

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

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**A Research Project Report Submitted to the School of Business and Economics
in Partial Fulfilment of the Requirements for the Award of the Degree of Master
of Business Administration (Finance Option) of Kabarak University**

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DECLARATION

Declaration

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

Signature

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RECOMMEDATION

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DEDICATION

I dedicate this research work to my daughter Gift Jeptoo and my brother Denis Tanui as an expression of my love to them.

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. This study was guided by the following specific objectives; 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. In this study explanatory research design was utilized. Specifically 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. This study used content validity to find out whether or not the proposed research tools were valid. This study used Cronbach's Alpha coefficient to test the reliability of the research questionnaires. Both descriptive and inferential statistics were done. Chi Square test for independence, correlations, and multiple linear regression analysis were used. 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*

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LIST OF ABBREVIATIONS

NACOSTI: National Commission for Science, Technology and Innovation

RBV: Resource Based Theory

SPSS: Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Financial performance within decentralized government structure is a critical component of ensuring service delivery to the tax payer (Wu, 2014). Diverse measures have been utilized by scholars to measure financial performance of decentralized governments given that the core mandates of these governments unlike commercial entities is not profit making. Some of these measures include self or internal generation of revenues, budgeting, financial surplus after operational costs, and financial self-sustaining capacity.

The adherence to the public finance regulation laws is another critical indicator of financial performance of decentralized governments (Kitojo, 2014). For example in Kenya, the financial management regulations for the county governments are spelt through Public Finance Management County Government Regulations of 2015 (Government of Kenya., 2015). Amongst the regulations that have been set include a limitation of the county wage bill to a limit of 35% of its total revenues and county debts limited to a maximum of 20% of its revenues (Government of Kenya., 2015). Other measures utilized in measurement of financial performance of decentralized government units include prudent utilization of government resources for developmental projects, reliability of financial reports, liquidity of the decentralized government, and settling of arising operational costs in timely manner (Nabe, 2016). Finally, other activities include budget activities, cash availability to undertake day to day operations of governments, and financial transactions compliance to laws and regulations, and allocation of funds to developmental and recurrent expenditure (Njahi, 2014).

The financial performance of decentralized governments such as county governments are influenced by the financial management practices. According to Paskalia (2017) financial management practices involves the process of managing financial resources that includes planning aspects, budgeting, controls and monitoring, amongst others. On the other hand, Wafukho (2014) notes that financial management practices includes organizing, planning, directing and controlling of financial activities. The financial management practices that were examined in this study included budgeting, internal auditing, internal controls and account payables. Budgeting refers to the planning of how the available funds will be utilized and the

purpose of such funds. The internal auditing process is an independent, and objective activities designed to examine that the financial process are undertaken as per laid down procedures and there is value for money in diverse financial practices. On the other hand, the internal controls is a set of activities put in place to ensure that financial processes are undertaken as per requirement. Finally, the account payables refers to the money that is owed to diverse suppliers by the county government and how the payment of such funds are undertaken.

1.1.1 Global Perspectives of Effect of Financial Management Practices on Financial Performance

The devolved governments such as local governments and county governments have had diverse financial performance challenges across the world. In the United Kingdom, there were diverse noted challenges of financial performance within the local councils in that country. According to Martin (2014), the Crowley council spent 5,070 British Pounds (approximately Ksh. 668,119) to pay for about 12,200 hot drinks for its employees from vending machines while equivalent of tea bags would only have cost 200 British pounds (Approximately Ksh. 26,355). Martin (2014) further noted that above 40,000 British pounds (approximately Ksh. 5,271,156) were used to honour a councillor which was perceived to be a huge public funds wastage.

Other noted areas of council wastage included Isle of Wight Council spent 240,000 British Pounds (approximately Ksh. 31,626,937) on “space planning consultants” for an office transformation programme, while Norwich Council spent 25,000 British Pounds (approximately Ksh. 3,294,472) on a gypsy and traveller course. In Australia, Victorian Auditor General., (2014) documented challenges of financial performance at the Hume City council. Amongst the challenges noted on the financial performance for the Hume city council for the 2013 financial year was the challenge of the council generating sufficient revenues to cover its operating costs. In new Zealand, the Auditor General., (2016) noted the challenges of increasing operational costs compared to the generated funds.

In Uganda, the Government of Uganda: Office of the Auditor General (2015) documented diverse financial performance challenges in the country. The auditor general noted that there were diverse financial performance challenges noted in the local government councils in

Uganda. The major challenges were the procurement challenges that included procurement of goods worth 11,493,666,328 Uganda Shillings (approximately Ksh. 312,068,607) without following the necessary procurement laws. This amount included those which lacked procurement files, those with procurement procedures breach and challenges with procurement contracts.

1.1.2 Local Perspective of Influence of Financial Management Practices on Financial Performance

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 Ntezirayayo, (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 been seen to improve the financial performance of organizations (Koech, 2015).

1.1.3 County Government of Nakuru

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.

1.2 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.

1.3 Purpose of the Study

The purpose of this study was to examine the effect of financial management practices on the financial performance of County Government of Nakuru, Kenya.

1.4 Objectives of the Study

This study was guided by the following specific objectives;

- i. To determine 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.

1.5 Research Hypotheses

This study was guided by the following research hypotheses;

- 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

1.6 Significance of the Study

This proposed study is of great value in highlighting importance of financial management practices in boosting financial performance of county governments. The study helps county governments in managing their funds through proper internal auditing process. This study established the relationship between internal controls and financial performance that helps county governments to address internal control measures aimed at defining the roles of staff working in finance related field in the county governments and also ensure there is authorization for any financial transaction by the county government. From the findings of this study, the county government is able to prepare budgets in the most efficient manner and involving relevant staff for positive influence on financial performance. The county governments are also able to monitor their borrowing to make sure that current expenditures do not exceed current revenues which might boost the financial performance of the counties.

The study findings add to the limited literature on financial management practices on which future researcher on this subject area can base their studies.

1.7 Scope of the Study

The content scope of this study was four financial management practices, namely; internal auditing, internal controls, budgeting and account payables management. The geographical scope of this study was Nakuru County. The population scope of this study was 128 employees who were involved in financial management in the County Government of Nakuru. This study was carried out for a period of six months from March 2019 to August 2019 for it was the period assigned by the university to carry out a research work.

1.8 Limitations of the Study

This study expected to meet some challenges in data collection but suggested possible ways to overcome the expected limitations. Since this study was concerned with sensitive information on financial aspects of the County Government of Nakuru, the respondents were expected to be hesitant in providing the required data for the study. To overcome this possible limitation, the researcher served the respondents with introduction letter from Kabarak University that introduced the student and clearly outlined the purpose of the study. The researcher endeavoured to assure the respondents that the data obtained would be treated as confidential and used for academic purposes only. The sampled county government officials for this study were busy delivering on their duties to some extent could have limited the data collection exercise. To overcome this challenge the researcher sought an appointment for data collection in advance and also allowed a period of two weeks for the respondents to fill in the questionnaires. This also helped in attaining a high response rate of 84.5%.

There are several practices used by organizations for financial management but this study was delimited to only four financial management practices, namely; internal auditing, internal controls, budgeting and account payables management. However, the four selected financial management practices are the commonly used practices by county governments and therefore the study is significant and relevant. This study was delimited to only Nakuru County Government and therefore the study findings are only generalized to county governments with almost similar characteristics with Nakuru County government.

1.9 Definition of Operational Terms

- Account payables:** Refers to the manner in which the county governments procure and utilize debts. The purpose of the debts and the ability to ensure that current expenditures are offset by current revenues are key aspects of account payables (Adam, Quansah, & Kawor, 2017).
- Budgeting:** Budgeting refers to the planning of how the available funds will be utilized and the purpose of such funds. Budgeting involves allocating funds to specific tasks and breaking down costs related to particular assignments planned (Koech, 2015).
- Financial Management:** The process of managing financial resources (Wu, 2014).
- Financial Management Practices:** The practices that are used in the management of financial resources (Paskalia, 2017).
- Financial Performance:** The financial performance within the context of the county government implies the utilization of financial resources in a prudent manner and in adherence to the public finance regulations (Njoroge, 2018).
- Internal Auditing:** Refers to an independent, objective assurance and consulting activity designed to add value and improve a county government's operations. It is a systematic and structured examination of risk aspects in financial and operational aspects of a county government with an objective of improving the internal controls and governance process (Adam, Quansah, & Kawor, 2017).
- Internal Controls:** Refers 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 (Masui, 2013).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature reviewed in this study. The chapter covers the theoretical review, empirical review, knowledge gap and conceptual framework.

2.2 General Overview of Literature

This section reviews relevant literature from past studies on effect of financial management practices on the financial performance.

2.3 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 heightened 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.

2.4 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 river 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.

2.5 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.

2.6 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.

2.7. Theoretical Framework

The study is based on the agency theory and resource based theory.

2.7.1 Agency theory

Agency theory was developed by Jensen and Meckling in the year 1976. The agency theory also referred to as the principal agent theory indicates the relationship between delegated functions in an organization and the need for putting up measures to ensure that the delegated functions are undertaken correctly. The agency theory recognizes the presence of the principal and agent (Njoroge, 2018). The principal is the owner of a business or a particular business who delegates some of these functions to the agent who is an employee in an organization such as the management. The principal-agent relationship also manifests itself in diverse contexts where there is a supervisor-supervisee relationship within the organization(Sanghani, 2014).

