

EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF COUNTY GOVERNMENTS IN KENYA: A CASE STUDY OF NAKURU COUNTY, KENYA

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Abstract

The county governments continue to face challenges around the world. In the County Government of Nakuru, the auditor general continues to document diverse financial performance challenges. The purpose of this study was to examine the effect of financial management practices on the financial performance of county governments in Kenya. The following specific objectives were pursued; to examine the role of internal auditing on the financial performance of County Government of Nakuru, to establish the role of internal controls on the financial performance of County Government of Nakuru, to examine the role of budgeting on the financial performance of County Government of Nakuru and to examine the influence of account payables management on the financial performance of County Government of Nakuru. The study was based on the agency theory and the resource based theory. The study targeted 128 respondents who were employees in auditing, internal controls, budgeting and account receivables. A sample size of 97 respondents derived through Yaro Yamane formula was used in the study. This proposed study utilized structured questionnaires to obtain data for the study. The stratified sampling indicates that within the auditing, internal controls, budgeting and account receivables 19, 18, 24 and 36 respondents formed the sample, respectively. The study established that financial performance was strongly and significantly ($p < 0.05$) related to internal auditing ($r = 0.769$), internal controls ($r = 0.795$), budgeting ($r = 0.671$), and account payables ($r = 0.759$). The study further established that 76.5% of the changes in the financial performance of county government of Nakuru is due to changes in account payables, internal controls, internal auditing, budgeting. It was concluded that there was a statistically significant relationship between financial performance of County Government of Nakuru and account payables, internal controls, internal auditing, budgeting. This study is of great value in highlighting importance of financial management practices in boosting financial performance of county governments. The findings of this study are expected to help county governments in managing their funds, address internal control measures, establish the most efficient ways for budgeting, and monitor their borrowing. The study findings add to the limited literature on financial management practices on which future researchers in this subject area can base their studies.

Key Words: Account Payables, Budgeting, Internal Auditing, Internal Controls

I.INTRODUCTION

In Kenya, the Auditor General., (2017) has continued to document diverse challenges with the financial performance of county governments across the country. For example in 2017, the auditor general noted that Ksh 12.7 million shillings collected in parking fees for County Government of Nairobi could not be accounted for (Auditor General., 2017). The auditor general further noted irregular payments in relations to the motor vehicle purchases at Ksh 147.4 million shillings in which payment vouchers and procurement processes were missing. In Mombasa county government, Auditor General., (2017) noted that Ksh 165 million shillings of local revenues that were collected between the county government and a local partner was not banked. In Kwale county government, the Auditor General., (2017) noted that Ksh 14 million was utilized for the purposes of hiring taxis though there was lack of paper trail to document authorization of the same.

Amongst the factors that have been found to influence financial performance of the decentralized government units includes internal audit, internal controls, budgeting, account payables management. According to Nteziryayo, (2014) internal audit has been viewed as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Abayomi (2016) further indicates that internal audit is a systematic and structured examination of risk aspects in financial and operational aspects of an organization with an objective of improving the internal controls and governance process. The internal auditing aspects play critical financial performance within devolved governments units such as local government authorities, municipal councils, county governments, and district councils around the world.

Masui (2013) indicated that the internal audits aspects that can be undertaken within the devolved government units include examination of proper authorization and documentation in public money expenditure. Other aspects included expenditure that is in line with the budgeted funds. These aspects were noted to prevent public resources wastage and frauds hence improving on the financial performance of the local governments (Poncian, 2015). In helping the devolved government units improve on their financial performance, Chacha (2013) notes that issuance of qualified audit reports and repeated audit queries is an indication of poor control environment within the governments. This may create loopholes for financial mismanagement practices within the local governments. In undertaking their roles, there are diverse aspects that influence the performance of the internal auditors including professional proficiency of internal auditors, quality of audit work, organizational independence and management support to the function (Anthony, 2015).

The internal controls environment and practices are critical component of financial performance within local governments. According to Ariga & Gathogo (2016) the internal controls relates to the set of rules and procedures established by the firm to ensure that organizations achieve their mandates in an efficient, credible, and transparent manner in respect to their financial operational aspects. On the other hand, Mutisya (2013) indicates that internal controls relates to a set of rules, policies, and procedures an organization implements to provide reasonable assurance that; its financial reports are reliable, its operations are effective and efficient, and its activities comply with applicable laws and regulations. There are diverse ways in which internal controls influence financial performance.

