researcher sought the views of the accountants and auditors in regard to financial distress in their county governments. The findings are illustrated on Table 4.9

Table 4.9: Descriptive Statistics for Financial Distress

Statement	SA 5	A 4	N 3	D 2	SD 1
1. County's Service delivery to the people is not satisfactory.	34.3%	55.6%	10.1%	-	-
2. The level of debts and liabilities accumulated by counties is unsustainable.	24.2%	57.6%	18.2%	-	-
3. The strength of revenue bases of counties is weak in relation to existing potential.	38.4%	47.5%	11.1%	3%	-
4. Asset-liability ratio determines the financial health of county governments.	38.4%	42.4%	15.2%	3%	1%
5. Appropriate financial planning leads to realistic budgetary estimations	37.4%	45.5%	14.1%	3%	-

As per the findings, 34.3% strongly agreed and 55.6% concurred thus 88.9% of the respondents at least agreed that county governments' service delivery to the people was not satisfactory. Delivery of services is an obligation by county governments to residents. Therefore, unsatisfactory services are thus indicative of financial distress among county governments. 57.6% of the accountants and auditors agreed that the accumulated debts and other financial liabilities were at unsustainable levels. Unsustainable liabilities indicate that county governments lack the ability to make timely payments, serving as a significant indicator of financial distress. County

governments are in financial distress due to accumulation of pending bills and debts for many years. 38.4% of respondents further agreed that asset-liability ratio shows the signs of financial distress while 37.4% strongly agreed that appropriate financial planning leads to realistic budgetary estimations. Overall, the study's findings established that financial management dimensions of revenue management, auditing practices, debt management, and financial information systems influence financial distress among county governments. The findings agree with Ntoiti, (2013) who found that financial distress in local authorities of Kenya was influenced by financial management practices. However, his study was done from the defunct local governments and there are some changes with current county governments' setup.

4.6 Diagnostic Test Results

Diagnostic tests were conducted in line with the assumptions of the linear regression model. They comprised the test for normality, test for multicollinearity, test for linearity and test for homoscedasticity.

4.6.1 Normality Test Results

Normality test was conducted to establish the normal distribution and the findings are presented in Table 4.10:

Table 4.10: Normality Test Results

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Financial Distress	.100	99	.016	.979	99	.116

a. Lilliefors Significance Correction

The normality test results shows that sig. value was 0.116 and greater than 0.05 level of significance. This implies that the data was normally distributed. It indicates that the assumption of normality in the residuals of a regression model was met. As such, the estimates of the regression coefficients were unbiased, and this enhanced the reliability of the model's predictions. Therefore, the results of the regression analysis would be considered valid within the context of the assumed normality. Ultimately, the normally distributed residuals facilitated more accurate hypothesis testing and

confidence interval estimation, which enhanced the interpretability of the regression results.

4.6.2 Multicollinearity Test Results

The researcher tested for multicollinearity for independent variables excluding moderating variable and results are shown on table 4.11.

Table 4.11: Multicollinearity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.049	.359		2.919	.004		
	Revenue Management	.343	.090	.363	3.807	.000	.599	1.670
	Auditing practices	.181	.065	.228	2.792	.006	.818	1.223
	Debt Management	.116	.075	.122	1.538	.127	.861	1.161
	Financial Information systems	.187	.085	.212	2.214	.029	.593	1.687

a. Dependent Variable: Financial Distress

The Variance inflation factors were 1.670, 1.223, 1.161 and 1.687 for revenue management, auditing practices, debt management practices and financial information systems respectively. These Variance Inflation Factor (V.I.F.) values were between 1-10 hence no multicollinearity with the data. Tolerance determines the level of correlation between independent variables that can be tolerated thus sets the limits that can not be exceeded. Tolerance values with absence of moderating variable were 0.599, 0.818, 0.861, and 0.593 for revenue management, auditing practices, debt management and financial information systems respectively. It implied that tolerance was at acceptable levels and correlation among independent variables did not exceed the upper limits. The findings shows that the independent variables did not have multiple correlations among themselves. The absence of multicollinearity in regression analysis held importance as it ensured that independent variables aren't strongly correlated, enabling precise estimation of regression coefficients. This

facilitated the interpretation of coefficients, permitting assessment of each predictor's influence on the outcome individually. Furthermore, it mitigated high standard errors and instability in estimates, thereby enhancing the reliability of the regression model.

4.6.3 Linearity Test Results

Linearity tests were undertaken to determine linear relationship between revenue management, auditing practices, debt management practices, and financial information systems and financial distress . The pertinent results are presented in Tables 4.12, 4.13, 4.14, and 4.5.

Table 4.12: Linearity between Revenue Management and Financial Distresss

			Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Financial Distress * Revenue Management	Between Groups	(Combined)	7.599	14	.543	5.044	.000
		Linearity	6.260	1	6.260	58.166	.000
		Deviation from Linearity	1.339	13	.103	.957	.500
	Within Groups		9.040	84	.108		
	Total		**16.639**	**98**			

Findings showed that deviation from linearity was sig.0=0.500>0.05 implying that revenue management had a linear relationship with financial distress. This implies that the assumption of linearity was met, indicating that the model adequately captured the linear relationship between the revenue management and the financial distress. It enabled the researcher to interpret the regression analysis results with confidence within the framework of the assumed linearity.

Table 4.13: Test for Linearity between Auditing Practices and Financial Distresss

			Sum of Squares	df	Mean Square	F	Sig.
Financial Distress * Auditing Practices	Between Groups	(Combined)	4.987	13	.384	2.799	.002
		Linearity	3.446	1	3.446	25.137	.000
		Deviation from Linearity	1.542	12	.128	.937	.514
	Within Groups		11.651	85	.137		
	Total		**16.639**	**98**			

The findings presented in Table 4.13 revealed that the deviation from linearity yielded a significance value of 0.514. This exceeded the threshold of 0.05, showing that auditing practices exhibited a linear association with financial distress. This indicates that the assumption of linearity was satisfied, validating that the model accurately captured the linear relationship between auditing practices and financial distress. Consequently, the researcher could confidently interpret the results of the regression analysis within the assumed linear framework.

Table 4.14: Test for Linearity between Debt Management Practices and Financial Distresss

			Sum of Squares	df	Mean Square	F	Sig.
Financial distress * Debt Management Practices	Between Groups	(Combined)	3.592	12	.299	1.973	.037
		Linearity	1.917	1	1.917	12.638	.001
		Deviation from Linearity	1.675	11	.152	1.004	.450
	Within Groups		13.047	86	.152		
	Total		**16.639**	**98**			

Linearity test was performed to establish whether the relationship between the debt management practices and financial distress was linear. Findings showed that deviation from linearity was sig.=0.450>0.05 indicating that debt management practices had a linear relationship with financial distress. The implication of these findings on regression analysis is that the assumption of linearity between debt management practices and financial distress was met. This facilitated a more accurate

understanding of the relationship between the predictor (debt management) and the response variable (financial distress).

Table 4.15: Test for Linearity between Financial Information Systems and Financial Distresss

			Sum of Squares	df	Mean Square	F	Sig.
Financial distress * Financial Information Systems	Between Groups	(Combined)	7.312	14	.522	4.704	.000
		Linearity	5.172	1	5.172	46.583	.000
		Deviation from Linearity	2.140	13	.165	1.483	.141
	Within Groups		9.326	84	.111		
	Total		**16.639**	**98**			

Findings in Table 4.15 showed that deviation from linearity was sig.= 0.141>0.05 indicating that financial information systems had a linear relationship with financial distress. This observation indicates that the assumption of linearity was met, thereby validating the model's capacity to accurately represent the linear relationship between financial information systems and financial distress. This was crucial as it allowed for the estimation of coefficients that represent the change in the response variable for a unit change in the predictor. Therefore, it was essential for accurate inference and reliable predictions in regression analysis.

4.6.4 Homoscedasticity Test Results

Homoscedasticity test was conducted and the results are presented in table 4.16

Table 4.16: Homoscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.048	.240		.200	.842
	Revenue Management	-.049	.060	-.106	-.813	.418
	Auditing Practices	-.027	.043	-.070	-.628	.532
	Debt Management	.082	.050	.177	1.625	.108
	Financial Information Systems	.036	.056	.084	.643	.522

a. Dependent Variable: Financial Distress

The researcher performed homoscedasticity test to determine whether the residuals were constant across all the variables. Results indicated the sig. values were 0.418, 0.532, 0.108 and 0.522 for revenue management, auditing practices, debt management and financial information systems respectively. All the significance values were more than 0.05 implying that data did not have heteroscedasticity problem. Homoscedasticity ensured uniformity across various levels of the independent variable, a critical aspect for reliable analysis. This was important since heteroscedasticity, or unequal variance, could have led to biased and inefficient estimates of the regression coefficients, affecting the reliability of the model's predictions. Therefore, homoscedasticity was essential for ensuring the robustness of the regression analysis results.

4.7 Inferential Findings and Discussions

Inferential statistics shows the relationship between independent and dependent variables in a research study. The researcher employed Pearson correlation and multiple regression analysis.

4.7.1 Correlation Analysis Findings and Discussions

Pearson's correlation coefficient determines the direction and strength of relationship between variables. Correlation analysis was undertaken to establish the relationship between each independent variable and financial distress. The findings are presented in the Correlations Matrix as show in Table 4.17.

Table 4.17: Correlation Analysis Matrix

		Financial Distress	Revenue Management	Auditing Practices	Debt Management	Financial Information Systems
Financial Distress	Pearson Correlation	1				
	Sig. (2-tailed)					
Revenue Management	Pearson Correlation	.613**	1			
	Sig. (2-tailed)	.000				
Auditing Practices	Pearson Correlation	.455**	.354**	1		
	Sig. (2-tailed)	.000	.000			
Debt Management	Pearson Correlation	.339**	.347**	.110	1	
	Sig. (2-tailed)	.001	.000	.277		
Financial Information Systems	Pearson Correlation	.558**	.595**	.398**	.309**	1
	Sig. (2-tailed)	.000	.000	.000	.002	

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

According to correlation between research findings, the relationship between counties' local revenue management and financial distress was strong, positive and statistically significant ($r=0.613^{**}$, $p<0.01$) at 1% significance level. The findings revealed that revenue management in the context of financial management influenced financial distress. Revenue management encompassing revenue collection strategies, mobilization and allocation, billing and invoicing, as well as prevention of fraud and leakages, influenced financial distress among county governments. This implies that how local governments handle revenue, from its collection to allocation and fraud prevention, plays a pivotal role in their financial stability. These results underline the importance of effective revenue management practices in mitigating financial distress and ensuring the fiscal health of local authorities. The financial distress could suggest ineffective revenue collection strategies among county governments. Furthermore, the increased financial distress is attributable to possible increased fraud and revenue leakages. Since there is a significant relationship, the financial distress was possibly influenced inadequate revenue management among County Governments. The findings are development on the findings by Maina (2013) and Gituma (2017) who focused on revenue collection only. The findings here are about local revenue

management that incorporates both collection and utilization and the relationship with financial distress.