The delegation of functions is undertaken due to the aspects of lack of time and skills and as well as logistical challenges in the principal undertaking all the functions. In this

arrangement, the agent is meant to undertake the delegated functions in the manner that it serves the interests of the principal (Adam et al., 2017). However, sometimes the agent may serve their own interests through corruption, poor quality work, and waste of resources with a view of benefitting from such activities. This may happen through diversion of financial resources, materials and time aspects amongst others. The agent is able to undertake this diversions due to agency theory challenges of moral hazard and information asymmetry.

The moral hazard challenges refers to the motivation of the agent to defraud the principal (Ahmed, 2016). On the other hand, the information asymmetry refers to the differences in information held between the principal and agent. The agent by the virtue of their specialization, expertise and contact with the business may accumulate huge amount of information that may be used for the disadvantage of the principal (Rehn, 2012). To counter these challenges, the principal may deploy systems such as internal controls and thereafter internal audit in order to prevent the agency challenges from occurring.

The agency theory is applicable to this study due to two of the four variables that relate to agency challenges that is internal controls and internal audits. The taxpayer makes taxes to the government and therefore acts as the principals. The county government is meant to utilize the funds to the benefits of the principals through service provision. However due to agency challenges, the agents may use the money for their own gains (such as through corrupt activities) thus relating to poor financial performance for the county. To prevent these challenges then the internal controls and audits may be deployed.

According to Ariga & Gathogo (2016) internal controls ensure that organizations such as county governments achieve their mandates in an efficient, credible, and transparent manner in respect to their financial operational aspects. 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. On the other hand, the audit functions are used to ensure that the financial operations of the county are undertaken in a transparent and accountable manner. Masui (2013) notes 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).

2.7.2 Resource Based Theory

Resource Based Theory (RBV) was developed Barney in the year 1991 to explain how the management teams of firms use its resources to gain competitive advantage against its competitors. The theory states that different firms have different resource endowment. The theory argues that due to the difference in resource endowment, each firm adopts different strategies to result into competitive advantage. This implies that the firms that have more resources, they undertake management strategies that result better performance compared to its competitive and vice versa.

In the context of devolved government units, county governments are differently endowed with resources and therefore each county government takes management strategies depending on the resources they have. They would result into different financial performance. Counties that have are well endowed with resources would undertake different financial management practices resulting to higher financial performance. More specifically, if the county government have well defined internal auditing unit with qualified personnel and adequate financial resources to support internal auditing activities, the county government will have improved internal auditing translating to improved financial performance (Masui, 2013).

Again, county governments with adequate resources in terms of human resources as well as financial resources, they are able to put in place internal controls to monitor all financial transactions in the county governments (Chacha, 2013). If a county government have adequate number of qualified revenue collection staff, the county government will be able to collect revenue in the most efficient manner (Brîndușa, 2013). The available financial resources of county government determine how well the county government manages its account payables (Huang, 2016).

However, there is critique to the Resource Based Theory (RBV) in that; different resources endowment may not necessarily result to competitive advantage. In this regard, a firm may have higher resource endowment but upon undertaking managerial strategies, the firm achieve lower performance than expected. However, in exploring the strategic management

practices and its challenges at the county government of Nandi, Kurgat (2015) used the Resource Based Theory (RBV). Again, Yussuf (2016) in assessing strategy implementation in county government of Mandera asserted that Resource Based Theory can be applied in county governments in examining the effect of management practices to the financial performance. Therefore, the Resource Based Theory (RBV) was relevant in explaining the effect of internal auditing, internal controls, budgeting and account payables management on the financial performance of County Government of Nakuru.

2.8 Conceptual Framework

This study examined the effect of internal auditing, internal controls, budgeting and account payables management (independent variables) on the financial performance (dependent variable) of County Government of Nakuru. It was hypothesized that internal auditing aspects such as verification of entries, budget adherence and documentation improves the financial performance of county government (Masui, 2013). It is also conceptualized that internal controls such as restriction of entry into cash offices, control of staff functions and authorization of expenditures may influence the level of financial performance of County governments (Chacha, 2013). How the account payables are managed is conceptualized to affect county government financial performance (Huang, 2016). The financial performance of the county government was measured in terms of financial surplus/deficit, financial self-sustaining capacity, utilization of county resources, adherence to the public finance regulation laws and reliability of county financial reports. The hypothesized association of the study variables is as shown in Figure 2.1.

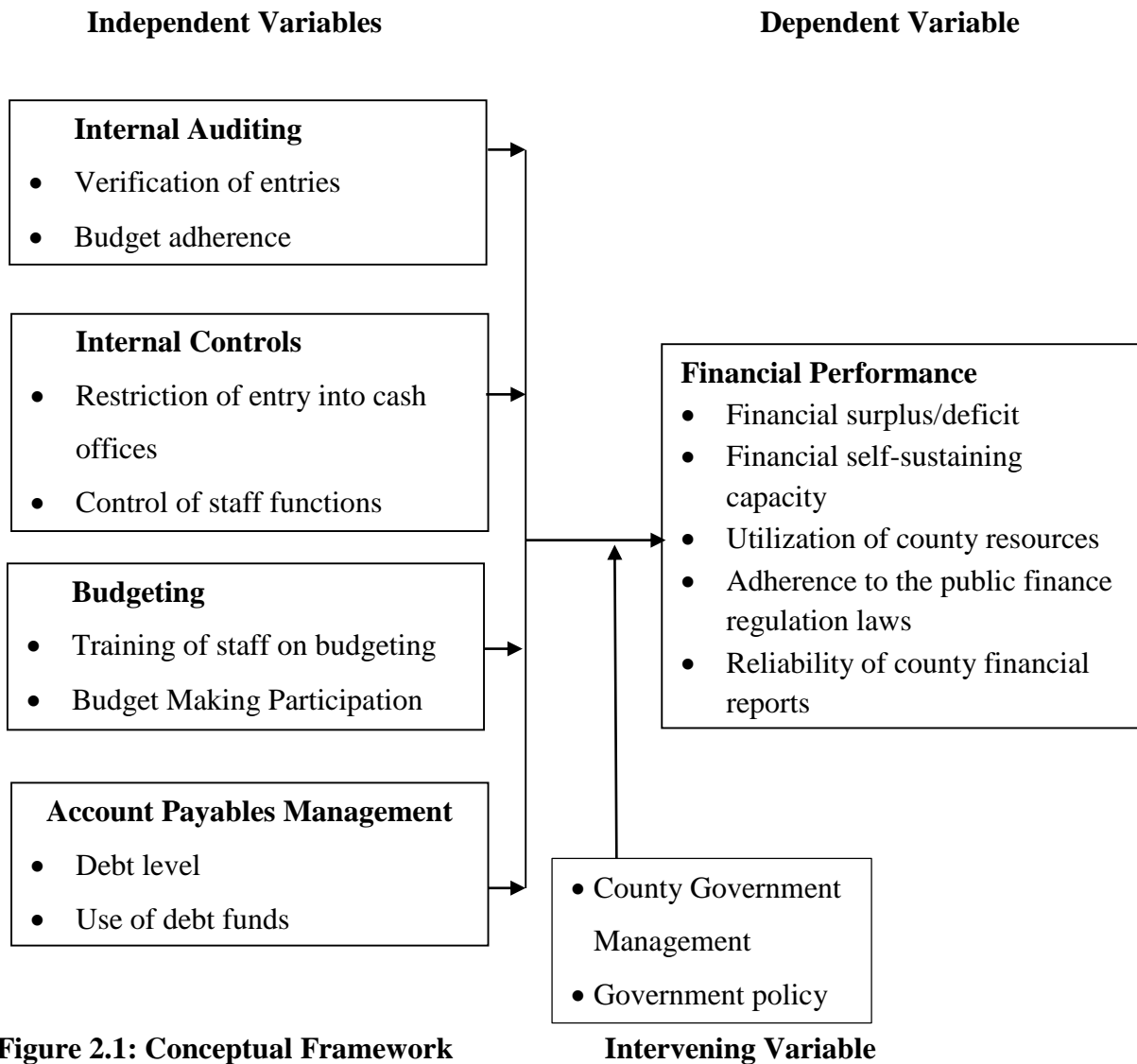


Figure 2.1: Conceptual Framework

Source: Researcher (2019)

2.9 Research Gap

Focusing on the role of internal auditing on financial performance Masui (2013) undertook a study on the role of internal audit and financial performance of local governments in Tanzania. This study by Masui (2013) presents a research gap in that it utilized a sample small size of 43 respondents while the current study used a sample size of 97 respondents to get deeper understanding of the concept under investigation. Chacha, (2013) also undertook a study in Tanzania focusing on local government authorities. The study used purposive sampling which might have biased the study findings. This study endeavored to fill this research gap by using census sampling which is unbiased method of sampling. These studies (Chacha, 2013; Masui, 2013) were done in Tanzania while this current study was done in Kenya. The studies descriptive statistics which presents a methodological gap whereby this

study filled the gap by linking internal auditing with financial performance using inferential statistics.

In line with internal control aspects and financial performance, Masui (2013) and Chacha (2013) sought to examine the diverse internal controls mechanisms within local governments in Tanzania. The researchers focused only on descriptive statistics which presents a methodological research gap that this study intends to fill by use of inferential statistics to link internal control aspects and financial performance. Arikpo (2010) examined the control systems in the financial management aspects within local governments in Nigeria. The study utilized qualitative data while this current study used quantitative data to show the extent of influence of internal control aspects and financial performance.