Masui (2013) indicates that finance staff must always ensure that they take leave from work when they are due to ensure that part of their work are examined. This often acts to avoid opaque financial operations environment. Other internal control aspects that devolved government units can implement include authorization process and procedures for access to cash office, financial records such as payment vouchers and financial systems. This ensures that there are no unauthorized staff accessing cash office, financial records and financial systems leading to fraud and public resources wastage. Chacha (2013) indicates that the creation of internal financial controls ensures there is an audit trail for financial transactions hence creating an element of accountability in public funds usage. In this context, it is important for financial transactions to also have supporting financial records that have been fully authorized and properly maintained. Mawia (2014) notes that it is important to maintain separation of duties in the financial transactions management. This ensures that there is a financial instructions originator as well as an authorizer.

The account payables have an influence on the financial performance of local governments.

Galiński (2015) indicates that the manner in which the devolved or decentralized government procure and utilize debts have an influence on their financial performance. In this context, amongst the accounts payables aspects that have an influence on the financial performance include purpose of the debts and the ability to ensure that current expenditures are offset by current revenues. The short term debts should be utilized for liquidity purposes while long term debts for the purposes of investment opportunities.

Budgeting plays a crucial role in financial performance of county governments or any other organization. According to Onduso (2013), budgeting involves allocating funds to specific tasks. It involves breaking down costs related to particular assignments planned. Koech (2015) defines budgeting as estimation of the units of resources to be used, cost and timing. Amongst the budgeting aspects that have an influence on financial performance are staff training on budget preparation, budget guidelines issued, approval of budget before implementation and the number of officers involved in budget preparation (Onduso, 2013). The governments should prepare their budgets in line with the guidelines issued by the national government capping on expenses towards certain tasks (Government of Kenya., 2015). Involving head of departments and senior accountants in budget preparation was seen to improve the financial performance of organizations (Koech, 2015).

Devolution is conceptualized as the transfer of rights and assets from the center to local governments or communities within the context of national laws that set the limits within which any decentralized management occurs (Nyangau, 2013). Kenya's devolution is based on article 6 (2) of the constitution which describes the government of Kenya to be at two levels which are distinct and interdependent (Kadiri, 2010). These two governments must conduct their functions with mutual relations on the basis of consultations and cooperation. This kind of devolution that combines interdependence and cooperation as opposed to absolute autonomy is referred to as the cooperative system of devolved government (Ratanya, 2010). The cooperative devolved government is based upon three relational principles; the principle of distinctiveness, the principle of interdependence and the principles of oversight. The County government of Nakuru has eleven constituencies. These constituencies are Naivasha Constituency, Nakuru Town West Constituency, Nakuru Town East Constituency, Kuresoi South Constituency, Kuresoi North Constituency, Molo Constituency, Rongai Constituency, Subukia Constituency, Njoro Constituency, Gilgil Constituency, and Bahati Constituency.

II. STATEMENT OF THE PROBLEM

The purpose of government devolution across the world is to enhance service delivery to the citizens through increased access to public officials, and increased public participation in decision making (Galiński, 2015). In order to provide the services, the devolved government units such as the county governments generate their own funds through taxation as well as receiving grants from the national government. The public funds should be utilized in a prudent manner and therefore financial performance is of critical importance to the citizens to ensure that there is value for money, accountability and service delivery in public expenditure (Brîndușa, 2013). The County governments continue to face challenges around the world. In the County Government of Nakuru, the auditor general continue to document diverse financial performance challenges. In the audit for the financial year ended 30th of June, 2016 the auditor general noted that there was unexplained variance of Ksh 33,694,220 in respect to the parking fees collected between the statement of receipts and payments, and vehicle parking records (Auditor General., 2017). The audit reports noted revenue collection inefficiencies in the county government through lack of mechanisms to determine the flower

firms gross turnovers for the purposes of calculating flower cess charges (Auditor General, 2017). Equally the county government lacked an updated register of traders in Nakuru and therefore potential sources of single business fees. The auditor general therefore noted that the county government of Nakuru couldn't determine the amount that was due to it in respect to single licence business permits (Auditor General, 2017). The auditor general report further noted a variance of Ksh 337, 569, 375.51 in respect to the statement of receipts and payments, and the actual payroll schedules (Auditor General, 2017). This study sought to examine the manner in which internal auditing, internal controls, budgeting and accounts payables management influence financial performance of county government of Nakuru.

