RELATIONSHIP BETWEEN PUBLIC FINANCIAL MANAGEMENT PRACTICES AND COUNTY GOVERNMENT FUNDS ABSORPTION RATE IN KENYA

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MAY 2017
DECLARATION

Declaration by the Candidate

This research project is my original work and has not been presented for the award of degree in any other university.

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This project is submitted for examination with my approval as the university supervisor.

Signed…………………………………… Date: ……………………………………………

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DEDICATION

I dedicate this research project to my family.
ACKNOWLEDGEMENT

My ultimate thanks are to the Almighty God for the gift of life and good health while carrying on this research. I am indeed grateful to my research supervisor Dr. Eddie Simiyu for professional guidance. To my caring dad, Paul Songok, you did not labor in vain. To my loving mom, Salina Songok, your abundant love and support is always cherished. To my wife Joan, in extension to the entire family of Mr and Mrs Daniel Tabut, you are the pillar that I will always lean on. This project would not have been successfully completed without your tender love; guidance and sacrifice. To my siblings the late Elizabeth, Benedate, Titus, Kennedy and Immaculate, I appreciate your moral support all through my life to the time of this research. I also sincerely wish to register my gratitude to all people who in one way or another offered me assistance of any kind while conducting this research project. God bless you all.
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OPERATIONAL DEFINITION OF TERMS

Absorption Rates: It is the level at which the allocated and locally generated funds are utilised by the county governments in Kenya.

County government: It is an independent sub-government with both executive and legislative.

Devolution: It is the transfer of legislative, political, administrative and financial authority to plan, make decisions and manage public functions and services from central government to local governments.

Public debt management: It is the process of establishing and implementing a strategy and plan for managing a county government's debt in order to raise the required amount of funding and the achievement of desired risk, cost objectives and goals.

Public Financial management: It is the system by which financial management resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals.
<table>
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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>CIPFA</td>
<td>Chartered Institute of Public Finance and Accounting</td>
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<td>CRA</td>
<td>Commission on Revenue Allocation</td>
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<td>EC</td>
<td>Expenditure controls</td>
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<td>FY</td>
<td>Financial Year</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ICPAK</td>
<td>Institute of Certified Public Accounts- Kenya</td>
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<td>LATF</td>
<td>Local Authority Transfer Fund</td>
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<td>PDM</td>
<td>Public Debt Management</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<td>PIMA</td>
<td>Public Investment Management Index</td>
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<td>PISM</td>
<td>Public Investment, Savings and Macroeconomic tool</td>
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<td>RCA</td>
<td>Revenue Collection Administration</td>
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<td>RMLF</td>
<td>Road Maintenance Levy Fund</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>Task Force on Devolved Government</td>
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ABSTRACT

The study sought to find out the relationship between public financial management practices and county government funds absorption rate in Kenya. Many studies have been done on this field of public finance but none has focused particularly on public financial management practices and county government funds absorption rate in Kenya. Improved public financial management practices provide a unique opportunity for Kenyans to experience enhanced development due to high funds absorption rate. The study was guided by the following objectives; to establish the relationship between public debt management and County government funds absorption rate in Kenya, to investigate the relationship between expenditure control and County government funds absorption rate in Kenya and to find out the relationship between revenue collection administration and County government funds absorption rate in Kenya. The main instrument of data collection was a structured questionnaire which was administered to the county government chief officers of finance and principal accountants. The data collection procedure used to collect the questionnaire was drop and pick approach. The research questions were systematically generated from the objectives. A Descriptive survey research design was used in this study. The 47 counties were taken as a unit of analysis and 94 County Chief Officers of Finance and Principal Accountants became the study unit of observation. Secondary sources were also used to obtain information; data from the published annual reports and county government sources spanning three years. The content validity of the data collection instruments was assured by ensuring that each of the items in the questionnaire and interview schedule addressed specific contents and objectives of the study. Descriptive statistics and regression analysis with the help of Statistical Package for Social Sciences (SPSS) and Microsoft version of Excel were used to analyze data. The responses in the questionnaires were coded into common themes to facilitate analysis. Analyzed data was presented using tables, charts and graphs. The findings of the study indicated that there is a positive relationship between public debt management and the county government funds absorption rate in Kenya. Concerning the expenditure controls, the study revealed a positive relationship between expenditure controls and county government funds absorption rate in Kenya. Regarding revenue collection administration, the study also revealed a positive relationship between revenue collection administration and county government funds absorption rate in Kenya. It was concluded that improvement of public financial management practices is widely recognized as one of the essential elements in enhancing the county government funds absorption rate in Kenya.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Public finance management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA, 2010) as “the system by which financial management resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals”. The government of Kenya in 2010 embraced devolution. This led to decentralization of substantial political, administrative and financial powers to Sub-National Governments with a view to improve access, efficiency and responsiveness of service delivery, promote participation and empower citizens to demand accountability and performance. To achieve these objectives, requires the devolution not only of functions but also power to make policies and operational decisions regarding raising revenue and spending priorities. Most importantly, it requires strong public management systems for sufficient, reliable and adequate service provision. The increasing need by the public to experience improved quality of service delivery, empowered communities, vibrant local economies and employment generation has heightened the concern on county government absorption rates in Kenya.