In regard to account payables and financial performance, Galiński (2015) examine the local government debt management in Poland using meta-data analysis. The current study is different in that it used descriptive research design informed from primary data obtained from the County Government of Nakuru. Another study by Huang (2016) in China focused on local government debts differs with this current study in concept. This study focused on various aspects of account payables not only County Government debts. The above studies were all done outside Kenya and therefore there is need to focus on Kenyan Context and in particular in the County government of Nakuru.

In regard to budgeting, Obwaya, (2011) examined the role of participatory budgeting on the performance of city council of Nairobi. The study was carried out in Nairobi City Council while the current study was carried out in the county government of Nakuru and therefore a contextual research gap. Anohene (2011) examined the role of budgeting on the financial management processes of the local governments in Ghana. The study focused on local governments in Ghana while the current study focused on devolved government units in Kenya and therefore a contextual gap. Methodologically, the study only used descriptive statistics and therefore failed to statistically establish the relationship between budgeting and financial performance, a gap that was filled in the current study by use of regression analysis.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

Chapter three gives the methods that are used in carrying out this study. This chapter contains the followings sections; research design, target population, sampling and sampling technique, data collection instruments, validity and reliability of the research instruments, pilot test, data analysis techniques and presentations and concludes with ethical considerations section.

3.2 Research Design

Research design refers to the overall strategy that is used to integrate several components in a research in a logical manner so as to realize the objectives set out in a research (Sekaran & Bougie, 2011). It is the methodological framework that describes the methods of data collection, analysis and presentation of findings (Mugenda, 2003). This study used explanatory research design that seeks to explain the relationships between variables (Gall, Gall, & Borg, 2007).

3.3 Population of the Study

Kombo and Tromp (2009) defines a population a set of individuals from which a researcher intends to select a sample from and whose study findings apply to. Target population is a group of people that possess those characteristics that a study is interested in and within the scope of the study (Ondiek, 2008). 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). Table 3.1 shows the distribution of the study population.

Table 3.1: Target Population

Employees' Role	Population	Percentage
Auditing	26	20.3%
Internal Controls	24	18.7%
Budgeting	32	25.0%
Account Receivables	46	36.0%
Total	128	100%

Source: (County Government of Nakuru, 2018).

3.4 Sampling Procedure and Sample Size

Sampling refers to the process of selecting individuals or objects from a population to be studied as a representative of the target population. It is the act of picking part of the population in a defined manner in order to represent the entire population (Saunders, Lewis, & Thornhill, 2009; Sekaran, 2003). Sampling helps researcher to carry out a study with a manageable number of respondents, reduce cost and scope of study without affecting the findings of the study. 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.

Table 3.2: Target Population

Employees' Role	Percentage	Sample Size
Auditing	20.3%	19
Internal Controls	18.7%	18
Budgeting	25.0%	24
Account Receivables	36.0%	36
Total	100%	97

3.5 Instrumentation

Data collection instruments may be defined as the tools used to gather data for the study which may include questionnaires, observation checklist, interviews, focus group discussion among others (Cohen, Manion, & Morrison, 2007). This study utilized structured questionnaires to obtain data for the study. Structured questionnaire is a research tool that

contains a multiple choice questions where the respondent is required to select a response from the provided alternatives. Structured questionnaire help keep respondents on track which results to relevant data for the study. Structured questionnaires take a short time to fill since possible answers to the questions are provided (Sekaran & Bougie, 2011). It is out of these advantages that this study chose the research instrument.

The questionnaire was divided into six parts. The first part contained questions regarding to background information of the respondents. Aspects like gender, age and work experience fell under this part. Part two to part six contained questions regarding to the study variables whereby the statements were based on the literature reviewed in this study. For instance, part two contained statements that best described the role of internal auditing on the financial performance. Part three focused on internal controls; part four contained statements on budgeting; part five measured aspects of account payables management; while the last part focused on financial performance of the County Government of Nakuru. The statements in part two to part six were measured based on five point Likert scale running from 1=No extent, 2=little extent, 3=Moderate extent 4=great extent and 5=very great extent. The more the value, the more the extent of the measured variable.

3.5.1 Pilot Test

Pilot study refers to a study carried out prior to actual study for various reasons that includes testing the validity and reliability of research tools. A pilot study is carried out among respondents who are not included in the sample of the actual study to avoid data contamination (Mugenda, 2003). In this study a pilot study was done to ascertain whether or not the structured questionnaires were valid and reliable. The pilot study was carried out in County Government of Kericho and involved 20 employees who were concerned with internal auditing, internal controls, budgeting and account payables management roles. The pilot study used 20 respondents since Mugenda (2003) recommends a 30% of a sample size to be used in a pilot study. This county government was used because it bears almost similar characteristics to County Government of Nakuru for they neighbour each other and have close partnership in running activities of the County. The two counties bench mark from each other and therefore the pilot study helped in making necessary adjustment to before the actual study.

3.5.2 Validity the Instrument

Validity refers to closeness of a measuring to into reflecting what the researcher intends to measure. It may be viewed as the meaningfulness or accuracy of a research instruments in measuring what the study claims to measure (Kothari, 2004). This study used content validity to find out whether or not the proposed research tools were valid by using five subject matter experts. The experts comprised of the research supervisor and four senior staff involved in either auditing, internal controls, budgeting and account payables. The experts were required to rate the relevance of the research questionnaires using the following ordinal scale; 1= Not relevant, 2=somehow relevant, 3=quite relevant and 4=Highly relevant. In analysing this, the researcher used both the Scale Level Content Validity Index (S-CVI) and Item Level Content Validity Index (I-CVI). Item Level Content Validity Index is calculated on each item while scale level content validity is calculated as an average of individuals I-CVIs. Keller (2014) recommends Item Level Content Validity Index of at least 0.8.

3.5.3 Reliability of the Instrument

On the other hand, reliability refers to the capacity of a measuring to give consistent results over a repeated trials or each time is used (Orodho & Kombo, 2002). This study used Cronbach's Alpha coefficient to test the reliability of the research questionnaires. Cronbach's Alpha is a test of internal consistency of items. Saunder *et al.*, (2009) recommend a Cronbach's alpha of at least 0.7 for a measuring tool to be reliable.

3.6 Data Collection Procedures

The data collection procedures involved the collection of the data collection instrumentation from the university, NACOSTI permit for data collection, and the county government of Nakuru authorization. These research permits enabled the researcher to collect data in an ethical way. The data was collected through a drop off and pick up later method of data collection.

3.7 Data Analysis

After data had been collected from the field, the researcher coded and entered it into SPSS for analysis. Frequencies were used for descriptive statistics. Descriptive statistics describes the basic characteristics of data in terms of its distribution. Frequencies were used to show the number of times a given response was cited. To complement the descriptive statistics this study used inferential statistics. Inferential statistics were used to show the relationship between independent variable and dependent variable of the study. In this respect, the Chi Square test for independence, correlation analysis, and multiple regression analysis were

used. Multiple regression analysis shows the influence of each independent variable on dependent variable (Saunders et al., 2009). In this study the following regression model was used;

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

Where; Y = Financial performance

$\beta_0, \beta_1, \beta_2, \beta_3$ = Model Coefficients

X_1 = Internal Auditing

X_2 = Internal Controls

X_3 = Budgeting

X_4 = Account Payables Management

ε = Estimate of Error

3.8 Ethical Considerations

The research aimed to adhere to all ethical standards of research. In so doing, the researcher obtained a letter of informed consent that introduced the researcher to the respondents. The researcher also sought permission to collect data from County Government of Nakuru from the National Commission for Science, Technology and Innovation (NACOSTI). The researcher concealed the identity of respondents throughout this research work. Respondents were assured that the data they provided for this study would be kept confidential. Participation in this study was voluntary and respondents were allowed not to take part in it without any victimization.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter covers the presentation, analysis, and interpretation of data collected on the effect of financial management practices on the financial performance of County Government of Nakuru, Kenya. Descriptive and inferential statistics were used.

4.2 Response Rate

The response rate is the percentage of people who respond to your survey. The response rate for the study was 84.5% since the distributed questionnaires were 97 (n=97) and the complete questionnaires were 82. This response rate was acceptable as the recommended minimum of 80.0% was attained (Sekaran & Bougie, 2011). The researcher managed to collect 89 questionnaires from the field as 8 questionnaires were not returned. This was despite the researcher having made prior arrangements with the respondents on their preferred date for questionnaire collection. The researcher checked for completeness of the questionnaires to ensure that there was no missing information which would ease the data analysis process. This led to the rejection of 7 questionnaires thus left the study with 82 completely filled questionnaires.

4.3 Background Information

The background information of respondents was derived from their gender, age and years of experience in financial management practices in County Government of Nakuru.

4.3.1 Gender of Respondents

The respondents indicated the answer that best represented their gender and results shown in Figure 4.1.