III.RESEARCH OBJECTIVES

- (i) To examine the influence of internal auditing on the financial performance of County Government of Nakuru.
- (ii) To determine the effect of internal controls on the financial performance of County Government of Nakuru.
- (iii) To establish the influence of budgeting on the financial performance of County Government of Nakuru.
- (iv) To investigate the effect of account payables management on the financial performance of County Government of Nakuru.

IV.RESEARCH HYPOTHESES

The following research hypotheses were utilized for the study;

- (i) **H₀₁**: There is no statistically significant influence of internal auditing on financial performance of County Government of Nakuru
- (ii) **H₀₂**: There is no statistically significant influence of internal controls on financial performance of County Government of Nakuru
- (iii) **H₀₃**: There is no statistically significant influence of budgeting on financial performance of County Government of Nakuru
- (iv) **H₀₄**: There is no statistically significant influence of account payables management on financial performance of County Government of Nakuru

V.LITERATURE REVIEW

Internal Auditing and Financial Performance

The role of internal auditing on financial performance has been examined by diverse scholars across the world. In Tanzania, Masui (2013) undertook a study on the role of internal audit and financial performance of local governments with a focus on Morogoro municipal council. The study utilized target population composed of municipal council staff and staff from National Audit Office in Tanzania. A sample size of 43 respondents were utilized and both qualitative and quantitative data extracted using interviews, questionnaires, and secondary document reviews. The study used content analysis and descriptive statistics in data analysis. Masui, (2013) study results revealed that there is requirement for quarterly audits of the expenditures. The study noted that internal audits undertaken at the councils had highlighted challenges of improperly vouched expenditures. These improperly vouched expenditures were attributed to irregularities in approval process, documentation and audit paper trails documentation aspects. The study also noted that another major area that was consistently highlighted by the audits was the over expenditure in some areas over and above the budgeted funds in the Medium Term Expenditure Framework.

In examination of the role of internal auditing of financial performance, Chacha, (2013)

undertook a study in Tanzania focusing on local government authorities and in particular Nachingwea District Council. The study was based on a descriptive research design and a sample size of a 100 respondents composed of Nachingwea District Council. The study utilized a mixed methodology in which data was collected using structured questionnaires and interviews. Chacha (2013) employed purposive sampling in his study. The study results revealed that in terms of internal audits, 78% of the respondents indicated that the finance committee received and discussed audit reports. In respect to the number of times that the district council had received adverse or qualified audit report from 2004 to 2012 period, 15% of the respondents indicated less than 4 times, and 17% indicated more than four times. The study by Chacha, (2013) further revealed that 80% of the respondents indicated that they received repeated audit queries compared to 20% who indicated that there were no repeated audit queries. Amongst the areas with repeated audit queries included improperly invoiced vouchers.

Internal Controls and Financial Performance

Masui (2013) in a study based on Morogoro municipal council in Tanzania examined the internal control aspects on financial performance on the council amongst other aspects. The study results revealed that some of the weaknesses in internal controls at the Morogoro municipal council included unauthorized entry into cash offices amongst other sensitive areas. Other notable internal controls challenges that were noted included unauthorized access to payment vouchers, unauthorized movements files with financial information and skipping of payment procedures. (Masui, 2013) further noted that the ability of finance staff to go on leave is a critical component of internal controls. At Morogoro municipal council, the author noted that understaffing led to some staff working without leave creating a conducive environment for unethical financial practices not to be detected.