Globally, Los Angeles County is a city within the state of California in the United States of America. This county has succeeded through federalism and has had various benefits from high absorption rates which have led to development of complex rail transport in the county that helped to open up areas and nurture entrepreneurship development of the Hollywood film industry, development of the reliable electricity to power industries, cities, businesses and homes (Harvard University Press, 2001). The sequenced approach to PFM adopted in Los Angeles
County prioritizes PFM reform interventions that address efficiency and accountability. This greatly enhanced absorption rates and made Los Angeles a melt pot of diverse cultures that pursue dreams and opportunities that would not have come to light without proper public financial management (Armstrong, 2009). The experienced expanded development was as a result of high absorption rates that were heightened by implementation of strong public financial management practices.

According to Burugu (2010), Nigeria is one of the most populous African countries which run a federal system divided into thirty regional states led by executive governors, regional assemblies and government. Accounting was re-engineered before embarking on the reform of the budget execution. A single accounting department has been established. Further, a new chart of accounts that is compatible with internationally recognized and regular annual financial outturn reports, supplemented by interim reports are published on the website of the Ministry of Finance (World Bank, 2012). These public financial and accounting reforms enhanced the level of absorption rates of states available resources.

In Kenya, the Constitution 2010 ushered in a paradigm shift on financial management and governance. In response to the people’s expectations of improved democracy, human rights protection and accountability of the government to its citizens, the Constitution uphold a republic with expanded transparency in political and economic structures across the forty-seven (47) counties. These counties have not only administrative and political powers, but also fiscal powers to mobilize, allocate, spend and account for their own local revenue, as well as the shared national resources disbursed through the Commission of Revenue Allocation. Through county governments, the past challenges of inequality, poor delivery of services, inadequacy of fiscal discipline, accountability and public participation in financial processes are expected to be
resolved. While theoretical evidence indicates that county governments can achieve these objectives by putting in place proper public financial management practices that lead to high absorption rates, implementation challenges have more often led to less achievement of these brilliant ideals.

1.1.1 Public Financial Management

Public Financial Management is defined by Simson, sharma and Aziz (2011), as a function underlying all government activity. It encompasses the mobilization of revenue; the allocation of these funds to various activities; expenditure; and accounting for spent funds.

It affects how funding is used to address national and local budgets, the availability of resources for investment and the cost-effectiveness of public services. The general public will have greater trust in public sector institutions in presence of strong public debt management, expenditure control and revenue collection administration (ICPAK, 2014). Public debt management comprises debt management strategies, debt levels and costs of borrowing. Expenditure controls consist of quarterly approvals by controller of budget, keeping updated financial records and internal audit function. Revenue collection administration include the revenue sources from inter-governmental transfers, county own revenue, grants and borrowings. According to OECD (2011), for effective public financial management, qualified managerial and technical staff and proper financial policies should be maintained. Effective public finance management systems maximize financial efficiency, improve transparency and accountability, and contribute towards the long term economic success.
1.1.2 County Governments

Devolution entails the transfer of the power to plan, mobilize resources and implement development programs from the central government to the local governments (prud’home, 2003). The Constitution of Kenya 2010 ushered in a devolved system of government and created two levels of government: National and County. Forty-seven (47) county governments were established in March 2013. The objective and principle of devolved government structures in accordance with the constitution of Kenya 2010 under article 174 is to recognize the right of communities to manage the process of development. This gives citizens a sense of identity and self-empowerment including protection of minority interests and marginalized communities. According to Mitullah (2010), Successful implementation of devolved structures require careful coordination and planning, clear communication, as well as visionary and committed leadership.