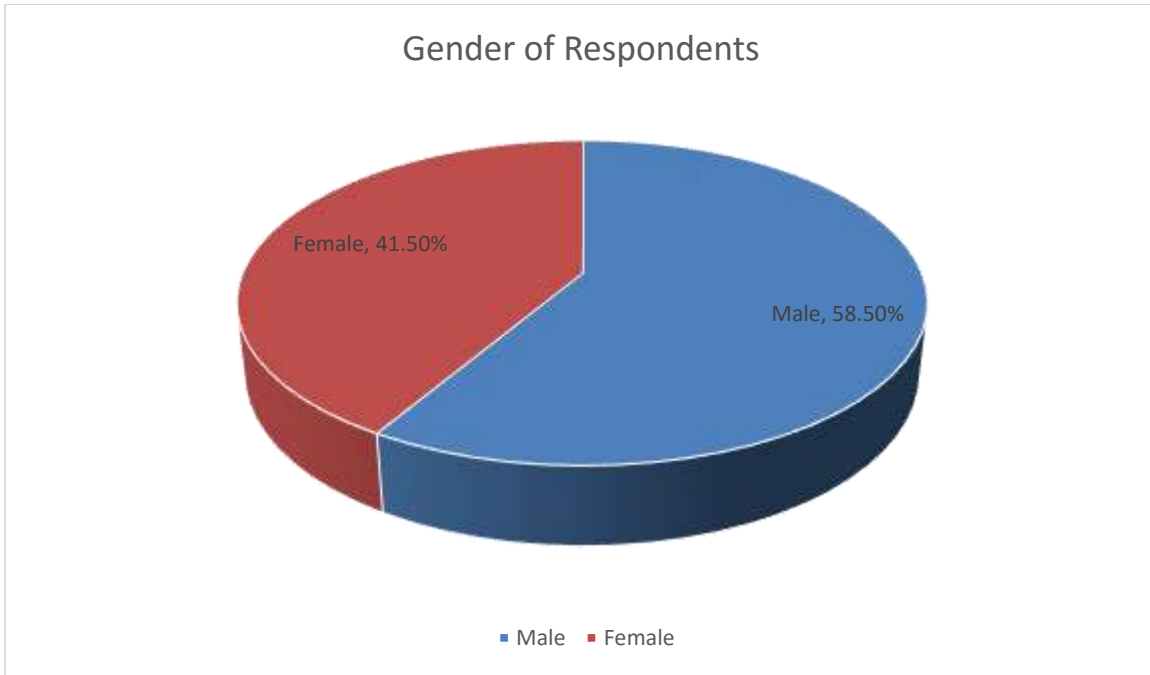


Figure 4.1: Gender of Respondents

From the results in Figure 4.1, the study found that more than half of the employees involved in financial management practices from the County Government of Nakuru are male (58.5%). The female employees involved in financial management practices from the County Government of Nakuru were found to be 41.5% of these employees. Due to the sensitive nature of work in financial management, most of the employees were male. However, there was sufficient representation of female employees thus the study findings were not gender biased.

4.3.2 Age of Respondents

The respondents were asked what their age. The ages of the respondents were grouped into five categories during analysis. These groups were 26-35 years, 36-45 years, 46-50 years, and above 50 years as shown in Figure 4.2.

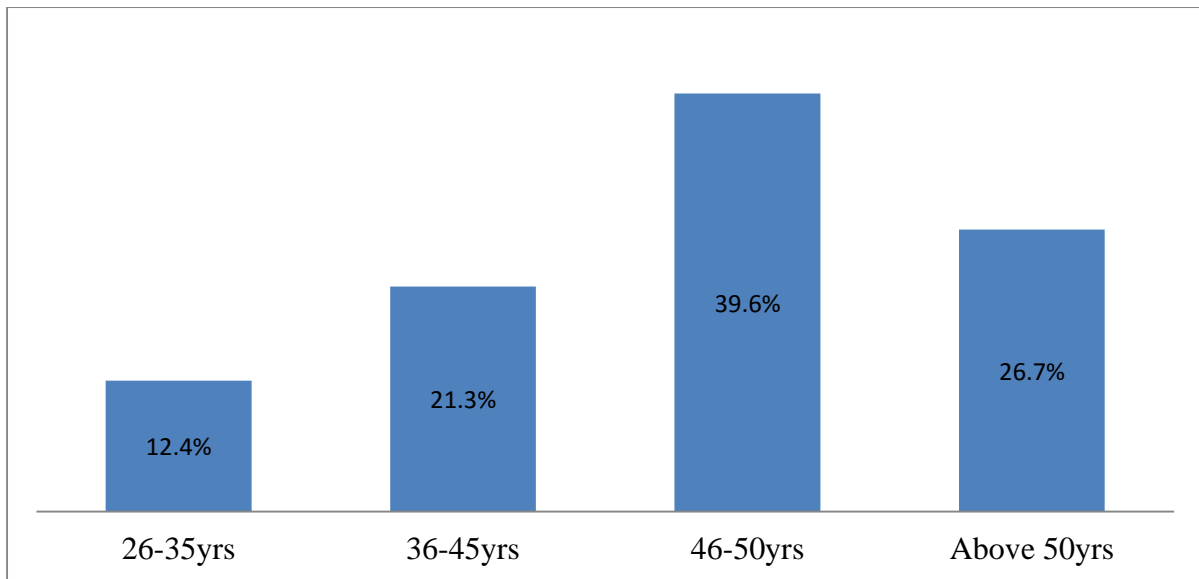


Figure 4.2: Age of Respondents

The study found that most of the employees involved in financial management practices from the County Government of Nakuru were aged 46-50 years. The employees involved in financial management practices from the County Government of Nakuru who were above 50 years of age were 26.7%, 36-45 years of age were 21.3%, and 26-35 years were 12.4%. The study therefore established that employees involved in financial management practices from the County Government of Nakuru were 26 years of age and above. A cumulative 66.3% of these respondents were aged 46 years and above. Older respondents have participated in different financial management practices over time and have seen their effect on performance thus the information they provide would be reliable.

4.3.3 Years of Experience in Financial Management Practices

The respondents indicated the period had been involved with financial management practices in County Government of Nakuru on the questionnaire, results of which are shown in Figure 4.3.

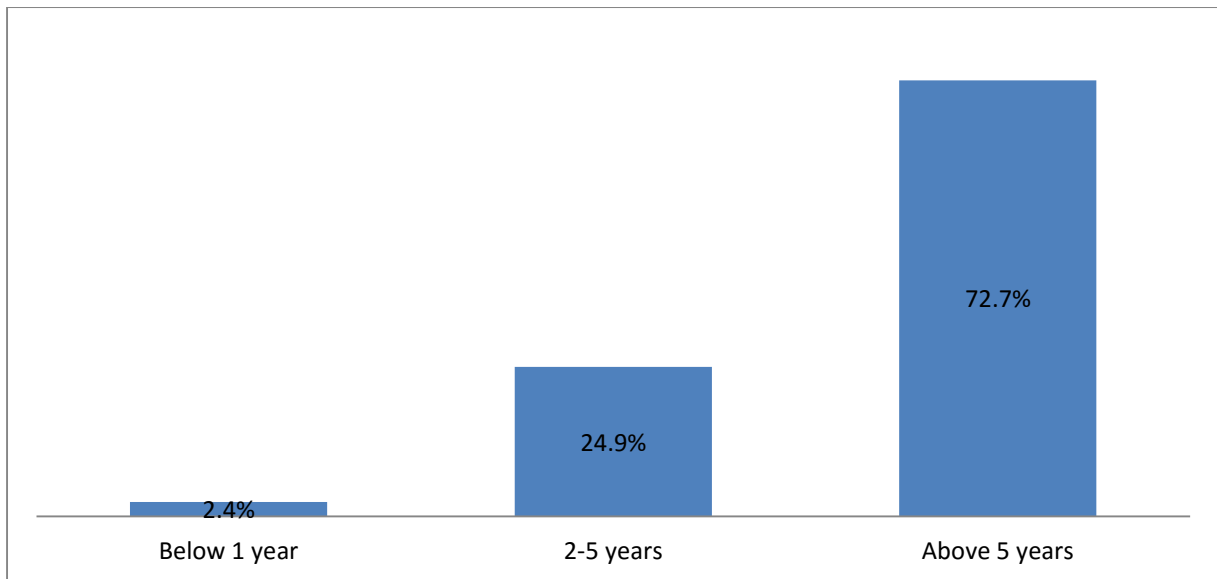


Figure 4.3: Years of Experience at County Government of Nakuru

The study established that almost three quarters of the employees involved in financial management practices from the County Government of Nakuru have more than five years of experience (72.7%). The employees with 2-5 years of experience in financial management practices from the County Government of Nakuru were 24.9% while those who had less than a year's experience in the role were 2.4%. This study found that most of the respondents had adequate experience in financial management practices of the County Government of Nakuru therefore were familiar with the subject under study. The information sought from these respondents was therefore reliable.

4.4 Internal Auditing and Financial Performance

The study used the aspects of verification of entries, budget adherence, and documentation to examine the influence of internal auditing on the financial performance of County Government of Nakuru. The results of the scores given by respondents to rate various statements on these aspects are presented in Table 4.1.

Table 4.1: Frequencies, Chi Square Value and p-Value for Internal Auditing

	NE	LE	ME	GE	VGE	Chi-Square Test	
	%	%	%	%	%	χ^2	P
Expenditure in different sectors of the County Government is always within budgeted funds	1.2	6.1	31.7	52.4	8.5	11.932	0.018
Books of accounts entries are always verified through examination of documentary evidence or vouchers	0.0	8.5	26.8	61.0	3.7	11.096	0.026
Regulations in the approval process of vouched expenditures are always adhered to	2.4	12.2	29.3	46.3	9.8	12.218	0.016
Finance department receives and discusses account audit reports	3.7	9.8	37.8	41.5	7.3	9.601	0.022
There is proper documentation and audit paper trails	4.9	2.4	31.7	54.9	6.1	10.802	0.029
The county government carries out frequent audits of the expenditures (At least on quarterly basis).	1.2	9.8	30.5	50.0	8.5	11.719	0.020

The respondents were asked to give their opinion on whether expenditure in different sectors of the County Government is always within budgeted funds. In this regard, about half of the respondents tended to agree with the statement to a great extent 52.4%, 31.7% to a moderate extent, 8.5% to a very great extent, and 6.1% to a little extent. A negligible 1.2% of the respondents revealed that expenditure in different sectors of the County Government are not within budgeted funds at all. The study observed an association between adherence to budget in expenditure and financial performance of County Government of Nakuru, $\chi^2 (4) = 11.932$, $p = 0.018$. These findings are collaborated by those of Masui (2013) in a study on the role of internal audit and financial performance of local governments in Tanzania. The study also noted that a major area that was consistently heightened by the audits was the over expenditure in some areas over and above the budgeted funds in the Medium Term Expenditure Framework.