As per the results, the relationship between auditing practices and financial distress was positive, moderate and statistically significant ($r=0.455^{**}$; $p<0.01$) at 1% level of significance. It implied that financial distress was influenced by auditing practices in the realm of financial management. Specifically, internal audit practices, such as risk assessment determine the governance frameworks, along with external audit activities like regulatory compliance assessment and investigation into reporting standards, played crucial roles. These results underscore the pivotal role of robust auditing mechanisms in mitigating financial distress by promoting transparency, accountability, and effective financial management within county governments. Auditing practices play a crucial role in addressing these issues by providing oversight and ensuring accountability. Therefore, financial distress was influenced by auditing practices.

The relationship between the debt management and financial distress was found to be positive, moderate and statically significant ($r=0.339^{**}$; $p<0.01$) at 1% significance level. This means that financial distress was influenced by debt management. Therefore, sound debt policies help establish prudent borrowing limits and repayment strategies, contributing to financial stability. Additionally, ensuring debt sustainability and responsible allocation of borrowed funds are crucial in preventing excessive debt burdens and promoting fiscal health. The findings suggest financial distress among county governments could influenced by inadequate debt management practices. The findings compares well with those of Gitau and Muendo, (2017) who found positive relationship between the institutional framework and debt risk management and debt management in County Government of Nairobi. An appropriate debt risk management increases the effectiveness of debt management hence decreasing the levels of financial distress.

The findings showed that the relationship between the financial information systems and financial distress was positive, moderate and statistically significant ($r=.558^{**}$; $p<0.01$) at 1% significance level. The results showed that financial distress influenced

financial information systems among county governments. Financial information systems, characterized by factors such as management reporting adequacy, government policy support, budgetary process, and financial reporting, contributed to financial distress among county governments. Inadequacies in these systems may have led to poor financial management practices, lack of transparency, and ineffective decision-making, ultimately resulting in financial distress. The findings relate well with the findings of Mumbua (2015). His results showed that financial management systems were important to county governments but hindered by little support from the top management and inadequate employee capacity to apply them. This contributed to the poor management of finances in County governments. They also compare with Maina, (2015) who found inadequate resources, lack of commit among stakeholders as the challenges facing financial systems in County governments. There was a positive correlation between financial system automation strategies and implementation.

4.7.2 Regression Analysis

The researcher sought to establish the relationship between the revenue management, auditing practices, debt management practices, financial information systems and counties' resource allocation on financial distress. Regression analysis was applied to predict the changes in the financial distress from the changes in the independent variables. In particular, the simple linear regression was done for each independent variable variable and the independent variable. Multiple regression was done without and with the moderating variable.

Simple Regression Analysis

Regression analysis was performed for individual variables; revenue management, auditing practices, debt management and financial information systems. It was undertaken between each independent variable and the financial distress.

Regression Analysis for Revenue Management and Financial Distress

The study sought to establish the relationship between revenue management and financial distress among county governments of Kenya. Regression analysis was performed and results are illustrated on Tables 4.18, 4.19, and 4.20.

Table 4.18: Model Summary for Revenue Management and Financial Distress

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.613[a]	.376	.370	.32711

a. Predictors: (Constant), Revenue Management

The regression analysis reveals a significant relationship between revenue management and financial distress. With a correlation coefficient (R) of 0.613, it's evident that there's a a positive and significant correlation between the predictor and the response variable. Furthermore, the coefficient of determination (R^2) of 0.376 shows that 37.6% of the variation in financial distress was accounted for by the changes in revenue management practices. This indicates that revenue management revenue collection strategies, revenue allocation, revenue mobilization, billing and invoicing, fraud and leakage management influenced the financial distress among the county governments. The adjusted R-square of 0.370 indicates that approximately 37% of the fluctuations in financial distress among county governments were accounted for by differences in revenue management practices. This underscores the substantial influence of revenue management on financial distress, even after adjusting predictors in the model.

Table 4.19: ANOVA[a] for Revenue Management and Financial Distress

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	6.260	1	6.260	58.503	.000[b]
1	Residual	10.379	97	.107		
	Total	16.639	98			

a. Dependent Variable: Financial Distress
b. Predictors: (Constant), Revenue Management

The Analysis of Variance (ANOVA) results, revealed a significant F-value of 58.503, indicating that the model is statistically significant and effectively fits the data. This suggests that there is a strong relationship between the predictor variable; revenue management practices, and the outcome variable, financial distress, within the context

of Kenya County Governments. The substantial F-value indicates that the variation in financial distress can be explained to a considerable extent by variations in local revenue management strategies. Therefore, these findings imply that all the elements of revenue management comprising the revenue collection strategies, revenue allocation, revenue mobilization, billing and invoicing, fraud and leakage management taken together influenced the financial distress.

Table 4.20: Regression Coefficients[a] for Revenue Management and Financial Distress

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.980	.288		6.874	.000
	Revenue Management	.578	.076	.613	7.649	.000

a. Dependent Variable: Financial Distress

The regression model $Y = \beta_0 + \beta_1 X_1 + \varepsilon$ was employed to analyze the relationship between local revenue management and financial distress. The regression coefficients revealed that revenue management had a beta coefficient of 0.578, indicating a positive relationship with financial distress. This coefficient was statistically significant, as evidenced by the t-value of 7.649 and a p-value of 0.000, which is less than the significance level of 0.05. The findings underscore the role of revenue management in determining the ability of the county governments in settling financial obligations in a timely manner. This means that financial distress was influenced by the revenue management by the county governments.

Regression Analysis for Auditing Practices and Financial Distress

The study aimed at establishing the relationship between auditing practices and financial distress in Kenyan County Governments. Regression analysis was performed and findings are showed on Tables 4.21, 4.22 and 4.23.

Table 4.21: Model Summary for Auditing Practices and Financial Distress

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.455[a]	.207	.199	.36880

a. Predictors: (Constant), Auditing Practices

The results presented in Table 4.21 illustrate the results of a regression analysis examining the relationship between auditing practices and financial distress. The correlation coefficient (R) of 0.455 indicates a positive correlation between auditing practices and financial distress. Furthermore, the coefficient of determination (R^2) of 0.207 shows that 20.7% of the variability in financial distress was explained by the variations in auditing practices. An adjusted R-squared of 0.199 suggests that approximately 19.9% of the variability in financial distress can be explained by the auditing practices included in the model, after accounting for the number of predictors. The results implies that auditing practices influenced the financial distress within the governmental county governments

Table 4.22: ANOVA[a] for Auditing Practices and Financial Distress

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.446	1	3.446	25.333	.000[b]
	Residual	13.193	97	.136		
	Total	16.639	98			

a. Dependent Variable: Financial Distress
b. Predictors: (Constant), Auditing Practices

As per the findings in Table 4.22, the significant F-value of 25.333 from the Analysis of Variance (ANOVA) indicates that the regression model was fit. Therefore, it implies that the model, which includes parameters of auditing practices, was a good fit for the data and was capable of explaining a significant amount of the variability in financial distress. This finding demonstrates that auditing practices had significant influence on financial distress. The adjusted R-squared of 0.199 indicates that while the model explains a significant portion of the variability, there are still other factors not accounted for in the model that contribute to financial distress.

Table 4.23: Regression Coefficients[a] for Auditing Practices and Financial Distress

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.815	.271		10.374	.000
	Auditing Practices	.360	.072	.455	5.033	.000

a. Dependent Variable: Financial Distress

The following regression model was used; $Y=\beta_0+ \beta_2X_2+ \varepsilon$. The regression analysis revealed that auditing practices had a statistically significant influence on counties' financial distress, with a beta coefficient of 0.360 and a corresponding t-value of 5.033. This result shows that for each unit increase in auditing practices, financial distress among counties increases by 0.360 units. The p-value associated with auditing practices was 0.000. Indicating a relationship at the 95% confidence level. Therefore, it can be inferred that financial distress among the county governments was influenced by the auditing practices. ***Regression Analysis for Debt Management and Financial Distress***

The study sought to determine the relationship between the debt management and financial distress in county governments in Kenya. Regression analysis was undertaken and the Findings are indicated on Tables 4.24, 4.25 and 4.26.

Table 4.24: Model Summary for Debt Management and Financial Distress

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.339[a]	.115	.106	.38957

a. Predictors: (Constant), Debt Management

The regression model summary shows that there is a positive correlation between debt management and financial distress among County Governments of Kenya, indicated by a correlation coefficient (R) of 0.339. This implies that as debt management practices vary, there is a corresponding change in the level of financial distress experienced by county governments. Furthermore, the coefficient of determination (R^2) of 0.115 indicates that approximately 11.5% of the variability in financial distress can be attributed to variations in debt management practices. An adjusted R-squared

of 0.106 in a regression model summary for Debt Management and Financial Distress suggests that approximately 10.6% of the variability in financial distress can be explained by variations in debt management practices included in the model. This finding implies that debt management strategies influence the financial distress among County Governments in Kenya. However, it's important to acknowledge that the remaining 88.5% of the variability in financial distress is not accounted for by debt management alone, indicating the presence of other influential factors beyond debt management practices.

Table 4.25: ANOVA[a] for Debt Management and Financial Distress

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.917	1	1.917	12.633	.001[b]
	Residual	14.721	97	.152		
	Total	16.639	98			

a. Dependent Variable: Financial Distress
b. Predictors: (Constant), Debt Management

The Analysis of Variance (ANOVA) results revealed a significant F-value of 12.633, (p=0.001) at 95% confidence level. This indicated that that the model fits the data well. Furthermore, these findings suggest that debt management practices play a significant role in determining financial distress within County Governments of Kenya. As such, financial distress was influenced by effective debt management strategies.

Table 4.26: Regression Coefficients[a] for Debt Management and Financial Distress

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.911	.356		8.181	.000
	Debt Management	.320	.090	.339	3.554	.001

a. Dependent Variable: Financial Distress

The following regression model was used; $Y=\beta_0+ \beta_3X_3+ \varepsilon$. The regression coefficients analysis indicates that debt management had a beta coefficient of 0.320 and a corresponding t-value of 3.554. These values shows that there is a statistically

significant association between debt management and financial distress among County Governments of Kenya at the 99% confidence level. The significance value associated with this relationship was found to be 0.000, which is less than the significance level of 0.05. Consequently, debt management significantly influenced the financial distress among County Governments.

Regression Analysis for Financial Information Systems and Financial Distress

The study sought to determine the relationship between the financial information systems and financial distress in county governments in Kenya. Regression analysis was undertaken and the findings are indicated on Tables 4.27, 4.28 and 4.29.

Table 4.27: Model Summary for Financial Information Systems and Financial Distress

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.558[a]	.311	.304	.34382

a. Predictors: (Constant), Financial Information Systems

The regression model summary revealed a significant relationship between financial information systems and financial distress among the county governments. This relationship was reflected by (R) of 0.558, indicating a positive correlation between financial distress and counties' financial information systems. Furthermore, the coefficient of determination (R^2) was found to be 0.311, showing that 31.1% of the variability in financial distress was explained by variations in the counties' financial information systems. This results shows that financial information systems influenced financial distress. An adjusted R-squared of 0.304 in a regression Model Summary for financial information systems and Financial Distress indicates that approximately 30.4% of the variability in financial distress can be explained by variations in financial information systems included in the model.