In a study based in Tanzania, Chacha (2013) sought to examine the diverse internal controls mechanisms within local governments with a focus on Nachingwea District Council. Using frequency distributions, the study found that 59%, 5%, 29%, and 7% of the respondents indicated that the internal financial control systems at Nachingwea District Council were weak, very weak, strong, and very strong respectively. In response to whether all the expenditures were authorized by the designated officials, 93% of the respondents agreed while 5% of the respondents indicated in the negative. In respect to whether all the expenditure were properly analyzed and vouched for, 39% of the respondents were in agreement compared to 54% of the respondents who disagreed. The researcher further observed that supporting documents for expenditure totaling 65, 735, 477 Tanzanian shillings for the period 2007-2012 were inadequate. Chacha (2013) study further revealed that there were supporting documentations for expenditures that were completely missing. For example, the study noted that upto Tsh 1,080,519,810 and Tsh.1, 509,529,810 for the 2010/2011 and 2011/2012 financial years were completely missing. This was found to be centrally to the Local Government Financial Management Act of 2009 that required such documentation to be preserved for a period of 7 years.

Using a case study research methodology, Arikpo (2010) examined the control systems in the financial management aspects within local governments in Cross River state in Nigeria. The study adopted a qualitative research methodology with data collected through use of document review, and oral interviews with the finance staff from the local governments. The cross rive state in Nigeria has a total of 18 local governments in the state. Using content analysis, the study by Arikpo (2010) found that some of the internal controls challenges

within the local governments in Cross river state included unauthorized contract payments variation, payment of mobilization fees for jobs not executed, failure to account for collected revenues, and failure to raise audit alarm when issues arise. The study identified the control breakdowns as lack of clear definition of finance staff functions, and inadequate documentation of financial transactions.

Budgeting and Financial Performance

The role of budgeting on performance has been examined by diverse scholars. Obwaya, (2011) examined the role of participatory budgeting on the performance of city council of Nairobi. A descriptive research design was utilized in the study and a sample size of 44 respondents made of the city council of Nairobi employees used for the study. The study found a positive and significant relationship between budget participation and organizational performance.

Anohene (2011) investigated the role of budgeting on the financial management processes of the local governments in Ghana. The study utilized purposive sampling to derive a sample of fifty respondents made of budget committees within local governments in Kumasi area of Ghana. Data was collected using structured questionnaire. The study found that a majority of 90% of the respondents indicated that there were budgetary control in the local governments. In respect to the role of budget variance on the financial performance of the local government, a percentage of 92% indicated that budget variance had influence on the financial performance of local governments. The study further indicated that the budgeted revenues were less than the actual achieved budgets on the ground. This variance between budgeted and achieved budgets has an influence on the financial performance of local governments.

In Indonesia, Oktavia (2017) analysed the role of performance based budgeting on the financial performance of local governments in the country. The study used secondary data from financial statements and documents for the purposes of data collection. The study indicated that the introduction of performance based budgeting has an influence of the financial performance of the local governments.

In Nigeria, Ugoh and Ukpere (2009) analysed the role of budgeting and its implementation within the local governments in the country. The study collected data from secondary sources to examine the challenges of budgeting within local governments. The study found that amongst the challenges of budgeting that are likely to have an influence on the financial performance aspects include corruption and mismanagement, challenges of absence of skilled manpower, challenges of revenue collection and interference from the central governments.

Account Payables Management and Financial Performance

Galiński (2015) indicates that account payables is a critical determinant of financial performance of devolved government units. In a study examining local government debt management in Poland, Galiński (2015) indicates that diverse management practices are utilized in management of accounts payable to ensure they are of financial benefits to the local government. Amongst the account payables management aspects that the study identified included the use of debts only for investment oriented uses only. This is with a view of ensuring that such account payables impact positively on the financial performance of the local government. (Galiński, 2015) also identified the reduction of fiscal deficits through ensuring that current expenditures don't exceed current revenues as a prudent

account payables management. Other practices that the study identified included the use of long term debts for investment purposes and short term debts for liquidity purposes. Galiński, (2015) study which was a meta-data analysis further revealed that local government regulations in Poland set a limit to which the local governments could be indebted. In this context, the local government act regulations set the short term loans not to exceed 5% of planned expenditures in a given budget year.