The study also requested the respondents to give their opinion on whether books of accounts entries are always verified through examination of documentary evidence or vouchers in the County Government of Nakuru. The results in Table 4.1 indicated that a majority of respondents tended to agree to a great extent (61.0%), to a moderate extent (26.8%), to a little extent (8.5%), and to a very great extent (3.7%) that books of accounts entries are always verified through examination of documentary evidence or vouchers in the County Government of Nakuru. There was no respondents who indicated that this verification is not

always done (No extent=0.0%). An association between verification of books of accounts entries and financial performance of County Government of Nakuru, $\chi^2(3) = 11.096$, $p = 0.026$.

In regards to adherence to regulations, the study requested respondents to express their opinion on whether regulations in the approval process of vouched expenditures are always adhered to in the County Government of Nakuru. This resulted in almost half of the respondents agreeing to a great extent (46.3%), to a moderate extent (29.3%), to a little extent (12.2%), and to a very great extent (9.8%) that these regulations are adhered to in the County Government of Nakuru. However, a few respondents (2.4%) were of a contrary opinion and indicated that regulations in the approval process of vouched expenditures are not always adhered to in the County Government of Nakuru. In examination of the role of internal auditing of financial performance, Chacha, (2013) also found a majority of respondents (78%) indicated that the finance committee received and discussed audit reports. The Chi Square test of independence results of $\chi^2(4) = 12.218$, $p = 0.016$ revealed an association between adherence to regulations in the approval process of vouched expenditures and financial performance of County Government of Nakuru.

The study revealed that to a great extent, the finance department in the County Government of Nakuru receives and discusses account audit reports as perceived by a majority of respondents (41.5%). Other respondents were of a similar opinion though the extent they perceived that the finance department receives and discusses account audit reports was indicated to be moderate (37.8%), little (9.8%), and very great (7.3%). On the other hand, 3.7% of the respondents held the opinion that account audit reports are not received and discussed by the financial department in the County Government of Nakuru at all. The study observed an association between receipt and discussion of account audit reports and financial performance of County Government of Nakuru, $\chi^2(4) = 9.601$, $p = 0.022$.

The study was interested to find out whether the County Government of Nakuru has proper documentation and audit paper trails. The study established that the County Government of Nakuru was perceived to have proper documentation and audit paper trails by 54.9% of respondents to a great extent, 3.17% of respondents to a moderate extent, 6.1% of respondents to a very great extent, and 2.4% of respondents to a little extent. The

documentation and audit paper trails of the County Government of Nakuru were perceived to be improper by 4.9% of the respondents. The Chi Square test of independence results of $\chi^2(4) = 10.802$ revealed an association between documentation and audit paper trails and financial performance of County Government of Nakuru which was significant ($p = 0.029 < 0.05$). Similar findings were made by Masui (2013) who 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 respondents were requested to indicate whether the county government carries out frequent audits of the expenditures, that is, at least on quarterly basis. Half of the respondents agreed to a great extent (50.0%) that the County Government of Nakuru carries out audits of the expenditures at least on quarterly basis. Other respondents tended to agree with the statement to a moderate extent (30.5%), little extent (9.8%), and very great extent (8.5%). A negligible 1.2% of the respondents however were of the opinion that the audits of the expenditures of the County Government of Nakuru are not frequent. The study by Chacha, (2013) also 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. An association between frequency of audits of the expenditures and financial performance of County Government of Nakuru, ($\chi^2(4) = 11.719$, $p = 0.020$). These findings support those made by Masui, (2013) who revealed that there is requirement for quarterly audits of the expenditures in Morogoro municipal council, Tanzania.

4.5 Internal Controls and Financial Performance

The aspects of restriction of entry into cash offices, control of staff functions, and authorization of expenditures were investigated to help the study determine the effect of internal controls on the financial performance of County Government of Nakuru. The results of the scores given by respondents to rate various statements on these aspects are presented in Table 4.2.

Table 4.2: Frequencies, Chi Square Value and p-Value for Internal Controls

	NE	LE	ME	GE	VGE	Chi-Square Test	
	%	%	%	%	%	χ^2	P
There is an audit committee formed to follow up on internal audit recommendations.	3.7	8.5	35.4	40.2	12.2	11.654	0.020
Entry into cash offices amongst other sensitive areas in the County Government must be authorized	0.0	12.2	31.7	51.2	4.9	14.170	0.007
There is adequate supporting documentations for all financial transactions	2.4	4.9	39.0	41.5	12.2	18.621	0.001
There is clear definition of finance staff functions	4.9	11.0	45.1	36.6	2.4	20.274	0.000
All expenditures are authorized by the designated officials	7.3	8.5	35.4	31.7	17.1	13.590	0.009
The working environment is not conducive for unethical financial practices	8.5	7.3	37.8	36.6	9.8	16.118	0.003
There is proper tracking of movements of files with financial information.	6.1	9.8	34.1	35.4	14.6	10.540	0.032

The study asked respondents to rate the extent to which they agree that there is an audit committee formed by the County Government of Nakuru to follow up on internal audit recommendations. The results from Table 4.2 indicate that a majority of respondents agreed to a great extent (40.2%) that an audit committee formed to follow up on the internal audit recommendations. Additionally, some other respondents agreed on the same to a moderate extent (35.4%), very great extent (12.2%), and little extent (8.5%). On the other hand, 3.7% of the respondents opined that the County Government of Nakuru does not form an audit committee to follow up on internal audit recommendations. The Chi Square test of independence results of $\chi^2(4) = 11.654$ revealed an association between follow up on internal audit recommendations and financial performance of County Government of Nakuru which was significant ($p = 0.020 < 0.05$).

In the context of restriction of entry into cash offices, about half of the respondents agreed to a great extent that entry into cash offices amongst other sensitive areas in the County Government of Nakuru must be authorized. Further, other respondents agreed that this was the case to a moderate extent (31.7%), little extent (12.2%), and very great extent (4.9%). No respondent (0.0%) was of the opinion that there is unauthorized entry into cash offices amongst other sensitive areas in the County Government of Nakuru. The study found an association between restriction of entry into cash offices and financial performance of County Government of Nakuru ($\chi^2(3) = 14.170$, $p = 0.007$).

The study found that to a great extent there was adequate supporting documentation for all financial transactions of the County Government of Nakuru as opined by a majority of respondents (41.5%). The extent was found to be moderate by 39.0% of respondents, very great by 12.2% of respondents, and little by 4.9% of the respondents. A few respondents (2.4%) indicated that supporting documentation for all financial transactions of the County Government of Nakuru is not adequate. The study established that documentation for all financial transactions is associated with financial performance of County Government of Nakuru ($\chi^2(4) = 18.621$, $p = 0.001$).

The respondents were requested to give their opinion on whether there is clear definition of finance staff functions in the County Government of Nakuru. A majority of respondents agreed to a moderate extent (45.1%) that finance staff functions in the County Government of Nakuru are clearly defined, 36.6% agreed with the statement to a great extent, 11.0% to a little extent, and 2.4% to a very great extent. However, 4.9% of the respondents opined that finance staff functions in the County Government of Nakuru are not clearly defined. The study found an association between definition of staff functions and financial performance of County Government of Nakuru ($\chi^2(4) = 20.274$) which was significant ($p = 0.007 < 0.05$).

The study found that majority of the respondents agreed to moderate extent (35.4%) that all expenditures of County Government of Nakuru are authorized by the designated officials. Respondents who agreed with the statement to a great extent were 31.7%, very large extent were 17.1% and little extent were 8.5% of the respondents. On the other hand, 7.3% not all expenditures are authorized by the designated officials. The Chi Square test of independence

results of $\chi^2(4) = 13.590$, $p = 0.009$) revealed an association between authorization of expenditures by designated officials and financial performance of County Government of Nakuru.

In the context of working environment and unethical financial practices, respondents who agreed that the working environment in the County Government of Nakuru is not conducive for unethical financial practices were 37.8% to a moderate extent, 36.6% to a great extent, 11.0% to a little extent, and 2.4% to a very great extent. On the contrary, 8.5% of the respondents indicated that the working environment in the County Government of Nakuru is conducive for unethical financial practices. An association was found between working environment and financial performance of County Government of Nakuru ($\chi^2(4) = 16.118$, $p = 0.003$).

To a great extent there is proper tracking of movements of files with financial information in the County Government of Nakuru as perceived by 35.4% of the respondents. Other respondents agreed to a moderate extent (34.1%), very great extent (14.6%), and little extent (6.1%) that there is proper tracking of movements of files with financial information in the County Government of Nakuru. However, 6.1% of the respondents perceived the tracking of movements of files with financial information in the County Government of Nakuru to be improper. The Chi Square test of independence results of $\chi^2(4) = 10.540$, $p = 0.032$) revealed an association between tracking of movements of files with financial information and financial performance of County Government of Nakuru.