Table 4.28: ANOVAa for Financial Information Systems and Financial Distress

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.172	1	5.172	43.751	.000[b]
	Residual	11.467	97	.118		
	Total	16.639	98			

a. Dependent Variable: Financial Distress
b. Predictors: (Constant), Financial Information Systems

The Analysis of Variance (ANOVA) findings revealed a significant F-value of 43.751, showing that all parameters related to financial information systems have a collective influence on financial distress. This significant F-value indicates that the regression model, which includes variables related to financial information systems, is statistically significant and fits the data well. Therefore, it can be inferred that various aspects of financial information systems play a significant role in determining financial distress among the county governments.

Table 4.29: Regression Coefficientsa for Financial Information Systems and Financial Distress

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.356	.276		8.529	.000
	Financial Information Systems	.491	.074	.558	6.614	.000

a. Dependent Variable: Financial Distress

Regression model; $Y=\beta_0+ \beta_4X_4+ \varepsilon$. The beta value for financial information systems was found to be 0.491, indicating that for every unit increase in the financial information systems, financial distress increases by 0.491 units. The associated t-value of 6.614 shows that the beta coefficient was statistically significant at the 1% significance level. This implies that there is strong evidence to support the relationship between financial information systems and financial distress, indicating that changes in financial information systems indeed have a significant impact on the level of financial distress experienced. Therefore, financial information systems influenced financial distress.

Multiple Regression Analysis without Moderating Variable

Regression analysis was undertaken to determine relationship between revenue management, auditing practices, debt management practices and financial information systems on county governments' financial distress in Kenya. The moderating factor; counties' resource allocation was excluded. The results are shown on model summary, ANOVA and Regression coefficients in Tables 4.30, 4.31, and 4.32 respectively.

Table 4.30: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.698[a]	.487	.465	.30141

a. Predictors: (Constant), Debt management practices, Auditing practices, Financial information systems, Revenue management

The results in Table 4.31 revealed a strong positive correlation, with a correlation coefficient value of 0.698, indicating a significant relationship between financial management and financial distress. Furthermore, the coefficient of determination, which was 0.487, suggests that approximately 48.7% of the variation in financial distress was explained by variations in revenue management, auditing practices, debt management, and financial information systems taken together. This finding demonstrates that these factors collectively have a considerable the financial distress within county governments. An adjusted R-squared of 0.465 for revenue management, auditing practices, debt management, and financial information systems and financial distress implies that approximately 46.5% of the variability in financial distress can be explained by variations in these four factors collectively. The findings showed that financial management dimensions of revenue management, auditing practices, debt management, and financial information systems influenced financial distress. The findings differs from the findings of Mohamed and Rambo, (2017) who found that performance of devolved system of governance was affected by allocation of resources and distribution of power and funding of projects.

Table 4.31: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.099	4	2.025	22.287	.000[b]
	Residual	8.540	94	.091		
	Total	16.639	98			

a. Dependent Variable: Financial Distress
b. Predictors: (Constant), Debt management practices, Auditing practices, Financial information systems, Revenue management

The Analysis of Variance (ANOVA) results shows that the model incorporating financial management dimensions revenue management, auditing practices, debt management practices, and financial information systems is a good fit. The F statistic value of 22.287 is significant at a 95% confidence level, with a p-value of 0.000. This implies that the observed variation in financial distress was attributed to financial distress. Therefore, the financial management dimensions including revenue management, auditing practices, debt management practices, and financial information systems taken together influenced distress. These findings are different form Njihia, (2017) who found that implementation of sound financial management in counties was dependent on the organizational leadership and culture. There was difficulty in providing decision makers with relevance, quality and credible information which faced fierce resistance. The variables used here are not finance in nature hence financial distress could not have been explained adequately despite being associated with sound financial management.

Table 4.32: Regression Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.049	.359		2.919	.004
	Revenue Management	.343	.090	.363	3.807	.000
	Auditing Practices	.181	.065	.228	2.792	.006
	Debt Management Practices	.116	.075	.122	1.538	.127
	Financial information systems	.187	.085	.212	2.214	.029

a. Dependent Variable: Financial Distress

The following model was applied in the analysis.

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

Whereby;

Y=Financial Distress

β_0= Constant (Coefficient of intercept of β_0)

X_1= Local Revenue Management

X_2= Auditing Practices

X_3= Debt Management practices

X_4= Financial Information Systems

ε = Error of Margin

This model was interpreted as follows: $Y= 1.049 + 0.343X_1 + 0.181X_2+ 0.116X_3+ 0.187X_4 + \varepsilon$. According to the regression coefficients, a beta coefficient of 0.343 showed that for every one-unit change in revenue management practices, financial distress changed by 0.343 units. This implies that effective management of revenue is positively associated with financial distress. The beta coefficient of 0.181 indicates that a one-unit change in auditing practices corresponds to a 0.181 unit change in financial distress. This shows that auditing practices influence financial distress. With a beta coefficient of 0.116, it implies that for every one-unit change in debt management practices, financial distress changes by 0.116 units. This suggests that management of debt is associated with financial distress.

Moreover, the beta coefficient of 0.187 indicates that a one-unit change in financial information systems corresponds to a one-unit change in financial distress. Overall, the findings indicated that financial distress in county governments was predictable from the changes in financial management dimensions including revenue management, auditing practices, debt management practices and financial information systems. As such, the dimensions of financial management influenced the financial distress in county governments.

Hypothesis Testing Without the Moderating Variable

The researcher wanted to establish the influence of revenue management on financial distress. This hypothesis was made. **H_{01}:** Revenue management does not significantly influence financial distress in county governments of Kenya. The findings led to rejection of first null hypothesis. The t value belonging to revenue management was 3.807. It was significant ($p<0.05$) at 5% significance level. The findings showed that revenue management, encompassing revenue collection strategies, allocation, mobilization, billing, invoicing, and fraud and leakage management, influence the financial distress.

In a bid to test the effect of auditing practices on financial distress, this hypothesis was stated. **H_{02}:** Auditing practices does not significantly influence financial distress in county governments of Kenya. The significance of the t statistic value of 2.792 ($p=0.006<0.05$) at a 95% confidence level highlights the influence of auditing practices on financial distress, as evidenced by the regression analysis. This led to the rejection of the second null hypothesis. It was thus concluded that auditing practices influenced financial distress in County Governments.

The third objective of the study was to find out whether debt management led to financial distress. The third null hypothesis was; **H_{03}:** Debt management does not significantly lead to financial distress in county governments of Kenya. The t value of 1.538 was insignificant ($p=0.127>0.05$). This shows that there is insufficient evidence to support the assertion that debt management practices influence financial distress within County Governments. As a result, the researcher failed to reject the null hypothesis, indicating that the observed data does not provide enough support to conclude that variations in debt management practices have a statistically significant impact on financial distress. This implies that while debt management is undoubtedly an essential aspect of financial management, the findings suggest that other factors may have a more pronounced influence on the occurrence of financial distress in County Governments.

The study sought to establish whether financial information systems contributed to financial distress. Therefore, the fourth null hypothesis was stated as; **H_{04}:** Financial

information systems do not significantly contribute to financial distress in county governments of Kenya. The t-value of 2.214 (p=0.029<0.05) was significant at a 95% confidence level. This fourth null hypothesis was rejected. The findings means that financial information systems influenced financial distress. This finding shows that variations in the quality, efficiency, or implementation of financial information systems influence the financial distress among county governments.

The whole model constant had a t-value of 2.919 that was significant (p=0.004<0.05) at 95% confidence level. Revenue management, auditing practices, debt management practices and financial information systems taken together had significant influence on financial distress in Kenya's county governments. The findings differs with findings of Nduta and Shisia, (2017) who found that there was a relationship between strategic, institutional, integrated and analytical challenges and public resources management of devolved governments in Kenya. The regression analysis results indicated a t-value of t=2.056; sig. 0.045. The constructs used could not have been able to reveal the determinants of financial distress in County governments of Kenya.

Regression Analysis with Moderating Variable

Regression analysis was undertaken to determine the moderating influence of counties' resource allocation on the relationship between dimensions of financial management and financial distress. The results are shown on model summary, ANOVA and Regression coefficients tables 4.33, 4.34, and 4.35 respectively.

Table 4.33: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.708[a]	.501	.474	.29870

a. Predictors: (Constant), County resource allocations, Debt management practices, Auditing practices, Financial information systems, Revenue management

According to the findings in Table 4.33, the correlation coefficient was 0.708. It means that the influence of the four variables was reduced by 0.010 with introduction of moderating factor of county resource allocation. In addition, the coefficient of determination was 0.501. It means that 50.1% variation in financial distress was caused

by revenue management, auditing practices, debt management and financial information systems; county resource allocation. The moderating effect meant that coefficient of determination reduced by 1.4%. All the parameters in the model contributed to financial distress in county governments of Kenya.

Table 4.34: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	8.341	5	1.668	18.697	.000[b]
1	Residual	8.298	93	.089		
	Total	16.639	98			

A. Dependent Variable: Financial distress
B. Predictors: (Constant), County resource allocations, Debt management practices, Auditing practices, Financial information systems, Revenue management

Analysis of Variance (ANOVA) opine that the model best fits the study. The F-value was 18.697 which was significant. All the variables moderating factor accounted for, influenced financial distress in county governments of Kenya.

Table 4.35: Regression Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.803	.386		2.081	.040
Revenue Management	.305	.092	.323	3.302	.001
Auditing Practices	.165	.065	.208	2.545	.013
Debt Management Practices	.109	.075	.115	1.457	.149
Financial Information Systems	.183	.084	.207	2.179	.032
County Resource Allocations	.132	.080	.133	1.647	.103

a. Dependent Variable: Financial Distress

The following model was applied:

$Y= \beta_0 + Z (\beta_1X_1 + \beta_2X_2+ \beta_3X_3+ \beta_4X_4) + \varepsilon$

Where;

Y=Financial Distress

β_0= Constant (Coefficient of intercept of β_0)

X_1= Local Revenue Management

X_2= Auditing Practices

X_3= Debt Management practices

X_4= Financial Information Systems

Z= The moderating variable (Counties' resource allocation)

The model can be interpreted as follows; $Y= 0.803 + 0.305X_1 + 0.165X_2+ 0.109X_3+ 0.183X_4 + \varepsilon$. After regression analysis was carried out with a moderating factor, the above equation was generated pitting all the variables used in the study. The beta coefficients changed from 0.343, 0.181, 0116, and 0.187 for revenue management, auditing practices, debt management, and financial information systems to 0.305, 0.165, 0.109 and 0.183 respectively. The changes had minimal effect on the significance values which changed from 0.000, 0.006, 0127, and 0.029 to 0.001, 0.13, 0.149 and 0.032 for revenue management, auditing practices, debt management, and financial information systems respectively. Therefore, the significance of the variables did not change. Overall, the counties resource allocation had minimal and insignificant influence on the financial management dimensions.

The first null hypothesis was stated as **H_{01}:** Revenue management does not significantly influence financial distress in county governments of Kenya. The first null hypothesis was rejected after findings showed that t value ($t=3.302$; $p<0.05$) was significant at 95% confidence level. It was concluded that that financial distress was influenced by revenue management in Kenya's county governments.