The main concern with the county governments is the implementation of proper public financial management systems that greatly influences county government absorption rates.

1.1.3 County Government Funds Absorption Rate

Absorption rates are the rates at which counties utilize the allocated and own generated funds. The counties need to appropriately utilize these funds in spearheading county developments through improved absorption capacity of county funds. According to the report by the Controller of Budget (COB) 2016, the Financial Year (FY) 2015/2016 had an aggregate approved county budget allocation of which 55.3 percent was allocated for recurrent expenditure and 44.7 percent for development expenditure. However, as of the half-year review of the expenditure, development expenditure stood at an average 26 percent. Kwale County had the highest use of development expenditure at 61.5 percent and Taita Taveta lowest at 0.1 percent expenditure on development. As at the same period, counties had an absorption rate of 31.3 percent of the total
annual County Government budget. The absorption of development funds was low at 19.9 percent, a decline from an absorption rate of 21.9 percent reported in a similar period of FY 2014/15. Low funds absorption rates lead to poor delivery of services to citizens and retarded development. In counties that experience high absorption rates, there is progressive development across all sectors of the economy. Currently, the county governments experience high recurrent expenditure and low development expenditure.

1.1.4 Relationship between Public Financial Management and Funds Absorption Rate.

According to the controller of budget (CoB, 2014), funds absorption rate is the actual expenditure as a percentage of approved budgets. The 2014 Report on Annual Budget Implementation Review covering the financial year 2013/2014 shows that county government absorption of funds improved from sh86.7 billion equivalent to 32.2 percent during the third quarter to sh169.4 billion equivalents to 64.9 percent at year end as a result of enhanced public financial management practices.

Recurrent expenditure recorded the highest absorption rate at 82.7 percent while development expenditure stood at 36.4 percent. Nyeri County attained the highest overall absorption rates at 93.9 percent of the annual budget while Tana River County had the lowest absorption rates at 41.3 percent. The county government participates in the budget making process through preparation of county preliminary budgets forwarded to the national government. The PFMA 2012 vividly stipulates the framework and principles for public finance management for all the government institutions. Article 201 of the constitution stipulates public finance principles as; transparency and accountability, public participation on financial matters and equity in distribution of resources.
1.2 Statement of the Problem

Absorption rate of funds budgeted to county governments form a significant yardstick in determining effectiveness of public financial management (ICPAK, 2014). While striking the structural balance between recurrent and capital expenditure makes a good budget to the county, this should be assessed on the degree of absorption of the development budget relative to the actual budgetary allocation. County governments with low percentages of absorption experience retarded development and poor delivery of services while on the other hand; County governments with high absorption rates tend to realize economic growth. This prompts counties to work towards 100 percent absorption by ensuring they have in place effective public financial management practices (PFMA, 2012).

In the FY 2013/14 County Governments recorded low absorption of development budgets. The recurrent expenditure during the period represented an absorption rate of 45 percent of the total recurrent budget for the county governments while development expenditure translated to an absorption rate of 11.7 percent of the total development budget (ICPAK, 2014).

In developing countries, re-engineering of public sector finance has been based on various platforms. In Cambodia, Kosovo and Sierra Leone a sequenced approach to public financial management reform was agreed and implemented credibly. This approach prioritizes public financial management reform intervention that addresses efficiency and accountability towards enhanced absorption rates. Furthermore, the sequencing of reform interventions focuses on joint problem identification by governments and donors (World Bank, 2012). County government treasuries in Kenya are guided by the PFMA (2012) and constitution 2010. They clearly stipulate that counties are required to ensure accountability, public participation in financial matters, transparency, equity in resource distribution, prudent use of economic resources, responsibility in
financial management and clarity in fiscal reporting. Although these principles are based on the constitutional mandate and responsibilities, county governments experience low absorption rates on development expenditure due to corruption and misappropriation of funds (Kipkorir, 2008).