Budgeting and Financial Performance

The aspects of training of staff on budgeting, budget making participation, adherence to budget guidelines examine the influence of budgeting on the financial performance of County Government of Nakuru. The results of the scores given by respondents to rate various statements on these aspects are presented in Table 4.3.

Table 4.3: Frequencies, Chi Square Value and p-Value for Budgeting

	NE	LE	ME	GE	VGE	Chi-Square Test	
	%	%	%	%	%	χ^2	P
There is adequate staff training on budget preparation	9.8	4.9	35.4	34.1	15.9	11.580	0.021
Budget preparation follows the guidelines issued by the national government	3.7	7.3	31.7	36.6	20.7	11.831	0.019
The budget is approved by relevant officers before implementation	4.9	3.7	36.6	40.2	14.6	14.446	0.006
All officers to which the budget pertains to are involved in budget preparation	8.5	8.5	34.1	41.5	7.3	11.302	0.023
There is use of performance based budgeting in the County Government of Nakuru	6.1	12.2	29.3	32.9	19.5	10.948	0.027
There is elimination of corruption loopholes in the county government budgets	12.2	13.4	26.8	35.4	12.2	9.964	0.041
The county government budgeting process is not interfered with by the central government	9.8	9.8	30.5	41.5	8.5	19.456	0.000

The respondents were requested to share their opinion on whether there is adequate staff training on budget preparation in the County Government of Nakuru. A majority of respondents were of the opinion that to a moderate extent (35.4%) there was adequate staff training on budget preparation in the County Government of Nakuru. Other respondents who agreed with the statement were 34.1% to a great extent, 15.9% to a very great extent, and 4.9% to a little extent. A few respondents were of the opinion that staff training on budget preparation in the County Government of Nakuru is not adequate (9.8%). The Chi Square test of independence results of $\chi^2(4) = 11.580$, $p = 0.021$) revealed an association between adequacy of staff training on budget preparation and financial performance of County Government of Nakuru.

A majority of respondents agreed to a great extent (36.6%) that budget preparation follows the guidelines issued by the national government. Additionally, 31.7%, 20.7%, and 7.3%

agreed with the statement to moderate, very large, and small extents, respectively. On the other hand, 3.7% of the respondents did not agree with the statement indicating that they perceived guidelines issued by the national government were not followed during budget preparation. An association was found between adherence to national government guidelines on budget preparation and financial performance of County Government of Nakuru ($\chi^2(4) = 11.831, p = 0.019$).

In the context of budget approval, respondents agreed to a great extent (40.2%), very great extent (14.6%), moderate extent (36.6%), and little extent that the County Government of Nakuru budget is approved by relevant officers before implementation. A few respondents differed (No extent=4.9%) and cited that relevant officers do not approve the County Government of Nakuru budget before implementation. Approval of budget before implementation was found to be associated with financial performance of County Government of Nakuru ($\chi^2(4) = 11.831$) and the association was significant ($p = 0.019 < 0.05$).

A majority of the study respondents indicated that to a great extent (41.5%), all officers who are involved in budget aspects are involved in its preparation. Other respondent who agreed with the statement on varying levels were 34.1% to a moderate extent, 8.5% to a little extent, and 7.3% to a very great extent. Contrary opinions on the statement were held by 8.5% who perceived there to be no involvement of all officers who are involved in budget aspects in its preparation. The study established that a significant association exists between involvement of all officers in finance in budget preparation and financial performance of County Government of Nakuru ($\chi^2(4) = 11.302, p = 0.023$).

While a few respondents (No extent=6.1%) indicated that performance based budgeting in the County Government of Nakuru is not used, other respondents agreed to a great extent (32.9%), moderate extent (29.3%), very great extent (19.5%), and little extent (12.2%) that the County Government of Nakuru uses performance based budgeting. The study established that a significant association exists between performance based budgeting and financial performance of County Government of Nakuru ($\chi^2(4) = 10.948, p = 0.027$).

Respondents who agreed that there is elimination of corruption loopholes in the budgets of the County Government of Nakuru were 35.4% to a great extent, 26.8% to a moderate extent,

13.4% to a little extent, and 12.2% to a very great extent. However, corruption loopholes in the budgets of the County Government of Nakuru are not eliminated according to 12.2% of the respondents who scored a “no extent” response. Corruption loopholes in the budgets were found to be associated with financial performance of County Government of Nakuru ($\chi^2(4) = 10.948$) and the association was significant ($p = 0.027 < 0.05$).

The study established that a cumulative majority of respondents felt the County Government of Nakuru budgeting process is not interfered with by the central government but on varying levels of agreement. These respondents included those who agreed with the statement to a very great extent (8.5%), great extent (41.5%), moderate extent (31.5%), and little extent (9.8%). On the other hand, 9.8% of the respondents felt that the central government interferes with the budgeting process of the County Government of Nakuru. Financial performance of County Government of Nakuru ($\chi^2(4) = 19.456$; $p=0.000$) was found to have a significant association with central government interference in the budget process.

4.6 Account Payables Management and Financial Performance

The account payables management was conceptualized in terms of debt level, use of debt funds, debt limit. The respondents were asked to score various statements based on these indicators to investigate the effect of account payables management on the financial performance of County Government of Nakuru and results presented in Table 4.4.

The County Government of Nakuru to a great extent uses debts for investment oriented purposes as cited by a majority of respondents (42.7%). Additionally, some respondents cited to moderate extent (37.8%), very large extent (7.3%), and little extent (7.3%) that the County Government of Nakuru uses debts for investment oriented purposes. However, some 7.3% of respondents perceived there to be no use of debts for investment oriented purposes by the County Government of Nakuru. The study found an association between financial performance of County Government of Nakuru and use of debts for investment ($\chi^2(4) = 12.355$; $p=0.016$).

Some respondents perceived there to be reduction of fiscal deficits by the County Government of Nakuru through ensuring that current expenditures don't exceed current revenues to a great extent (39.0%). An equal number of respondents agreed with the

statement but to a moderate extent (39.0%). Other respondents agreed with the statement to a very great extent (11.0%) and little extent (6.1%). There were a few respondents (4.9%) who felt that reduction of fiscal deficits by the County Government of Nakuru is not done by ensuring that current expenditures don't exceed current revenues. Reduction of fiscal deficits in the budgets was found to be associated with financial performance of County Government of Nakuru ($\chi^2(4) = 13.517$) and the association was significant ($p = 0.009 < 0.05$).

Table 4.4: Frequencies, Chi Square Value and p-Value for Account Payables Management

	NE	LE	ME	GE	VGE	Chi-Square Test	
	%	%	%	%	%	χ^2	P
The County Government of Nakuru use debts for investment oriented purposes	7.3	4.9	37.8	42.7	7.3	12.355	0.016
There is reduction of fiscal deficits through ensuring that current expenditures don't exceed current revenues	4.9	6.1	39.0	39.0	11.0	13.517	0.009
The County Government of Nakuru has set a limit to which the county government could be indebted	6.1	8.5	34.1	37.8	13.4	14.509	0.006
The purpose of borrowing by the county government is well-defined before the borrowing is done.	8.5	3.7	28.0	47.6	12.2	13.897	0.007
County government borrowings are authorized by the designated officials	6.1	4.9	36.6	37.8	14.6	11.311	0.023
There is proper budgeting on the amount to be borrowed by the county government.	7.3	8.5	30.5	47.6	6.1	18.593	0.001
The county government takes loans that matures at the time the county government has generated enough revenue to offset the debts	3.7	6.1	46.3	32.9	11.0	15.673	0.005

The County Government of Nakuru has to a great extent set a limit to which the county government could be indebted according to the opinions of 37.8% of the respondents. Other respondents' opinions were that the extent was moderate (34.1%), very great (13.4%), and little (6.1%). On the other hand, 6.1% of the respondents were of the opinion that there is no set a limit to which County Government of Nakuru could be indebted. The study established that a significant association exists between debt limit and financial performance of County Government of Nakuru $\chi^2(4) = 14.509, p = 0.006$.

The study established that almost half of the respondents agreed to a great extent (47.6%) that the purpose of borrowing by the County Government of Nakuru is well-defined before the borrowing is done. Some respondents indicated that the purpose of borrowing by the County Government of Nakuru is well-defined before the borrowing is done to a moderate extent (28.0%), very large extent (12.2%), and to a little extent (8.5%). Some respondents indicated that the purpose of borrowing by the County Government of Nakuru is not well-defined before the borrowing is done (8.5%) by choosing to score "No extent". The Chi Square test of independence results of $\chi^2(4) = 13.897, p = 0.007$ revealed an association between definition of purpose of borrowing and financial performance of County Government of Nakuru.

In the context of authorization of borrowings, respondents agree to great (37.8%), moderate (36.6%), very great (14.6%), and little (4.9%) extents that borrowings by the County Government of Nakuru are authorized by the designated officials. Some respondents differed (6.15) indicating that borrowings by the County Government of Nakuru are not authorized by the designated officials. The study established that a significant association exists between authorization of borrowings and financial performance of County Government of Nakuru $\chi^2(4) = 11.311, p = 0.023$.