The second null hypothesis was stated as **H_{02}**: Auditing practices does not significantly influence financial distress in county governments of Kenya. The second null hypothesis was also rejected. The t value was 2.545 and significant ($p=0.013<0.05$) at 95% confidence level. It can be stated that auditing practices contributes to financial distress considering the regression analysis findings.

The third null hypothesis was stated as **H_{03}:** Debt management does not significantly lead to financial distress in county governments of Kenya. The t value was 1.457 which was insignificant ($p>0.05$). The third hypothesis was accepted. There was insufficient evidence to show debt management practices had a relationship with financial distress. Therefore, the debt management in the context of financial management did not influence financial distress.

The fourth null hypothesis was stated as **H_{04}:** Financial information systems do not significantly contribute to financial distress in county governments of Kenya. Findings showed that financial information systems had a t value of 2.179 that was significant ($p=0.032<0.05$) at 0.05 significance level. Fourth null hypothesis was rejected. It was concluded that financial information systems influenced financial distress.

All the conclusions based on the hypothesis testing remained the same as the moderating influence of counties resources allocation was insignificant.

The fifth null hypothesis was stated as**: H_{05}:** Counties' resource allocation does not significantly affect the relationship between financial management dimensions and financial distress in county governments of Kenya. Findings showed that county resource allocations had a t value of 1.647 that was insignificant ($p=0.103>0.05$) at 0.05 significance level. The researcher accepted the fifth null hypothesis. There was no enough evidence to show that county resource allocations influenced the financial distress. The whole model constant had a t-value of 2.081 that was significant ($p=0.040<0.05$) at 95% confidence level. It means that all variables taken together with inclusion of moderating factor contributed to financial distress in Kenya's county governments.

4.8 Secondary Data Analysis, Findings and Discussions

This section presents the analysis, findings and discussions of the secondary data. It includes data on revenue targets and actual revenue collections, budgets, actual expenditures, allocations from the national government, and the pending bills. This covers the fiscal years 2013/14-2022/23.

4.8.1 Counties Own Revenue Target and the Actual Revenue Collection

The study sought to analyze the counties revenue targets and actual revenue collection. The findings are presented in Tables 4.36-4.40.

Table 4.36: Nairobi County Own Revenue Target and the Actual Revenue Collection

Fiscal Year	Target Revenue County ''Kshs Millions''	Actual Revenue Collection ''Kshs Millions''
2013/14	12,719	10,004
2014/15	13,323	11,587
2015/16	15,289	10,930
2016/17	19,556	10,053
2017/18	17,229	10,174
2018/19	15,496	8,476
2020/21	16,209	9,756
2021/22	19,610	9,236
2022/23	17,505	10,562

Commented [S1]:

Commented [S2R1]:

As per the findings, Nairobi County Government aimed to collect Kshs. 12,719 million in the fiscal year 2013/14, but managed only Kshs. 10,004 million, missing the target by 21.3%. In 2014/15, with a target of Kshs. 13,323 million, the county collected Kshs. 11,587 million, falling short by 13%. For 2015/16, despite a target of Kshs. 15,289 million, only Kshs. 10,930 million was collected, resulting in a 28.5% shortfall. The trend continued in 2016/17 with a target of Kshs. 19,556 million but only Kshs. 10,053 million collected, missing the target by 48.6%. In 2017/18, the county set a target of Kshs. 17,229 million but collected Kshs. 10,174 million, a 40.9% shortfall. For 2018/19, the collection was Kshs. 8,476 million against a target of Kshs. 15,496 million, missing by 45.3%. Additionally, in 2020/21, the county collected Kshs. 9,756 million against a target of Kshs. 16,209 million, a 39.8% shortfall. The 2021/22 fiscal year saw a target of Kshs. 19,610 million, with actual collections at Kshs. 9,236 million, missing by 52.9%. Finally, in 2022/23, Kshs. 10,562 million was collected against a target of Kshs. 17,505 million, a 39.7% shortfall. On average, from 2013/14 to 2022/23, the county failed to meet its revenue targets by 36.7%.

Table 4.37: Kilifi County Own Revenue Target and the Actual Revenue Collection

Fiscal Year	Target Revenue County ‘‘Kshs Millions’’	Actual Revenue Collection ‘‘Kshs Millions’’
2013/14	971	712
2014/15	1,000	545
2015/16	1,407	519
2016/17	1,585	620
2017/18	929	523
2018/19	1,345	792
2020/21	1,201	833
2021/22	1,118	827
2022/23	1,051	661

The findings indicate that the Kilifi County Government aimed to collect Kshs. 971 million in the fiscal year 2013/14 but managed only Kshs. 712 million, missing the target by 26.7%. In 2014/15, the county set a target of Kshs. 1,000 million but collected just Kshs. 545 million, a shortfall of 45.5%. The situation worsened in 2015/16, with the county collecting Kshs. 519 million against a target of Kshs. 1,407 million, resulting in a 63.1% shortfall. In 2016/17, the target was Kshs. 1,585 million, but only Kshs. 620 million was collected, missing the target by 60.9%. The 2017/18 fiscal year saw a target of Kshs. 929 million, but the county collected Kshs. 523 million, a 43.7% shortfall. In 2018/19, the collection was Kshs. 792 million against a target of Kshs. 1,345 million, missing by 41.1%. In 2020/21, the county collected Kshs. 833 million against a target of Kshs. 1,201 million, a 30.6% shortfall. The 2021/22 fiscal year had a target of Kshs. 1,118 million, but actual collections were Kshs. 827 million, missing the target by 26%. Finally, in 2022/23, Kshs. 661 million was collected against a target of Kshs. 1,051 million, resulting in a 39.7% shortfall. On average, from 2013/14 to 2022/23, the county failed to meet its revenue targets by 37.1%.

Table 4.38: Kakamega County Own Revenue Target and the Actual Revenue Collection

Fiscal Year	Target Revenue County ‘‘Kshs Millions’’	Actual Revenue Collection ‘‘Kshs Millions’’
2013/14	851	617
2014/15	903	516
2015/16	1,000	504
2016/17	894	443
2017/18	774	440
2018/19	1,200	858
2020/21	1,656	1,118
2021/22	1,600	1,226
2022/23	1,942	1,309

According to the findings, the County Government of Kakamega set a revenue collection target of Kshs. 851 million for the financial year 2013/14 but collected only Kshs. 617 million, missing the target by 27.5%. The shortfall persisted in 2014/15, with Kshs. 516 million collected against a target of Kshs. 903 million, a 42.9% shortfall. In 2015/16, the shortfall increased to 49.6%, with only Kshs. 504 million collected against a target of Kshs. 1,000 million. This trend continued in 2016/17 when the county collected Kshs. 443 million against a target of Kshs. 894 million, missing the target by 50.4%. In 2017/18, the county collected Kshs. 440 million against a target of Kshs. 774 million, resulting in a 43.2% shortfall. For the financial year 2018/19, the target was Kshs. 1,200 million, but the collection was Kshs. 858 million which presented a shortfall of 28.5%. In 2020/21, the county collected Kshs. 1,118 million against a target of Kshs. 1,656 million, resulting in a 32.5% shortfall. The target for 2021/22 was Kshs. 1,600 million, but only Kshs. 1,226 million was collected which implied a target miss by 23.4%. Finally, in 2022/23, the county collected Kshs. 1,309 million against a target of Kshs. 1,942 million, resulting in a 32.6% shortfall.

Table 4.39: Nakuru County Own Revenue Target and the Actual Revenue Collection

Fiscal Year	Target Revenue County ''Kshs Millions''	Actual Revenue Collection ''Kshs Millions''
2013/14	2,312	2,810
2014/15	2,755	2,200
2015/16	2,312	2,295
2016/17	2,597	1,548
2017/18	2,500	2,278
2018/19	2,685	2,814
2020/21	1,800	1,628
2021/22	1,980	1,707
2022/23	2,280	1,611

According to the findings, Nakuru County Government had a revenue collection target of Kshs. 2,312 million in the fiscal year 2013/14 and surpassed this target by collecting Kshs. 2,810 million, a surplus of 21.5%. In 2014/15, however, the county missed its target of Kshs. 2,755 million by 20%, collecting only Kshs. 2,200 million. The shortfalls continued in 2015/16 with a minor 0.7% shortfall, collecting Kshs. 2,295 million against a target of Kshs. 2,312 million. In 2016/17, the county collected Kshs. 1,548 million, falling short of the Kshs. 2,597 million target by 40.4%. For 2017/18, the county set a target of Kshs. 2,500 million but collected Kshs. 2,278 million, an 8.9% shortfall. The year 2018/19 saw an improvement with Kshs. 2,814 million collected, exceeding the target by 4.8%. In 2020/21, collections were Kshs. 1,628 million against a target of Kshs. 1,800 million, resulting in a 9.6% shortfall. The 2021/22 fiscal year had a target of Kshs. 1,980 million, but only Kshs. 1,707 million was collected, missing the target by 13.8%. Finally, in 2022/23, Kshs. 1,611 million was collected against a target of Kshs. 2,280 million, resulting in a 29.3% shortfall.

Table 4.40: Meru County Own Revenue Target and the Actual Revenue Collection

Fiscal Year	County Target Revenue County ‘‘Kshs Millions’’	Actual Revenue Collection ‘‘Kshs Millions’’
2013/14	562	680
2014/15	588	539
2015/16	595	548
2016/17	773	552
2017/18	821	441
2018/19	1,228	550
2020/21	600	435
2021/22	689	385
2022/23	600	418

Meru county government aimed to collect Kshs. 562 million in the fiscal year 2013/14 and exceeded this target by collecting Kshs. 680 million, a surplus of 21%. However, in 2014/15, the county fell short of its Kshs. 588 million target by 8.3%, collecting only Kshs. 539 million. The shortfalls continued in subsequent years: in 2015/16, the county collected Kshs. 548 million against a target of Kshs. 595 million (7.9% shortfall), and in 2016/17, it collected Kshs. 552 million against a target of Kshs. 773 million (28.6% shortfall). In 2017/18, the target was Kshs. 821 million, but the collection was only Kshs. 441 million, a 46.3% shortfall. The 2018/19 fiscal year saw a collection of Kshs. 1,228 million, which missed the target of Kshs. 550 million by 55.2%. In 2020/21, the county collected Kshs. 600 million, falling short of the Kshs. 435 million target by 27.5%. The 2021/22 fiscal year had a target of Kshs. 689 million, but only Kshs. 385 million was collected, resulting in a 44.1% shortfall. Finally, in 2022/23, Kshs. 600 million was collected against a target of Kshs. 418 million, a 30.3% shortfall. Apart from the fiscal year 2013/14, the county consistently failed to meet its revenue targets. This persistent shortfall suggests revenue inadequacy, which hampers the county's ability to meet financial obligations and lead to financial distress.

4.8.2 Counties' Pending Bills

The research aimed to analyze the pending bills by the counties. The results are displayed in Tables 4.41-4.45.