Nakuru County, for instance, the budget implementation report for the financial year 2013/2014 revealed that the county spent 50.42 percent on personal emoluments, 40.67 percent on maintenance and operations while development expenditure was only 8.15 percent. 0.77 percent was the spending on payment of bills and debt repayment. Therefore, as a result of poor financial management practices, there are low levels of budget absorption especially in the development expenditure hence compromising the sole purpose of enhancing development at grassroots level and efficient delivery of public services. Consequently, there is less value for taxpayers’ money. This study therefore, seeks to find out the relationship between public financial management practices and county government funds absorption rate in Kenya.

1.3 General Objective

The purpose of this study was to determine the relationship between public financial management practices and County government funds absorption rate in Kenya.

1.4 Specific Objectives

The study sought to:

i. To establish the relationship between public debt management and County government funds absorption rate in Kenya.

ii. To determine the relationship between expenditure controls and County government funds absorption rate in Kenya.
iii. To find out the relationship between revenue collection administration and County government funds absorption rate in Kenya.

1.5 Research Hypothesis

Ho1: There is no significant relationship between public debt management and county government funds absorption rate in Kenya.

Ho2: There is no significant relationship between expenditure controls and county government funds absorption rate in Kenya.

Ho3: There is no significant relationship between revenue collection administration and county government funds absorption rate in Kenya.

1.6 Significance of the Study

The findings of this study were of great importance to the following categories.

1.6.1 County Government

The study provided advisory assistance throughout implementation of the public financial management systems.

1.6.2 Central Government

The findings of the study benefited the government of Kenya in formulating and implementing policies that promote proper and informed public financial management.
1.6.3 Researchers
The study helped researchers and academicians develop additional literature in the area of public financial management.

1.6.4 Citizens
The study provided information for citizens to know how the county governments are utilizing the available resources.

1.7 Scope of the Study
The study determined the relationship between public financial management practices and county government funds absorption rate in Kenya. The forty seven (47) counties were used as unit of analysis and ninety four (94) Chief Officers of Finance and Principal Accountants formed a unit of observation. The study used data relating to financial years covering financial year 2013/2014 to 2015/2016. Relevant financial information was obtained from the audited financial reports.

1.8 Limitation of the Study
The researcher faced the challenge of respondents being hesitant to provide information due to fear of sensitive information going viral, but they were assured of their confidentiality. Furthermore, challenges were encountered during data collection process due to bureaucratic procedures in public sector. To counter this, a letter of introduction was picked from the university to ease identification of the researcher.
1.9 Organization of the Study

This project is structured as follows: the foregoing chapter one provides the research background, research objectives, significance of the study, scope and the limitations encountered in the course of the study. Chapter two presents literature review on the public financial management practices and the conceptual framework. Chapter three deals with the methodology employed in the study; the study findings and their interpretations are presented in chapter four; while chapter five has conclusions and the policy implications.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter deals with the literature that has been reviewed for purposes of this study. The literature is mainly on public financial management. The literature has been derived from various sources in a bid to tackle the topic appropriately. The description of the conceptual framework and how the variables relate to each other is also displayed.

2.2 Theoretical Review

2.2.1 Ricardian Equivalence Theorem

The Ricardian Equivalence Theorem by David Ricardo developed in 1979 is centered on the contribution of debt management to monetary policy, particularly whether the size and structure of the debt place any constraints on the ability of the government to control monetary policy. It uses macroeconomic models based on the representative agent, infinite horizon, and completes market assumptions. In these models, the government debt level does not have any impact on economic activity. Households recognize that, for any given path of spending, a higher debt level today implies higher taxes in the future, and save accordingly. Essentially, for any change in the government debt composition, households are able to choose an appropriate portfolio of assets that preserves their original consumption plan (Ricardo, 1979).