Almost half of respondents agreed to a great extent (47.6%) that there is proper budgeting on the amount to be borrowed by the County Government of Nakuru. There were some respondents who agreed with the statement to moderate (30.5%), little (8.5%), and very large (6.1%) extents. A few respondents felt that proper budgeting on the amount to be borrowed by the County Government of Nakuru is not done (7.3%). The Chi Square test of independence results of $\chi^2(4) = 18.593, p = 0.001$ revealed an association between budgeting on the amount to be borrowed and financial performance of County Government of Nakuru.

Almost half of the respondents cited that to a moderate extent (46.3%) the County Government of Nakuru takes loans that mature at the time it has generated enough revenue to offset the debts. Additionally, 32.9%, 11.0%, and 6.1% of the respondents agreed to great, very great, and little extents, respectively that the County Government of Nakuru takes loans that mature at the time it has generated enough revenue to offset the debts. On the other hand, 3.7% of the respondents cited that the County Government of Nakuru does not take loans that mature at the time it has generated enough revenue to offset the debts. Maturity of loans before generation of revenue to offset debts and financial performance of County Government of Nakuru were found to be associated ($\chi^2(4) = 15.673, p= 0.005$).

4.7 Financial Performance of County Government of Nakuru

The financial performance of the County Government of Nakuru was measured in terms of financial surplus/deficit, financial self-sustaining capacity, utilization of county resources, adherence to the public finance regulation laws and reliability of county financial reports. The results are as shown in Table 4.5.

Table 4.5: Frequencies, Chi Square Value and p-Value for Financial Performance

	NE	LE	ME	GE	VGE
	%	%	%	%	%
There is financial surplus after operational costs	4.9	2.4	40.2	35.4	17.1
The County Government of Nakuru has the financial capacity to sustain its day to day operations	8.5	13.4	20.7	43.9	13.4
The County Government of Nakuru adheres to the public finance regulation laws	4.9	3.7	39.0	36.6	15.9
The financial reports from the county government are reliable	15.9	12.2	25.6	39.0	7.3
There is proper utilization of county government resources for developmental projects	11.0	13.4	18.3	46.3	11.0
There is increase in the revenue generated by the county government	7.3	18.3	28.0	37.8	8.5
There is improvement in financial management skills by the county government	14.6	22.0	32.9	20.7	9.8

In respect to financial surplus, the study established to a moderate (40.2%) and great extent (35.4%) majority of the respondents cited that there was financial surplus after operational costs. Some respondents (17.1%) said that to a very great extent there was financial surplus after operational costs in the county government of Nakuru. However, 2.4% of the respondents said that there was a little surplus after operational costs with 4.9% of them indicating that there is no surplus after the operational costs.

The study sought to establish whether the County Government of Nakuru has the financial capacity to sustain its day to day operations. In respect to this, the study revealed that majority of the respondents were in agreement that to a great extent (Great Extent=43.9%; Very Great Extent=13.4%) the County Government of Nakuru has the financial capacity to sustain its day to day operations. To a moderate extent, 20.7% of the respondents were in agreement that the County Government of Nakuru has the financial capacity to sustain its day to day operations. The study however established that 8.5% of the respondents were in disagreement that the financial capacity of Nakuru County can sustain its day to day operations while 13.4 showed a very little extent in agreement to this statement.

On adherence to the public finance regulation laws, the study established that the County Government of Nakuru adheres to the public finance regulation laws as supported by majority of the respondents (Moderate=39.0%, Great Extent=36.6% and Very Great Extent =15.9%). Only 4.9% were in complete disagreement that the County Government of Nakuru adheres to the public finance regulation laws. It was also noted that 3.7% of the respondents showed a little extent in agreement that at the County Government of Nakuru adheres to the public finance regulation laws.

In respect to financial reports from the county government of Nakuru, majority of the respondents were in support of the statement that the financial reports from the county government are reliable (Moderate extent=25.6%; Great Extent=39.0%, and Very Great Extent=7.3%). Some respondents (15.9%) were in disagreement that the financial reports from the county government are reliable while 12.2% of them were in little support that the financial reports from the county government are reliable.

The study further revealed that majority of the respondents indicated that to a great extent (46.3%) there is proper utilization of county government resources for developmental projects. It was also noted that 11.0% of the respondents showed a very great extent in utilization of county government resources for developmental projects. An equivalent percentage (11.0%) of respondents cited that there is no proper utilization of county government resources for developmental projects. To a moderate extent, 18.3% of the respondents were in agreement that there is proper utilization of county government resources for developmental projects. Some respondents (13.4%) on the other hand showed a little extent in the level utilization of county government resources.

The study also established that there was an increase in the revenue generated by the county government due to majority indicating that to a moderate extent (28.0%) and great extent (37.8%) in the level in revenue generation. It was established that 8.5% of the respondents to a great extent rated the revenue generation in the county government of Nakuru. On the other extreme, 7.3% were in disagreement to the statement. The study found out that 18.3% of the respondents said to a little extent there was an increase in the revenue generated by the county government.

Focusing on the managerial skills, the study established that there was improvement in financial management skills by the county government (Moderate extent=32.9%; Great Extent=20.7%, and Very Great Extent=9.8%). The study noted that 22.0% of the respondents cited that there was improvement in financial management skills by the county government to a little extent. However, 14.6% of the respondents were in disagreement that there was improvement in financial management skills by the county government.

4.8 Inferential statistics

The inferential statistics were utilized to determine the relationships between the independent variables (level of internal auditing, internal controls, budgeting, accounts payables management) and the dependent variable (financial performance). They included correlation analysis and regression analysis.

4.8.1 Correlations

The study sought to find out the level of relationship between the study variables. In establishing this, the study used Pearson Correlation. Table 4.6 shows the results for the Pearson correlation.

Table 4.6: 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.

4.8.2 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 4.7 shows this summary of the regression model.

Table 4.7: 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 4.8.

Table 4.8: 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 4.9 shows the individual contribution of the regression model.

Table 4.9: 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

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

.This chapter presents a summary of findings from chapter four as per the research objectives. The conclusions from these findings and recommendations are also outlined in this chapter as well as areas for further research.

5.2 Summary of Findings

The general objective of this study was to examine the effect of financial management practices on the financial performance of County Government of Nakuru, Kenya. The study was aided by four objectives that is the examination of the influence of internal auditing, internal controls, budgeting and payables management on the financial performance of County Government of Nakuru.

5.2.1 Internal Auditing and Financial Performance

The study used the aspects of verification of entries, budget adherence, and documentation to examine the influence of internal auditing on the financial performance of County Government of Nakuru. The study observed that adherence to budget in expenditure, verification of books of accounts entries, and adherence to regulations in the approval process of vouched expenditures has significant associations with financial performance of County Government of Nakuru. The study also revealed 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 study used the aspects of verification of entries, budget adherence, and documentation to examine the influence of internal auditing on the financial performance of County Government of Nakuru. The respondents were asked to give their opinion on whether expenditure in different sectors of the County Government is always within budgeted funds. The study observed an association between adherence to budget in expenditure and financial performance of County Government of Nakuru, $\chi^2 (4) = 11.932$, $p = 0.018$. An association between verification of books of accounts entries and financial performance of County Government of Nakuru, $\chi^2 (3) = 11.096$, $p = 0.026$. The Chi Square test of independence results of $\chi^2 (4) = 12.218$, $p = 0.016$ revealed an association between adherence to regulations

in the approval process of vouched expenditures and financial performance of County Government of Nakuru. The study observed an association between receipt and discussion of account audit reports and financial performance of County Government of Nakuru, $\chi^2 (4) = 9.601$, $p = 0.022$. The Chi Square test of independence results of $\chi^2 (4) = 10.802$ revealed an association between documentation and audit paper trails and financial performance of County Government of Nakuru which was significant ($p = 0.029 < 0.05$). An association between frequency of audits of the expenditures and financial performance of County Government of Nakuru were achieved $\chi^2 (4) = 11.719$, $p = 0.020$.

5.2.2 Internal Controls and Financial Performance

The aspects of restriction of entry into cash offices, control of staff functions, and authorization of expenditures were investigated to help the study determine the effect of internal controls on the financial performance of County Government of Nakuru. The study established that follow up on internal audit recommendations and restriction of entry into cash offices had significant associations with financial performance of County Government of Nakuru. The study also revealed an association between tracking of movements of files and documentation for all financial transactions with financial information and financial performance of County Government of Nakuru. The study found 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 study asked respondents to rate the extent to which they agree that there is an audit committee formed by the County Government of Nakuru to follow up on internal audit recommendations. The Chi Square test of independence results of $\chi^2 (4) = 11.654$ revealed an association between follow up on internal audit recommendations and financial performance of County Government of Nakuru which was significant ($p = 0.020 < 0.05$). The study found an association between restriction of entry into cash offices and financial performance of County Government of Nakuru $\chi^2 (3) = 14.170$, $p = 0.007$. The study established that documentation for all financial transactions is associated with financial performance of County Government of Nakuru ($\chi^2(4) = 18.621$, $p = 0.001$). The study found an association between definition of staff functions and financial performance of County Government of Nakuru $\chi^2 (4) = 20.274$ which was significant ($p = 0.007 < 0.05$). The Chi Square test of

independence results of $\chi^2 (4) = 13.590, p = 0.009$) revealed an association between authorization of expenditures by designated officials and financial performance of County Government of Nakuru. An association was found between working environment and financial performance of County Government of Nakuru $\chi^2 (4) = 16.118, p = 0.003$). The Chi Square test of independence results of $\chi^2(4) = 10.540, p = 0.032$) revealed an association between tracking of movements of files with financial information and financial performance of County Government of Nakuru.