Table 4.41: Nairobi County Pending Bills

Fiscal Year	''Kshs Millions''
2013/14	35,000
2014/15	44,625
2015/16	46,725
2016/17	50,637
2017/18	57,624
2018/19	51,270
2020/21	75,362
2021/22	100,360
2022/23	110,263

In the fiscal year 2013/14, Nairobi County Government accumulated pending bills amounting to Kshs. 35,000 million. This figure increased by 27.5% to Kshs. 44,625 million in 2014/15. The pending bills continued to rise, reaching Kshs. 46,725 million in 2015/16 and Kshs. 50,637 million in 2016/17. In the fiscal year 2017/18, the amount further increased to Kshs. 57,624 million. Although there was an 11% reduction in 2018/19, the pending bills surged by 47% to Kshs. 75,362 million in 2020/21 and by 33% to Kshs. 100,360 million in 2021/22. Finally, they increased by 9.9% to Kshs. 110,263 million in the fiscal year 2022/23.

Table 4.42: Kilifi County Pending Bills

Fiscal Year	''Kshs Millions''
2013/14	1,201
2014/15	1,342
2015/16	1,570
2016/17	1,790
2017/18	2,120
2018/19	2,370
2020/21	1,980
2021/22	2,510
2022/23	3,100

According to the findings, Kilifi County had pending bills totaling Kshs. 1,201 million in the fiscal year 2013/14. These bills increased by 11.7% to Kshs. 1,342 million in 2014/15 and by 17% to Kshs. 1,570 million in 2015/16. In the fiscal year 2016/17, they rose by 14% to Kshs. 1,790 million. The bills continued to increase by 18.4% in 2017/18 and by 11.8% in 2018/19. However, they decreased to Kshs. 1,980 million in 2020/21. Subsequently, the pending bills increased again to Kshs. 2,510 million in 2021/22 and to Kshs. 3,100 million in 2022/23.

Table 4.43: Kakamega County Pending Bills

Fiscal Year	**''Kshs Millions''**
2013/14	2,124
2014/15	2,610
2015/16	2,700
2016/17	1,820
2017/18	2,740
2018/19	2,911
2020/21	3,209
2021/22	3,002
2022/23	3,820

The Kakamega County Government's pending bills rose from Kshs. 2,124 million in the fiscal year 2013/14 to Kshs. 2,610 million in 2014/15. They further increased to Kshs. 2,700 million in 2016/17 before decreasing to Kshs. 1,820 million in the same year. In subsequent years, the pending bills continued to climb, reaching Kshs. 2,740 million in 2017/18 and Kshs. 2,911 million in 2018/19. They experienced a 10.2% increase to Kshs. 3,209 million in 2020/21. Although there was a 6.5% reduction in 2021/22, the pending bills surged by 27.2% to Kshs. 3,820 million in the fiscal year 2022/23.

Table 4.44: Nakuru County Pending Bills

Fiscal Year	‘‘Kshs Millions’’
2013/14	2,819
2014/15	3,012
2015/16	2,917
2016/17	3,271
2017/18	3,400
2018/19	2,981
2020/21	3,602
2021/22	3,826
2022/23	4,610

During the fiscal year 2013/14, Nakuru County Government accumulated pending bills amounting to Kshs. 2,819 million. This amount increased by 6.8% to Kshs. 3,012 million in 2014/15. Although the pending bills decreased by 3.2% to Kshs. 2,917 million in 2015/16, they rose by 12.1% to Kshs. 3,271 million in 2016/17. The bills continued to increase, reaching Kshs. 3,400 million in 2017/18, but then reduced to Kshs. 2,981 million in 2018/19. In 2020/21, the bills surged by 20.8% to Kshs. 3,602 million, followed by further increases of 6.2% to Kshs. 3,826 million in 2021/22 and 20.5% to Kshs. 4,610 million in 2022/23.

Table 4.45: Meru County Pending Bills

Fiscal Year	‘‘Kshs Millions’’
2013/14	1,962
2014/15	2,019
2015/16	2,813
2016/17	3,901
2017/18	3,002
2018/19	2,410
2020/21	2,561
2021/22	2,781
2022/23	3,521

According to the findings, Meru County had pending bills totaling Kshs. 1,962 million in the fiscal year 2013/14. These bills increased by 2.9% to Kshs. 2,019 million in 2014/15 and by 39.3% to Kshs. 2,813 million in 2015/16. In the fiscal year 2016/17, the bills rose by 38.7% to Kshs. 3,901 million. However, they decreased by 23% in 2017/18 and by 19.7% in 2018/19. Despite this decline, the bills increased again to

Kshs. 2,410 million in 2020/21 and continued to rise to Kshs. 2,781 million and Kshs. 3,521 million, in fiscal years 2021/22 and 2022/23 respectively.

4.8.3 Counties Annual Budget and Actual Expenditures

The findings on counties annual budget and actual expenditures are presented in Tables 4.46-4.50.

Table 4.46: Nairobi County Annual Budget and Actual Expenditures

Fiscal Year	Budget ''Kshs Millions''	Actual Expenditures ''Kshs Millions''
2013/14	25,225	21,000
2014/15	24,657	33,340
2015/16	26,532	9,620
2016/17	27,847	35,900
2017/18	26,213	25,500
2018/19	28,900	32,000
2020/21	29,127	39,630
2021/22	30,312	38,274
2022/23	32,601	38,300

Based on the findings, Nairobi County spent Kshs. 21,000 million against a budget of Kshs. 25,225 million in the fiscal year 2013/14, resulting in an absorption rate of 83.3%. For the fiscal year 2014/15, expenditures were Kshs. 33,340 million against a budget of Kshs. 24,657 million, leading to an absorption rate of 135.2%. However, in the fiscal year 2015/16, expenditures were Kshs. 9,620 million with a budget of Kshs. 26,532 million, resulting in an absorption rate of 36.3%. In the fiscal years 2016/17 and 2017/18, the absorption rates were 128.9% and 97.3%, respectively. The absorption rate for fiscal year 2018/19 was 110.7% since Kshs.32,000 million was spent against of the budget of Kshs.28,900 million. For the fiscal year 2020/21, actual expenditures were Kshs. 39,630 million against a budget of Kshs. 29,127 million, resulting in an absorption rate of 136%. The absorption rates for the fiscal years 2021/22 and 2022/23 were 126% and 117.5%, respectively.

Table 4.47: Kilifi County Annual Budget and Actual Expenditures

Fiscal Year	Budget ''Kshs Millions''	Actual Expenditures ''Kshs Millions''
2013/14	8,959	761
2014/15	8,400	1,200
2015/16	7,981	1,400
2016/17	8,230	1,780
2017/18	8,610	2,340
2018/19	9,500	2,100
2020/21	9,760	2,560
2021/22	10,521	2,741
2022/23	11,200	3,100

In the fiscal year 2013/14, the budget for Kilifi County was Kshs. 8,959 million, while actual expenditures were Kshs. 761 million, resulting in an absorption rate of 8.5%. For the 2014/2015 fiscal year, expenditures totaled Kshs. 1,200 million against a budget of Kshs. 8,400 million, leading to an absorption rate of 14.3%. In the fiscal year 2015/2016, Kshs. 1,400 million was spent out of a budget of Kshs. 7,981 million, achieving an absorption rate of 17.5%. Similarly, in the 2016/17 fiscal year, Kshs. 1,780 million was spent against a budget of Kshs. 8,230 million, which corresponded to an absorption rate of 21.6%. The absorption rates for the fiscal years 2017/18 and 2018/19 were 27.2% and 22.1%, respectively. Furthermore, the fiscal years 2020/21 and 2021/22 saw absorption rates of 26.2% and 26%, respectively. Finally, in the financial year 2022/23, Kshs. 3,100 million was spent against a budget of Kshs. 11,200 million, translating to an absorption rate of 27.7%.

Table 4.48: Kakamega County Annual Budget and Actual Expenditures

Fiscal Year	Budget ''Kshs Millions''	Actual Expenditures ''Kshs Millions''
2013/14	13,256	4,500
2014/15	12,190	5,600
2015/16	12,000	5,400
2016/17	13,425	10,799
2017/18	14,670	5,600
2018/19	13,789	6,230
2020/21	14,900	10,000
2021/22	13,780	12,500
2022/23	13,810	14,300

As per the findings, Kakamega County's budget absorption rate was 33.9% for the fiscal year 2013/14, with Kshs. 4,500 million spent against a budget of Kshs. 13,256 million. For the fiscal years 2014/15 and 2015/16, the absorption rates were 45.9% and 45%, respectively. In the fiscal year 2016/17, expenditures amounted to Kshs. 10,799 million out of a budget of Kshs. 13,425 million, resulting in an absorption rate of 80.4%. For the fiscal year 2017/18, the budget was Kshs. 14,670 million, and expenditures were Kshs. 5,600 million, leading to an absorption rate of 38.2%. The fiscal year 2018/19 had a budget of Kshs. 13,789 million and expenditures of Kshs. 6,230 million, resulting in an absorption rate of 45.2%. The absorption rates for the fiscal years 2020/21 and 2021/22 were 67.1% and 90.7%, respectively. However, in the fiscal year 2022/23, Kakamega County had expenditures of Kshs. 14,300 million against a budget of Kshs. 13,810 million, resulting in an absorption rate of 103.5%.

Table 4.49: Nakuru County Annual Budget and Actual Expenditures

Fiscal Year	Budget ''Kshs Millions''	Actual Expenditures ''Kshs Millions''
2013/14	9,273	2,300
2014/15	9,526	3,100
2015/16	10,200	2,700
2016/17	10,320	3,200
2017/18	11,826	4,300
2018/19	12,521	3,950
2020/21	13,710	4,780
2021/22	14,128	5,301
2022/23	15,917	5,217

For the fiscal year 2013/14, Nakuru County had a budget of Kshs. 9,273 million, with actual expenditures amounting to Kshs. 2,300 million, resulting in an absorption rate of 24.8%. During the 2014/2015 fiscal year, expenditures were Kshs. 3,100 million against a budget of Kshs. 9,526 million, leading to an absorption rate of 32.5%. The 2015/2016 fiscal year saw Kshs. 2,700 million spent out of a budget of Kshs. 10,200 million, achieving an absorption rate of 26.5%. For the 2016/17 fiscal year, Kshs. 3,200 million was spent against a budget of Kshs. 10,320 million, corresponding to an absorption rate of 31%. The absorption rates for the fiscal years 2017/18 and 2018/19 were 36.4% and 31.5%, respectively. Fiscal years 2020/21 and 2021/22 saw absorption rates of 34.9% and 37.5%, respectively. Finally, during the financial year 2022/23,

Kshs. 5,217 million was spent against a budget of Kshs. 15,917 million, translating to an absorption rate of 32.8%.