In further examination on the role of account payables management on financial performance of devolved government units, Huang (2016) undertook a study in China to examine the local government debts. The study was done under the context of the increasing local government debts in China. In this context, Huang (2016) noted that the local government debt stood at 1.65 trillion United States Dollars (USD) in 2010, 2.45 trillion USD and 2.75 trillion USD in 2012 and 2013 respectively. The study was metadata analysis of available literature in China in relation to the local government debt. It examined the account payables management in terms of purpose of borrowing, debt maturity, amount to borrow projects, revenue generation, and efficiency in government borrowings.

Huang (2016) metadata analysis on local government account payables management revealed diverse payables management aspects in China. The study revealed that over 50% of local government debts were utilized in construction projects. The study also identified the debt maturity mismatch due to lengthy payment period as a challenge of debt management in local governments in China. In this context, the study noted that most local governments were using new debts to pay off old ones and at least three local governments defaulted on their payments in 2012.

VI. RESEARCH METHODOLOGY

This study used explanatory research design that seeks to explain the relationships between variables (Gall, Gall, & Borg, 2007). The target population of this study was 128 employees involved in financial management practices from the County Government of Nakuru. Specifically the study targeted those who perform the following financial management practices; 26 employees involved in auditing, 24 employees involved in internal controls, 32 employees involved in budgeting aspects and 46 employees involved in account receivables (County Government of Nakuru, 2018). The sampling of this study was calculated using Yaro Yamane formula as presented below;

$$n = \frac{N}{1 + N(e)^2}$$

Whereby;

n= desired sample size,

N=Target population

e= margin of error, given as 0.05 for 95% confidence interval.

$$n = \frac{128}{1 + 128(0.05)^2} = 97$$

The stratified random sampling method was utilized in order to enhance the representativeness of the sample. The stratified sampling indicates that within the auditing, internal controls, budgeting and account receivables 19, 18, 24 and 36 respondents formed the sample, respectively.

VII. RESEARCH FINDINGS AND DISCUSSIONS

Correlations

The study sought to find out the level of relationship between the study variables. In

establishing this, the study used Pearson Correlation. Table 1 shows the results for the Pearson correlation.

Table 1: Correlations

		Internal Auditing	Internal Controls	Budgeting	Account Payables	Financial Performance
Internal Auditing	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	82				
Internal Controls	Pearson Correlation	0.484**	1			
	Sig. (2-tailed)	0.000				
	N	82	82			
Budgeting	Pearson Correlation	0.432	0.574*	1		
	Sig. (2-tailed)	0.000	0.000			
	N	82	82	82		
Account Payables	Pearson Correlation	0.528	0.692	0.513**	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
	N	82	82	82	82	
Financial Performance	Pearson Correlation	0.769**	0.795**	0.671**	0.759**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	82	82	82	82	82

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

The following Pearson correlation coefficients were obtained; 0.484 for the correlation between internal auditing and internal controls, 0.432 for correlation between internal controls and budgeting, a correlation coefficient of 0.574 for internal controls and budgeting, 0.528 between internal auditing and account payables, 0.692 for internal controls and account payables and a correlation coefficient of 0.513 between budgeting and account payables. In respect to the dependent variable of the study, it was established that the correlation coefficient between financial performance and internal auditing was 0.769, between financial performance and internal controls was 0.795, between financial performance and budgeting was 0.671 and a correlation coefficient of 0.759 between financial performance and account payables.

A correlation coefficient in the range of $|0| < r < |0.400|$ implies that the strength of relationship is weak, a correlation coefficient in the range of $|0.400| \leq r < |0.600|$ implies that the strength of relationship is moderate, a correlation coefficient in the range of $|0.700| \leq r < |1|$ implies that the relationship is strong. A correlation coefficient of 1 implies that there is perfect correlation while a correlation coefficient of 0 implies that there is no relationship between the two measure variables. The sign that accompanies the correlation coefficient indicates the direction of the relationship which can be either negative or positive according to the sign. A positive correlation would imply a directly proportional relationship while a negative correlation would imply an inverse relationship between the two measured variables. The p-values on the other hand shows whether a relationship is significant or insignificant. A p-

value less than 0.05 (significance level) would imply that the relationship is significant it does not occur by chance alone. A p-value greater than 0.05 would imply that the relationship is not significant and it only occurs due to chance alone.