5.2.3 Budgeting and Financial Performance

The aspects of training of staff on budgeting, budget making participation, adherence to budget guidelines examine the influence of budgeting on the financial performance of County Government of Nakuru. The Chi Square test of independence results revealed significant associations between adequacy of staff training on budget preparation and involvement of all officers in finance in budget preparation with financial performance of County Government of Nakuru. Financial performance of County Government of Nakuru was found to have significant associations with central government interference in the budget process, adherence to national government guidelines on budget preparation, and approval of budget before implementation. 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 ($p < 0.05$).

The Chi Square test of independence results of $\chi^2 (4) = 11.580, p = 0.021$) revealed an association between adequacy of staff training on budget preparation and financial performance of County Government of Nakuru. An association was found between adherence to national government guidelines on budget preparation and financial performance of County Government of Nakuru $\chi^2 (4) = 11.831, p = 0.019$). Approval of budget before implementation was found to be associated with financial performance of County Government of Nakuru $\chi^2 (4) = 11.831$) and the association was significant ($p = 0.019 < 0.05$). The study established that a significant association exists between involvement of all officers in finance in budget preparation and financial performance of County Government of Nakuru $\chi^2 (4) = 11.302, p = 0.023$). The study established that a significant association exists between performance based budgeting and financial performance of County Government of Nakuru $\chi^2 (4) = 10.948, p = 0.027$). Corruption loopholes in the budgets were found to be associated

with financial performance of County Government of Nakuru $\chi^2 (4) = 10.948$) and the association was significant ($p = 0.027 < 0.05$). Financial performance of County Government of Nakuru $\chi^2 (4) = 19.456$; $p=0.000$) was found to have a significant association with central government interference in the budget process.

5.2.4 Account Payables Management and Financial Performance

The account payables management was conceptualized in terms of debt level, use of debt funds, debt limit. The respondents were asked to score various statements based on these indicators to investigate the effect of account payables management on the financial performance of County Government of Nakuru. The study found a significant association between financial performance of County Government of Nakuru and use of debts for investment. Reduction of fiscal deficits in the budgets was also found to be associated with financial performance of County Government of Nakuru and the association was significant ($p < 0.05$). 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.

The study found an association between financial performance of County Government of Nakuru and use of debts for investment $\chi^2 (4) = 12.355$; $p=0.016$). Reduction of fiscal deficits in the budgets was found to be associated with financial performance of County Government of Nakuru $\chi^2 (4) = 13.517$) and the association was significant ($p = 0.009 < 0.05$). The study established that a significant association exists between debt limit and financial performance of County Government of Nakuru $\chi^2 (4) = 14.509$, $p = 0.006$). The Chi Square test of independence results of $\chi^2 (4) = 13.897$, $p= 0.007$) revealed an association between definition of purpose of borrowing and financial performance of County Government of Nakuru. The study established that a significant association exists between authorization of borrowings and financial performance of County Government of Nakuru $\chi^2 (4) = 11.311$, $p = 0.023$). The Chi Square test of independence results of $\chi^2 (4) = 18.593$, $p= 0.001$ revealed an association between budgeting on the amount to be borrowed and financial performance of County

Government of Nakuru. Maturity of loans before generation of revenue to offset debts and financial performance of County Government of Nakuru were found to be associated ($\chi^2(4) = 15.673, p= 0.005$).

5.3 Conclusions

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.

5.4 Recommendations

The study made several recommendations based on the conclusion of the study.

5.4.1 Policy Recommendations

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.

5.4.2 Recommendations for Further Research

The study recommends that researchers should examine the other counties with a view of the policy makers and diverse stakeholders understanding on the factors that influence financial performance in those counties.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear Participant,

My name is Nelly Jeptepkeny Kibor, a student from Kabarak University doing a Master Degree In Business Administration. Currently am doing a research to **Examine The Effect Of Financial Management Practices On The Financial Performance Of County Governments In Kenya** and I am kindly requesting you to take part in this study. The responses that you will provide will be kept confidential and used for the above said purpose only. I will endeavor to conceal your identity and therefore you will remain anonymous throughout this study. In this regard, please do not provide any identifying details in any section of the attached questionnaire. Participation in this study is voluntary and therefore you may wish to opt out of this study. If you agree to participate in this study, please sign the below section. Thank you.

Sign **Date**

APPENDIX II: QUESTIONNAIRE

THE EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON THE FINANCIAL PERFORMANCE OF COUNTY GOVERNMENTS IN KENYA; A CASE STUDY OF COUNTY GOVERNMENT OF NAKURU

Section I: Background Information

Indicate your answer by ticking the response that best describes your answer.

1. Which is your gender?

Male []

Female []

2. What is your age?

.....

3. For how long have you been involved with financial management practices in County Government of Nakuru?

Below one Year []

2-5 Years []

Above 5 Years []

Section II: Internal Auditing and Financial Performance

The statements in this section examine the role of internal auditing on the financial performance of County Government of Nakuru. Please use the five point Likert scale whereby **1=No extent, 2=little extent, 3=Moderate extent 4=great extent and 5=very great extent**, to appropriately answer the questions.

No	<i>To what extent do you agree that;</i>	1	2	3	4	5
4.	Expenditure in different sectors of the County Government is always within budgeted funds					
5.	Books of accounts entries are always verified through examination of documentary evidence or vouchers					
6.	Regulations in the approval process of vouched expenditures are always adhered to					
7.	Finance department receives and discusses account audit reports					
8.	There is proper documentation and audit paper trails					
9.	The county government carries out frequent audits of the expenditures (At least on quarterly basis).					
10.	There is an audit committee formed to follow up on internal audit					

recommendations.					
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Section III: Internal Controls and Financial Performance

The statements in this section examine the role of internal controls on the financial performance of County Government of Nakuru. Please use the five point Likert scale whereby **1=No extent, 2=little extent, 3=Moderate extent 4=great extent and 5=very great extent**, to appropriately answer the questions.

No	<i>To what extent do you agree that;</i>	1	2	3	4	5
11.	Entry into cash offices amongst other sensitive areas in the County Government must be authorized					
12.	There is adequate supporting documentations for all financial transactions					
13.	There is clear definition of finance staff functions					
14.	All expenditures are authorized by the designated officials					
15.	The working environment is not conducive for unethical financial practices					
16.	There is proper tracking of movements of files with financial information.					
17.	All the payment procedures in the county government are fully followed.					

Section IV: Budgeting and Financial Performance

The statements in this section examine the role of budgeting on the financial performance of County Government of Nakuru. Please use the five point Likert scale whereby **1=No extent, 2=little extent, 3=Moderate extent 4=great extent and 5=very great extent**, to appropriately answer the questions.

No	<i>To what extent do you agree that;</i>	1	2	3	4	5
18.	There is adequate staff training on budget preparation					
19.	Budget preparation follows the guidelines issued by the national government					
20.	The budget is approved by relevant officers before implementation					
21.	All officers to which the budget pertains to are involved in					

	budget preparation					
22.	There is use of performance based budgeting in the County Government of Nakuru					
23.	The is elimination of corruption loopholes in the county government budgets					
24.	There is county government budgeting process is not interfered by the central governments					

Section IV: Account Payables Management and Financial Performance

The statements in this section examine the influence of account payables management on the financial performance of County Government of Nakuru. Please use the five point Likert scale whereby **1=No extent, 2=little extent, 3=Moderate extent 4=great extent and 5=very great extent**, to appropriately answer the questions.

No	<i>To what extent do you agree that;</i>	1	2	3	4	5
25.	The County Government of Nakuru use debts for investment oriented purposes					
26.	There is reduction of fiscal deficits through ensuring that current expenditures don't exceed current revenues					
27.	The County Government of Nakuru has set a limit to which the county government could be indebted					
28.	The purpose of borrowing by the county government if well-defined before the borrowing is done.					
29.	County government borrowings are authorized by the designated officials					
30.	There is proper budgeting on the amount to be borrowed by the county government.					
31.	The county government takes loans that matures at the time the county government has generated enough revenue to offset the debts					

Section IV: Financial Performance

The statements in this section examine financial performance of County Government of Nakuru. Please use the five point Likert scale whereby **1=No extent, 2=little extent, 3=Moderate extent 4=great extent and 5=very great extent**, to appropriately answer the questions.

No	<i>To what extent do you agree that;</i>	1	2	3	4	5
32.	There is financial surplus after operational costs					
33.	The County Government of Nakuru has the financial capacity to sustain its day to day operations					
34.	The County Government of Nakuru adheres to the public finance regulation laws					
35.	The financial reports from the county government are reliable					
36.	There is proper utilization of county government resources for developmental projects					
37.	There is increase in the revenue generated by the county government					
38.	There is improvement in financial management skills by the county government					

APPENDIX III: LETTER OF INTRODUCTION



APPENDIX IV: RESEARCH PERMIT

 <p>REPUBLIC OF KENYA National Commission for Science, Technology and Innovation</p>	 <p>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION</p>
<p>Ref No: 350064</p>	<p>Date of Issue: 14/August/2019</p>
<p>RESEARCH LICENSE</p>	
	
<p>This is to Certify that Ms. NELLY KIBOR of Kabarak University, has been licensed to conduct research in Nakuru on the topic: EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF COUNTY GOVERNMENTS IN KENYA: A CASE STUDY OF NAKURU COUNTY, KENYA for the period ending : 14/August/2020.</p>	
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