Table 4.50: Meru County Annual Budget and Actual Expenditures

Fiscal Year	Budget ''Kshs Millions''	Actual Expenditures ''Kshs Millions''
2013/14	8,272	521
2014/15	8,100	736
2015/16	8,618	1,350
2016/17	9,524	1,780
2017/18	10,751	2,100
2018/19	11,820	1,970
2020/21	11,270	1,540
2021/22	12,718	1,480
2022/23	10,260	2,320

According to the findings, Meru County's budget absorption rate was 6.3% for the fiscal year 2013/14, with Kshs. 521 million spent against a budget of Kshs. 8,272 million. For the fiscal years 2014/15 and 2015/16, the absorption rates were 9% and 15.7%, respectively. In the fiscal year 2016/17, expenditures amounted to Kshs. 1,780 million out of a budget of Kshs. 9,524 million, resulting in an absorption rate of 18.7%. For the fiscal year 2017/18, the budget was Kshs. 10,751 million, and expenditures were Kshs. 2,100 million, leading to an absorption rate of 19.5%. The fiscal year 2018/19 had a budget of Kshs. 11,820 million and expenditures of Kshs. 1,970 million, resulting in an absorption rate of 16.7%. The absorption rates for the fiscal years 2020/21 and 2021/22 were 13.7% and 11.6%, respectively. In the fiscal year 2022/23, Meru County had expenditures of Kshs. 2,320 million against a budget of Kshs. 10,260 million, resulting in an absorption rate of 22.6%.

4.8.4 Counties Annual Revenue Allocations from National Government

The study sought to analyze the counties annual revenue allocations from national government. The findings are presented in Tables 4.51-4.55.

Table 4.51: Nairobi County Annual Revenue Allocations from National Government

Fiscal Year	Revenue Allocations ''Kshs Millions''
2013/14	9,729
2014/15	11,441
2015/16	13,534
2016/17	14,946
2017/18	16,323
2018/19	16,155
2020/21	12,275
2021/22	14,528
2022/23	26,500

According to the findings, in the fiscal year 2013/14, Nairobi County received Kshs. 9,729 million from the national government. The allocation increased to Kshs. 11,441 million in 2014/15 and further to Kshs. 13,534 million in 2015/16. In 2016/17, the allocation continued to rise, reaching Kshs. 14,946 million. The following year, 2017/18, saw a further increase to Kshs. 16,323 million. However, in 2018/19, the allocation slightly decreased to Kshs. 16,155 million. A notable dip occurred in 2020/21, with the revenue allocation dropping to Kshs. 12,275 million. The allocation increased again in 2021/22 to Kshs. 14,528 million. Finally, a significant increase was observed in the fiscal year 2022/23, with Nairobi County receiving Kshs. 26,500 million from the national government.

Table 4.52: Kilifi County Annual Revenue Allocations from National Government

Fiscal Year	Revenue Allocations ''Kshs Millions''
2013/14	5,518
2014/15	6,574
2015/16	7,842
2016/17	8,563
2017/18	10,650
2018/19	12,071
2020/21	10,968
2021/22	11,312
2022/23	12,930

In the fiscal year 2013/14, Kilifi County received Kshs. 5,518 million in revenue allocations from the national government, which increased to Kshs. 6,574 million in 2014/15. This upward trajectory continued with allocations of Kshs. 7,842 million in 2015/16 and Kshs. 8,563 million in 2016/17. A significant jump occurred in 2017/18, with revenue allocations reaching Kshs. 10,650 million, indicating substantial support from the national government. This positive trend continued in 2018/19, as Kilifi County received Kshs. 12,071 million in revenue allocations. However, there was a slight decrease in allocations in 2020/21, with the county receiving Kshs. 10,968 million. Nonetheless, the allocations increased again in 2021/22 to Kshs. 11,312 million. In the fiscal year 2022/23, Kilifi County's revenue allocations further increased to Kshs. 12,930 million, reflecting ongoing support from the national government to facilitate the county's development initiatives.

Table 4.53: Kakamega County Annual Revenue Allocations from National Government

Fiscal Year	Revenue Allocations ''Kshs Millions''
2013/14	6,931
2014/15	8,090
2015/16	9,646
2016/17	10,703
2017/18	11,062
2018/19	12,151
2020/21	11,364
2021/22	13,210
2022/23	14,319

In the fiscal year 2013/14, Kakamega County was allocated Kshs. 6,931 million in revenue. This figure saw an increase to Kshs. 8,090 million in 2014/15 and further to Kshs. 9,646 million in 2015/16. The trend persisted with allocations of Kshs. 10,703 million in 2016/17 and Kshs. 11,062 million in 2017/18. By 2018/19, Kakamega County's revenue allocations had risen to Kshs. 12,151 million, showcasing continued support from the national government to drive the county's development projects. Despite a minor decline in allocations in 2020/21, with the county receiving Kshs. 11,364 million, there was a subsequent increase in 2021/22 to Kshs. 13,210 million. In the fiscal year 2022/23, Kakamega County's revenue allocations maintained an upward trajectory, reaching Kshs. 14,319 million.

Table 4.54: Nakuru County Annual Revenue Allocations from National Government

Fiscal Year	Revenue Allocations ''Kshs Millions''
2013/14	6,647
2014/15	7,503
2015/16	8,909
2016/17	9,841
2017/18	10,330
2018/19	11,705
2020/21	11,835
2021/22	13,636
2022/23	12,110

As per the findings, Nakuru County received Kshs. 6,647 million in revenue allocations in 2013/14, which increased to Kshs. 7,503 million in 2014/15. This positive trajectory continued with allocations of Kshs. 8,909 million in 2015/16 and Kshs. 9,841 million in 2016/17. A significant increase occurred in 2017/18, with revenue allocations reaching Kshs. 10,330 million. This positive trend continued in 2018/19, as the county received Kshs. 11,705 million in revenue allocations. It further increased in 2020/21, with the county receiving Kshs. 11,835 million. In the fiscal years 2021/22 and 2022/23, the allocations increased again to Kshs. 13,636 million and Kshs. 12,110 million, respectively.

Table 4.55: Meru County Annual Revenue Allocations from National Government

Fiscal Year	Revenue Allocations ''Kshs Millions''
2013/14	5,006
2014/15	5,811
2015/16	8,068
2016/17	8,659
2017/18	8,690
2018/19	9,353
2020/21	8,772
2021/22	9,300
2022/23	10,421

Based on the findings, Meru County received Kshs. 5,006 million in revenue allocations in 2013/14, which saw an increase to Kshs. 5,811 million in 2014/15. This upward trend continued with allocations of Kshs. 8,068 million in 2015/16 and Kshs. 8,659 million in 2016/17. The allocations further increased in 2017/18, reaching Kshs. 8,690 million. This positive trend persisted in 2018/19, as the county received Kshs. 9,353 million in revenue allocations. However, there was a drop in allocations in 2020/21, with the county receiving Kshs. 8,772 million. In the fiscal years 2021/22 and 2022/23, the allocations increased again to Kshs. 9,300 million and Kshs. 10,421 million, respectively.

4.9 Triangulation of Secondary and Primary Data

Results from the primary data analysis revealed that various financial management dimensions influenced financial distress in county governments. Specifically, revenue management significantly impacted the financial distress experienced by these governments. Secondary data presented in Tables 4.40-4.44 established that county governments consistently missed their revenue targets throughout the review period. On average, Nairobi, Kilifi, Kakamega, Nakuru, and Meru Counties fell short of their revenue targets by 36.7%, 37.1%, 36.7%, 10.7%, and 25.2%, respectively. The inability to meet revenue collection targets highlights major flaws in their revenue management systems, such as inefficiencies, inadequate oversight, and issues with collection processes. These problems undermine financial stability, leading to budget deficits and a reduced capacity to fund essential services and development initiatives,

contributing to financial distress in Nairobi County Government. The primary data analysis also indicated that debt management practices contribute to financial distress in county governments. According to secondary data, from the fiscal years 2013/14 to 2022/23, Nairobi, Kilifi, Kakamega, Nakuru, and Meru Counties accumulated pending bills amounting to Kshs.110,263 million, Kshs.3,100 million, Kshs.3,820 million, Kshs.4,610 million, and Kshs.3,521 million, respectively. The accumulation of unpaid obligations continues to strain financial resources and disrupt service delivery in these counties. It was also revealed that financial information systems contributed to financial distress in county governments. Furthermore, the research found that auditing practices within financial management significantly influenced financial distress. Secondary data analysis showed that the average budget absorption rates for Nairobi, Kilifi, Kakamega, Nakuru, and Meru Counties were 107.9%, 21.2%, 61.1%, 32%, and 14.9%, respectively. Inadequate auditing practices can be linked to low budget absorption rates, as unchecked mismanagement and inefficiencies lead to delayed or improper use of allocated funds. Consequently, a lack of accountability hinders the effective implementation of budgeted projects, resulting in underutilization of resources and financial distress. Despite the national government's consistent increase in allocations to county governments, the insufficient collection of local revenues means that counties remain heavily dependent on these funds. Overall, the primary and secondary data analysis concurs that financial management dimensions of revenue management, auditing practices, financial information systems, and debt management practices influenced financial distress in county governments.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter outlines the summary of findings in regard to financial management dimensions and financial distress in County Governments of Kenya. From the descriptive and inferential analysis findings, the researcher has made recommendations and suggested areas for further studies.

5.2 Summary of findings

This section outlines the summary of descriptive and inferential findings. These findings were discussed in line with the research objectives. It covers the revenue management, auditing practices, debt management practices, financial information systems, counties resource allocation and financial distress findings.

5.2.1 Revenue Management

The study's findings indicated that revenue management within the broader scope of financial management influenced financial distress in county governments. In particular, effective revenue management ensures the availability and adequacy of funds to meet financial obligations, contributing to a steady revenue flow and optimal allocation of resources. The research further highlights that appropriate revenue collection strategies are crucial in shaping the financial position of county governments. Effective strategies optimize revenue collection and stabilize financial conditions. However, insufficient revenue collection is often due to a lack of capacity among collectors, emphasizing the importance of competent revenue collectors in managing local revenues. However, accountants and auditors disagreed that the allocation and utilization of collected revenue influenced taxpayers' willingness to pay. The study also found that billing and invoicing methods determine the amount of revenue collected, thus influencing financial distress. Additionally, fraud and revenue leakages contribute to financial shortfalls, depriving county governments of necessary funds to fulfill their financial obligations. Overall, the findings underscore that revenue

management significantly influences financial distress in county governments. Inferential data analysis, including correlation and regression analyses, established a significant relationship between revenue management and financial distress. Moreover, secondary data analysis revealed that county governments have been consistently unable to meet revenue collection targets, contributing to financial distress.

5.2.2 Auditing Practices

Descriptive findings revealed that financial distress in county governments is influenced by internal and external auditing practices. Specifically, risk management and regulatory compliance are critical components. Inadequate risk management and regulatory compliance in auditing expose public financial resources to embezzlement, leading to a shortage of funds needed to meet financial obligations and ultimately affecting accountability. The loss of public funds results in financial distress as county governments struggle to settle their obligations. Accountants and auditors highlighted that reliable financial reporting standards depend on effective auditing practices, and they attributed financial distress to insufficient control frameworks within county governments. Adequate supervisory activities help minimize financial distress by ensuring oversight and accountability, thereby reducing the risk of mismanagement, fraud, or inefficiencies in financial operations. Additionally, the findings also indicated that top management supports auditing activities, which promotes transparency, accountability, and adherence to financial regulations. The study demonstrates that integrating auditing practices into financial management plays a vital role in enhancing efficiency and accountability. Regular audits help identify and address financial inefficiencies, ensuring the optimal utilization of financial resources. Overall, the findings show that auditing practices significantly influence financial distress in county governments. Inferential data analysis, including correlation and regression analyses, confirmed a significant relationship between auditing practices and financial distress.