From this study it was therefore established that the independent variables were moderately and significantly related to themselves due to correlation coefficients in the range of $|0.400| \leq r < |0.600|$. The relationship between the independent was significant at 5% significance level ($p < 0.05$). The study further established that financial performance was strongly and significantly ($p < 0.05$) related to internal auditing ($r = 0.769$), internal controls ($r = 0.795$), budgeting ($r = 0.671$), and account payables ($r = 0.759$). This implies that an increase in any of the independent variable would cause an increase in financial performance of County Government of Nakuru. Correlation analysis was the basis for testing the research hypothesis.

The first hypothesis stated that there is no statistically significant relationship between internal auditing and financial performance of County Government of Nakuru. This hypothesis was rejected at 5% significance level due to a p-value less than 0.05 and a correlation coefficient of 0.769 between internal auditing and financial performance of County Government of Nakuru. This implies that there is a statistically significant relationship between internal auditing and financial performance of County Government of Nakuru.

The second research hypothesis stated that there is no statistically significant relationship between internal controls and financial performance of County Government of Nakuru. This hypothesis was rejected at 5% significance level due to a p-value less than 0.05 and a correlation coefficient of 0.795 between internal controls and financial performance of County Government of Nakuru. This implies that there is a statistically significant relationship between internal controls and financial performance of County Government of Nakuru.

The third research hypothesis stated that there is no statistically significant relationship between budgeting and financial performance of County Government of Nakuru. This hypothesis was rejected at 5% significance level due to a p-value less than 0.05 and a correlation coefficient of 0.761 between budgeting and financial performance of County Government of Nakuru. This implies that there is a statistically significant relationship between budgeting and financial performance of County Government of Nakuru.

The last research hypothesis stated that there is no statistically significant relationship between account payables and financial performance of County Government of Nakuru. This hypothesis was rejected at 5% significance level due to a p-value less than 0.05 and a correlation coefficient of 0.759 between account payables and financial performance of County Government of Nakuru. This implies that there is a statistically significant relationship between account payables and financial performance of County Government of Nakuru.

Regression Analysis

Regression shows a cause-effect relationship and is used to predict a variable using observed factors. The study sought to identify whether financial performance of County Government of Nakuru could be predicted using the level of internal auditing, internal controls, budgeting, account payables and financial performance. Table 2 shows this summary of the regression

model.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.875 ^a	0.765	0.753	0.12403

a. Predictors: (Constant), Account Payables, Internal Controls, Internal Auditing, Budgeting

The study obtained an R value of 0.875 which implies that there was a strong relationship between the observed values and predicted values of financial performance of Nakuru County government. The regression model summary shows an adjusted R Square value of 0.753 which implies that 75.3% of the changes in the financial performance of county government of Nakuru is due to changes in account payables, internal controls, internal auditing, budgeting. The regression model had a small predictive error of 0.12403 implying that the regression model provides an accurate prediction. The study further sought to establish whether the regression model is significant in its prediction using ANOVA, with results shown in Table 3.

Table 3: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.861	4	.965	62.740	.000 ^b
	Residual	1.185	77	.015		
	Total	5.045	81			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Account Payables, Internal Controls, Internal Auditing, Budgeting

The study established that the regression model was significant in its prediction due to an F value of $F(4,77)=62.740$ and $P<0.005$. This implies that the regression model provides a better fit for the data. Table 4 shows the individual contribution of the regression model.

Table 4: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.444	0.198		2.242	0.028
	Internal Auditing	0.192	0.038	0.301	5.053	0.000
	Internal Controls	0.211	0.032	0.413	6.594	0.000
	Budgeting	0.253	0.045	0.350	5.622	0.000
	Account Payables	0.220	0.034	0.391	6.471	0.000

a. Dependent Variable: Financial Performance

Beta coefficients of the regression model shows the extent in which each of the predictor variable influenced the predicted variable when other factors are held constant. The study established that a unit increase in internal auditing in the county government of Nakuru would results to an increase of 0.192 units (beta coefficient of 0.192) in financial performance when other factors held constant. The study further indicated that by increasing the internal controls by one units, financial performance of Nakuru County Government would increase by 0.211 units (beta coefficient of 0.211) with other factors held constant. Similarly, an increase in the level of budgeting in the county government of Nakuru by one

unit was established to cause an increase of 0.253 units (beta coefficient) in the financial performance provide other factors are held constant. The account payables was seen to cause an increase of 0.220 (beta coefficient of 0.220) when it is increases by one unit while the rest of the factors are held constant. This significance of the influence was measured using the p-values at the last column in the coefficients table. All the p-values were less than 0.05 implying that the influence of each of the predictor variable on the predicted variable was significance and not by chance.