5.2.3 Debt Management Practices

The findings established that debt management practices influenced financial distress in county governments. In particular, effective debt management policies emphasize debt objectives, sustainability, and financial capacity. Respondents agreed that adhering to organizational credit limits helps manage financial distress. Additionally, financial distress often results from an inability to meet the requirements of borrowed loans. Furthermore, accountants and auditors suggested that debts should preferably be utilized for development projects. However, the viability of debt payment methods had little effect on mitigating financial distress in county governments. The effectiveness of debt management relies on enhancing institutional frameworks and managing debt-related risks, which are critical for promoting effective performance. Correlational analysis results showed a significant relationship between debt management and financial distress, and regression analysis indicated that financial distress was predictable based on debt management practices.

5.2.4 Financial Information Systems

According to the findings, financial information systems significantly influence the adequacy of management reporting, highlighting their importance in county performance assessment and expenditure planning. However, accountants and auditors expressed differing views, with some believing that stable financial information systems support local government policies effectively. Misuse of financial information systems, such as the Integrated Financial Management Information Systems (IFMIS), and weak security policies contribute to financial distress. This suggests that the effectiveness of financial information systems heavily relies on robust security measures. The lack of adequate security policies increases the risk of system misuse, indicating a poor understanding of Accounting Information Systems and their potential for manipulation, leading to financial instability. The integration of financial information systems into the organizational structure enhances departmental communication effectiveness. Overall, the findings demonstrate that financial information systems play a critical role in influencing financial distress in county governments. Inferential data analysis, including correlation and regression analyses,

established a significant relationship between financial information systems and financial distress.

5.2.5 Counties Resource Allocation

The study established that county resource allocation influence financial management and financial distress among county governments. Funding sources for county governments include national government transfers and locally generated revenue from fees and charges. These national government funds are intended to support counties in performing devolved functions. However, the findings indicated that counties heavily rely on these transfers to pay suppliers, contractors, salaries, and debts. This overdependence, coupled with inadequate resource allocation, often results in counties struggling to meet these financial obligations. Despite this, regression analysis showed that county resource allocation has only a minor moderating effect on the relationship between financial management practices and financial distress among county governments.

5.2.6 Financial Distress

The study findings showed that indeed financial distress existed in county governments of Kenya. This is a significant threat to the operations of County Governs in Kenya. As per the findings, financial distress is contributed by financial management in terms of revenue management, auditing, debt management, and financial information systems' dimensions. County governments have been confronted with lack of solvency as well as liquidity thus unable to fulfill their obligations in terms of paying bills and debts and provision of services to the people. County governments are currently struggling with technical insolvency and illiquidity due to lack of sufficient funds to meet the liabilities. The financial health of county governments is a requisite for effectiveness in provision of services to the county residents. However, financial distress has been a major hindrance to attainment of devolution goals by Kenyan County governments as described in the study findings. County governments lack accurate budgetary estimations hence difficult to evade financial distress in Kenyan county governments. Regression analysis results established a strong correlation coefficient implying strong relationship between revenue management,

auditing practices, debt management and financial information systems and financial distress. Coefficient of determination revealed that variation in financial distress was determined and explained by the independent variables. All the financial management dimensions taken together influenced financial distress.

5.3 Conclusions

Based on the summary of study findings, the following conclusions are made in relation to the objectives of research on the financial distress in County governments of Kenya.

5.3.1 Revenue Management and Financial Distress

The study concluded that financial distress among county governments is influenced by revenue management dimension of financial management. Effective revenue collection strategies are crucial for ensuring sufficient funds to meet operational and developmental needs. Additionally, accurate and timely billing and invoicing practices are essential for efficient revenue collection, reducing errors and delays that can cause cash flow problems. Moreover, proper revenue allocation and mobilization are fundamental for addressing the financial needs of various sectors within counties. Effective allocation ensures equitable distribution of funds and operational efficiency, while robust revenue mobilization strategies help tap into new and existing revenue sources, enhancing the financial resilience of county governments. However, the study also highlighted that inadequate management of fraud and leakage significantly contributes to financial distress. Without stringent controls and oversight mechanisms, counties are vulnerable to revenue losses due to fraud and leakage, undermining overall financial stability. The findings emphasize the intricate relationship between revenue management practices and financial health, revealing that poor revenue management leads to substantial financial distress. This distress is characterized by budget deficits, an inability to meet financial obligations, and a reduced capacity to deliver public services.

5.3.2 Auditing Practices and Financial Distress

The study conclude that both internal and external auditing practices contribute to financial distress. Auditing serves as a vital mechanism for safeguarding the assets and financial resources of county governments, aiming to prevent the loss of public funds and the occurrence of financial distress. However, despite these expectations, there has been an alarming upward trend in the loss of public funds from county governments in Kenya, correlating with an increase in financial distress. Internally, meticulous execution of risk assessments within auditing frameworks serves as a proactive measure, identifying potential financial vulnerabilities and facilitating the implementation of strategic safeguards. Furthermore, the establishment of robust financial control frameworks is crucial for ensuring the prudent management of resources and fostering a culture of accountability and transparency within government operations. Externally, auditing practices extend to assessing regulatory compliance, ensuring adherence to legal and financial standards by county governments. This serves to mitigate the risk of non-compliance penalties and legal entanglements. Additionally, the supervisory activities carried out by external auditors act as a crucial oversight mechanism, providing independent assurance and promoting fiscal responsibility. The internal and external auditing practices inform the financial management integrity of county governments, thereby exerting a significant influence on the occurrence of financial distress.

5.3.3 Debt Management Practices and Financial Distress

In conclusion, the study highlighted the significant influence of debt management practices on financial distress within county governments. It was evident that well-structured debt management policies, emphasizing clear debt objectives, sustainability, and financial capacity considerations, play a crucial role in mitigating financial risk. The importance of adhering to organizational credit limits was acknowledged by respondents as a key strategy in managing financial distress. While there was consensus among accountants and auditors on prioritizing debt utilization for development projects, the study revealed that the efficacy of debt repayment methods had limited influence on alleviating financial distress. The effectiveness of

debt management hinges on enhancing institutional frameworks and proactively addressing debt-related risks to ensure efficient performance. Notably, a significant relationship was established between debt management practices and financial distress.

5.3.4 Financial Information Systems and Financial Distress

The study concludes that financial information systems plays a vital role in determining the adequacy of management reporting, underscoring their significance in evaluating county performance and planning expenditures. Nevertheless, it was revealed that the misuse of such systems, particularly exemplified by the Integrated Financial Management Information Systems (IFMIS), coupled with inadequate security policies, contributes to financial distress. This highlights the imperative of robust security measures to ensure the effectiveness of financial information systems and mitigate risks of misuse. As such, the findings affirm the critical influence of financial information systems on financial distress in county governments.

5.3.5 Counties Resource Allocation, Financial Management Dimensions and Financial Distress

In conclusion, the study revealed that that counties depend heavily on transfers from the national government. While these transfers are intended to facilitate the execution of devolved functions, the findings reveal a heavy reliance on them to cover various financial obligations, including payments to suppliers, contractors, salaries, and debts. This overdependence, compounded by inadequate resource allocation, often leads to challenges in meeting financial obligations and ultimately financial distress.

5.4 Recommendations

The researcher made the following recommendations based on the conclusions of the study;

i. The study recommends that County Governments in Kenya should develop and implement effective policies and strategies for revenue collection and

utilization. They should streamline the collection processes through proper automation systems to reduce inefficiencies and increase compliance rates.

ii. It is also recommended that County Governments should implement continuous auditing systems for real-time financial monitoring and early detection of irregularities. Ensuring auditor independence and offering regular training to address emerging risks and technologies will lead to thorough evaluations. Additionally, establishing robust internal controls and conducting regular external audits will enhance oversight and accountability.

iii. Counties are recommended to adopt stringent measures to ensure transparent tracking and prioritization of liabilities. The establishment of a centralized debt management system can offer a holistic view of all outstanding debts and pending bills. Additionally, providing transparent reports on financial obligations will bolster accountability and improve financial planning within county governments.

iv. County governments should conduct routine reviews and audits of data input into the financial information systems to guarantee accuracy and adherence to regulations. Additionally, leveraging the forecasting and reporting features of these systems can help predict financial hurdles and enable informed decision-making to address them effectively.

v. Finally, the study recommends that the national government should establish and implement a resource allocation framework that is clearly based on elements such as devolved responsibilities, developmental needs, and revenue-generating potential. Moreover, offering technical support and capacity-building initiatives to counties in financial planning and management can bolster their fiscal resilience and alleviate the financial distress

5.5 Suggestions for Further Studies

The researcher suggests that further research studies should be carried out on;

i. Factors affecting public sector financial management in county governments of Kenya.
ii. Relationship between financial reporting practices and financial distress.
iii. Effect of budgeting making process on management of revenue in County governments.

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APPENDICES

Appendix I: Introductory Letter

Dear respondent,

I am John Muthini Ndunda from Jomo Kenyatta University of Agriculture and Technology pursuing a doctorate degree in Business Administration (Finance). I would like to collect data from you in regard to **'FINANCIAL MANAGEMENT DIMENSIONS AND FINANCIAL DISTRESS IN COUNTY GOVERNMENTS OF KENYA'.** I can assure you that the information given by you will be meant for academic purposes only and adherence to confidentiality will be highly maintained.

Thank you

…………………………..	…………………………..	………………………..
John Muthini Ndunda	Prof. Willy Muturi	Dr. Danniel Wanyoike
Student	University Supervisor	University Supervisor

Appendix II: Questionnaire

The questionnaire contains background information and statements regarding revenue management, auditing practices, debt Management practices, financial information systems, counties' resource allocation and financial distress.

Section A: Background information

Instructions: You are kindly requested to fill in by ticking in the space provided.

1. How long have you been working in your current position?

i) Below 1 year ( )

ii) 1-5 Years ( )

iii) 6-10Years ( )

iv) 11-15 Years ( )

v) Over 15 Years ( )

2. How long have you been working in the county government; including the period it was municipal and county councils?

i) Below 1 year ( )

ii) 1-5 Years ( )

iii) 6-10Years ( )

iv) 11-15 Years ( )

v) Over 15 Years ( )

Section B: Revenue Management

Instructions: You are requested to fill in by ticking in the space provided meaning; 5=Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree, 1= Strongly Disagree based on your honest opinion/view in relation to the statement concerning revenue management.

Statement	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
	5	**4**	**3**	**2**	**1**
1. Revenue management has a direct link to county governments ability to settle financial obligations					
2. Appropriate revenue collection strategies strengthens financial position hence affects financial distress in County Governments.					
3. Lack of capacity among revenue collectors leads to insufficient collection.					
4. Allocation and utilization of collected money affects the willingness of taxpayers to pay revenue to county governments.					
5. Revenue payments mobilization initiatives influence financial stability.					
6. Level of accuracy in revenue billing and invoicing contributes to financial distress.					
7. Lack of proper fraud and leakage management in revenue leads to financial distress.					

Section C: Auditing Practices

Instructions: You are requested to fill in by ticking in the space provided meaning; 5=Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree, 1= Strongly Disagree based on your honest opinion/view in relation to the statement concerning auditing practices.

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	5	4	3	2	1
1. Assessment of risk and regulatory compliance reduces chances of financial distress.					
2. Regular and routine investigation of the county books of accounts ensures accountability					
3. Effective auditing practices leads to reliable financial reporting standards in county governments					
4. Insufficient control frameworks contributes to financial distress					
5. Adequate auditing supervisory activities minimizes financial distress					
6. Our auditing activities have adequate financial support of the top management					

Section D: Debt Management

Instructions: You are requested to fill in by ticking in the space provided meaning; 5=Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree, 1= Strongly Disagree based on your honest opinion/view in relation to the statement concerning Debt Management.

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	5	4	3	2	1
1. Inappropriate and Insufficient debt policies leads to financial distress					
2. Adherence to organizational credit limits assists in managing financial distress					
3. Lack of debt sustainability consideration in acquisition of loans leads to financial distress					
4. Development projects should be prioritized when allocating borrowed funds					
5 Our county government keeps debt records properly					
6. Our county government adopts modes of debt payments that are economically viable					

Section E: Financial Information Systems

Instructions: You are requested to fill in by ticking in the space provided meaning; 5=Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree, 1= Strongly Disagree based on your honest opinion/view in relation to the statement concerning Financial Information Systems.

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	5	4	3	2	1
1. Financial information systems enhances management reporting adequacy					
2. Government policies support are achieved through stable financial information systems					

3. Financial information systems plays a key role in budgetary process					
4. Misuse of IFMIS has contributed to financial distress					
5. Weak security policies for financial information systems contributes to financial distress					
6. Effective accounting information systems (AIS) contribute to efficient financial planning.					
7. Integration of financial information systems leads to effective communication between departments in regard to financial activities.					

Section F: Counties' Resource Allocation

Instructions: You are requested to fill in by ticking in the space provided meaning; 5=Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree, 1= Strongly Disagree based on your honest opinion/view in relation to the statement concerning Counties' Resource Allocation.

Statement	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
	5	**4**	**3**	**2**	**1**
1. Fiscal responsibility is directly linked to financial distress.					
2. County's population size served by the government can influence financial distress.					
3. Central government put into account the financial capacity of the county governments to effectively manage the					

intended allocation of funds					
4. Geographical area covered by county determines revenue allocation and influences financial distress.					
5. Mismanaged expenditure on poverty reduction may influence financial distress					
6. The working relationship between national and county governments in Kenya is not fairly good					

Section G: Financial Distress

Instructions: You are requested to fill in by ticking in the space provided meaning; 5=Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree, 1= Strongly Disagree based on your honest opinion/view in relation to the statement concerning Financial Distress.

	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
	5	**4**	**3**	**2**	**1**
1. County's Service delivery to the people is not satisfactory					
2. The level of debts and liabilities accumulated by counties is unsustainable.					
3. The strength of revenue bases of counties is weak in relation to existing potential.					
4. Asset-liability ratio determines the financial health of county governments					
5. Appropriate financial planning leads to realistic budgetary estimations					

Appendix III: Data Collection Sheet

Counties Actual Own Revenue Collection 2013/2014-2022/2023 in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs									
KILIFI	Kshs									
KAKAMEGA	Kshs									
NAKURU	Kshs									
MERU	Kshs									

Counties Target Own Revenue Collection 2013/2014-2022/2023 in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs									
KILIFI	Kshs									
KAKAMEGA	Kshs									
NAKURU	Kshs									
MERU	Kshs									

Counties Pending Bills in Millions

Pending Bills										
County	**Currency**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2020/21**	**2021/22**	**2022/23**
NAIROBI	Kshs									
KILIFI	Kshs									
KAKAMEGA	Kshs									
NAKURU	Kshs									
MERU	Kshs									

County Expenditures in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs									
KILIFI	Kshs									
KAKAMEGA	Kshs									
NAKURU	Kshs									
MERU	Kshs									

County Budgets for Each Fiscal Year in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs									
KILIFI	Kshs									
KAKAMEGA	Kshs									
NAKURU	Kshs									
MERU	Kshs									

National Government Allocations to Counties for Each Fiscal Year in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs									
KILIFI	Kshs									
KAKAMEGA	Kshs									
NAKURU	Kshs									
MERU	Kshs									

Appendix IV: List of Counties of Kenya

1. Baringo County
2. Bomet County
3. Bungoma County
4. Busia County
5. Elgeyo Marakwet County
6. Embu County
7. Garissa County
8. Homa Bay County
9. Isiolo County
10. Kajiado County
11. Kakamega County
12. Kericho County
13. Kiambu County
14. Kilifi County
15. Kirinyaga County
16. Kisii County
17. Kisumu County
18. Kitui County
19. Kwale County
20. Laikipia County
21. Lamu County
22. Machakos County
23. Makueni County
24. Mandera County
25. Meru County
26. Migori County
27. Marsabit County
28. Mombasa County
29. Muranga County
30. Nairobi County
31. Nakuru County

32. Nandi County
33. Narok County
34. Nyamira County
35. Nyandarua County
36. Nyeri County
37. Samburu County
38. Siaya County
39. Taita Taveta County
40. Tana River County
41. Tharaka Nithi County
42. Trans Nzoia County
43. Turkana County
44. Uasin Gishu County
45. Vihiga County
46. Wajir County
47. West Pokot County

Appendix V: List of selected County Governments

County	Total population	Number of ministries	Sub counties
Nairobi	3,138,369	10	Westlands Dagoretti North Dagoretti South Lang'ata Kibra Roysambu Kasarani Ruaraka Embakasi North Embakasi Central Embakasi West Embakasi East Embakasi South Kamukunji Starehe Mathare Makadara
Meru	1,356,301	10	Tigania East Tigania West Igembe North Igembe Central Igembe South Imenti North Imenti Central Imenti South Buuri
Nakuru	1,603,325	10	Nakuru East Nakuru West
			Rongai Njoro Molo Kuresoi South Kuresoi North Naivasha Gilgil Bahati Subukia
Kakamega	1,660,651	10	Lugari Likuyani Malava Lurambi Navakholo

			Mumias West Mumias East Matungu Butere Khwisero Shinyalu Ikolomani
Kilifi	1,109,735	10	Kilifi North Kilifi South Kaloleni Rabai Ganze Malindi Magarini

Source: Kenya population census 2009, Independent Electoral and Boundaries Commission

Appendix VI: Sample Size Determination

Strata 1**;** Sample size from the Sub-Counties

County	Number of accountants and auditors in Sub-Counties	Sample Size
Nairobi	34	16
Nakuru	22	10
Meru	18	9
Kakamega	24	11
Kilifi	14	7
Total	**112**	**53**

Strata 2**;** Sample size from the ministries

County	Number of accountants and auditors in Ministries	Sample Size
Nairobi	20	10
Nakuru	20	10
Meru	20	10
Kakamega	20	10
Kilifi	20	10
Total	**100**	**50**

Source: County Governments' Human Resource Management

Appendix VII: Counties Actual Own Revenue Collection 2013/2014-2022/2023 in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs	10,004	11,587	10,930	10,053	10,174	8,476	9,756	9,236	10,562
KILIFI	Kshs	712	545	519	620	523	792	833	827	661
KAKAMEGA	Kshs	617	516	504	443	440	858	1,118	1,226	1,309
NAKURU	Kshs	2,810	2,200	2,295	1,548	2,278	2,814	1,628	1,707	1,611
MERU	Kshs	680	539	548	552	441	550	435	385	418

Source: *Commission on Revenue allocation report of 2023*

Appendix VIII: Counties Target Own Revenue Collection 2013/2014-2022/2023 in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs	12,719	13,323	15,289	19,556	17,229	15,496	16,209	19,610	17,505
KILIFI	Kshs	971	1000	1,407	1,585	929	1,345	1,201	1,118	1,051
KAKAMEGA	Kshs	851	903	1,000	894	774	1,200	1,656	1,600	1,942
NAKURU	Kshs	2,312	2,755	2,312	2,597	2,500	2,685	1,800	1,980	2,280
MERU	Kshs	562	588	595	773	821	1,228	600	689	600

Source: *Commission on Revenue allocation report of 2023*

Appendix IX: Counties Pending Bills in Millions

Pending Bills										
County	**Currency**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2020/21**	**2021/22**	**2022/23**
NAIROBI	Kshs	35,000	44,625	46,725	50,637	57,624	51,270	75,362	100,360	110,263
KILIFI	Kshs	1,201	1,342	1,570	1,790	2,120	2,370	1,980	2,510	3,100
KAKAMEGA	Kshs	2,124	2,610	2,700	1,820	2,740	2,911	3,209	3,002	3,820
NAKURU	Kshs	2,819	3,012	2,917	3,271	3,400	2,981	3,602	3,826	4,610
MERU	Kshs	1,962	2,019	2,813	3,901	3,002	2,410	2,561	2,781	3,521

Source: *Auditor General Report of 2023*

Appendix X: County Expenditures in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs	21,000	33,340	9,620	35,900	25,500	32,000	39,630	38,274	38,300
KILIFI	Kshs	761	1,200	1,400	1,780	2,340	2,100	2,560	2,741	3,100
KAKAMEGA	Kshs	4,500	5,600	5,400	10,799	5,600	6,230	10,000	12,500	14,300
NAKURU	Kshs	2,300	3,100	2,700	3,200	4,300	3,950	4,780	5,301	5,217
MERU	Kshs	521	736	1,350	1,780	2,100	1,970	1,540	1,480	2,320

Source: *Controller of the Budget report of 2023*

Appendix XI: County Budgets for Each Fiscal Year in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs	25,225	24,657	26,532	27,847	26,213	28,900	29,127	30,312	32,601
KILIFI	Kshs	8,959	8,400	7,981	8,230	8,610	9,500	9,760	10,521	11,200
KAKAMEGA	Kshs	13,256	12,190	12,000	13,425	14,670	13,789	14,900	13,780	13,810
NAKURU	Kshs	9,273	9,526	10,200	10,320	11,826	12,521	13,710	14,128	15,917
MERU	Kshs	8,272	8,100	8,618	9,524	10,751	11,820	11,270	12,718	10,260

Source: *Controller of the Budget report of 2023*

Appendix XII: National Government Allocations to Counties for Each Fiscal Year in Millions

County	Currency	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2020/21	2021/22	2022/23
NAIROBI	Kshs	9,729	11,441	13,534	14,946	16,323	16,155	12,275	14,528	26,500
KILIFI	Kshs	5,518	6,574	7,842	8,563	10,650	12,071	10,968	11,312	12,930
KAKAMEGA	Kshs	6,931	8,090	9,646	10,703	11,062	12,151	11,364	13,210	14,319
NAKURU	Kshs	6,647	7,503	8,909	9,841	10,330	11,705	11,835	13,636	12,110
MERU	Kshs	5,006	5,811	8,068	8,659	8,690	9,353	8,772	9,300	10,421

Source: *Commission on Revenue allocation report of 2023 on total allocations to Counties*