The hypothesis of the study were examined and tested using the t test as the test statistic. The achieved t test statistic for internal auditing was 5.053 with a p value of 0.000. Since p value was less than the level of significance at 5% (0.05), this indicated that there was a statistically significant influence of internal auditing on financial performance of County Government of Nakuru. The following null hypothesis was thus rejected.

H₀₁: There is no statistically significant influence of internal auditing on financial performance of County Government of Nakuru

The hypothesis of the study were examined and tested using the t test as the test statistic. The achieved t test statistic for internal controls was 6.594 with a p value of 0.000. Since p value was less than the level of significance at 5% (0.05), this indicated that there was a statistically significant influence of internal controls on financial performance of County Government of Nakuru. The following null hypothesis was thus rejected.

H₀₂: There is no statistically significant influence of internal controls on financial performance of County Government of Nakuru

The hypothesis of the study were examined and tested using the t test as the test statistic. The achieved t test statistic for budgeting was 5.622 with a p value of 0.000. Since p value was less than the level of significance at 5% (0.05), this indicated that there was a statistically significant influence of budgeting on financial performance of County Government of Nakuru. The following null hypothesis was thus rejected.

H₀₃: There is no statistically significant influence of budgeting on financial performance of County Government of Nakuru

The hypothesis of the study were examined and tested using the t test as the test statistic. The achieved t test statistic for account payables management was 6.471 with a p value of 0.000. Since p value was less than the level of significance at 5% (0.05), this indicated that there was a statistically significant influence of account payables management on financial performance of County Government of Nakuru. The following null hypothesis was thus rejected.

H₀₄: There is no statistically significant influence of account payables management on financial performance of County Government of Nakuru

VII.CONCLUSION OF THE STUDY

The conclusions of the study is based on the specific research objectives. In respect to the internal auditing aspects the study concluded that receipt and discussion of account audit

reports, documentation and audit paper trails, and frequency of audits of the expenditures were significantly associated with financial performance of County Government of Nakuru.

The role of internal controls on the financial performance had been examined. The concluded that there was significant associations between definition of staff functions and authorization of expenditures by designated officials with financial performance of County Government of Nakuru. A significant association between working environment and financial performance of County Government of Nakuru was also found.

The role of budgeting on the financial performance was examined. The study established that a significant association exists between performance based budgeting and financial performance of County Government of Nakuru. Finally, corruption loopholes in the budgets were found to be associated with financial performance of County Government of Nakuru and the association was significant.

The study examined the influence of account payables on the financial performance. The study further established that a significant association exists between debt limit and financial performance of County Government of Nakuru and between definition of purpose of borrowing and financial performance of County Government of Nakuru. Significant associations were found to exist between authorization of borrowings and financial performance of County Government of Nakuru, budgeting on the amount to be borrowed and financial performance of County Government of Nakuru, and maturity of loans before generation of revenue to offset debts and financial performance of County Government of Nakuru.

VIII.RECOMMENDATIONS OF THE STUDY

The study made several recommendations based on the conclusion of the study. In respect to the internal auditing, the study recommended that receipt and discussion of account audit reports, documentation and audit paper trails, and frequency of audits of the expenditures should be emphasized upon in the county government.

The role of internal controls on the financial performance had been examined. The study concluded that definition of staff functions and authorization of expenditures by designated officials with financial performance of County Government of Nakuru should be emphasized on at the county government. The role of budgeting on the financial performance was examined. The study recommends that performance based budgeting should be emphasized at the county government of Nakuru to improve on financial performance. The study examined the influence of account payables on the financial performance. The study recommended authorization of borrowings and financial performance of County Government of Nakuru, budgeting on the amount to be borrowed should be emphasized in order to improve on financial performance.

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