The Ricardian Equivalence Theorem relies on the assumptions that: households recognize that changes in debt financing costs lead to changes in future tax liabilities, being able to adjust their consumptions and savings to absorb the impacts of government’s budget constraint; taxes are non-distortionary, so that changes in taxes do not affect economic behavior; taxpayers and
bondholders are effectively the same agents, so that distributional concerns are not relevant; and the investment portfolio choices available to the private sector must include the same risk-return trade-offs as those provided by government securities so that government borrowing does not provide new investment opportunities which are otherwise unavailable. Alternatively, if assumptions to the contrary are taken, such as: agents have finite lives, and they will not necessarily care about the welfare of future generations; taxes are distortionary; and the private sector has restrictions to replicate the state-contingent structure of the government security, it can be concluded that the level and composition of the debt are relevant. The Ricardian Equivalence theorem is therefore relevant and supports the current study in assessing the relationship between public debt management and county government funds absorption rate in Kenya.

### 2.2.2 The Pure Theory of Public Expenditure

The pure theory of public expenditure by Samuelson (1954) assumes two categories of goods: ordinary private consumption goods which can be parceled out among different individuals and collective consumption goods which all enjoy in common in the sense that each individual’s consumption of such a good leads to no subtraction from any other individual’s consumption of that good. It is assumed that no mystical collective mind that enjoys collective consumptive goods; instead each individual has a consistent set of ordinary preferences both in collective and private goods. It follows the convention of writing the partial derivative of any function with respect to its ith argument provided economic quantities can be divided into two (a) outputs or goods which one always want to maximize and (b) inputs or factors which one always wants to minimize.

Feasibility consideration disregarded, there is a maximal utility frontier representing pareto-optimal points. From such a frontier, you can make one person better off only by making some
worse off. In the current study, the pure theory of public expenditure supports determination of development and recurrent expenditures and their balances towards ensuring effective financial management that enhances the county government funds absorption rate in Kenya.

2.2.3 Economic Theory

Economic theory was proposed by Gerhard (2009). The approach is based on the premise that there is a critical point of government taxation where taxes become counter-productive and therefore reduce the flow of revenue into federal coffers. The economic theory comes from a graph called the Laffer curve.

Figure 2.1: The Laffer curve

![Laffer curve diagram](image)

Source: Gerhard (2009)

Economic theory proposes that there is a point A and a point B shown on the graph which indicates that the same revenue is available at two vastly different tax rates. In other words, the tax rate from point B can be lowered to the rate indicated at point A and the government would
collect the same revenues. Optimum revenue would be generated at a 50 percent tax rate. Assessing the end points, at 0 percent tax rate, it is clear that the government would collect no revenue. However at 100 percent the graph also shows the government collecting no revenue. Since the tax base consists of individuals as well as businesses, 100 percent tax rate would indicate that all the money earned would go to the central government. However, this represents one of the problems with the Laffer curve.

Gerhard proposes that instead of 0 percent revenue, the government is collecting 100 percent of the wealth and then redistributing the income amongst the people and businesses to facilitate the requirements of the society. It has been argued that the reason the graph drops to 0 percent, is because there would be no incentive for people to work and so no income would be available to the government.

The economic theory greatly supports the revenue collection administration variable through recommendation of reduction in tax rates for optimum collection of revenue that influences the funds absorption rate in county governments.

2.3 Empirical Review

2.3.1 Public Debt Management

Public debt management is the process of establishing and implementing a strategy and plan for managing a county government's debt in order to raise the required amount of funding and the achievement of desired risk, cost objectives and goals TFDG (2011). County Governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances while meeting cost and risk objectives. Institutional debts contain complex and risky financial elements that can generate
substantial risk to the county government's balance sheets as well as the country’s financial stability. It is critical for county governments to be proactive through the formulation and implementation of credible debt management strategies in order to reduce excessive levels of debt and to ensure public sector indebtedness is maintained on a sustainable path. Examples of indicators that address the issue of debt sustainability include the public sector debt service ratio, and ratios of public debt to GDP and to tax revenue.

The task force on devolved governments (TFDG, 2011) stipulates the objectives of public debt management as: ensuring that the county government’s financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk; Supporting the public finance strategy by ensuring that the execution of the public debt policy in the medium and long term takes place in an environment of public debt sustainability; Fostering a healthy development of the county financial system and improve the efficiency of the local debt market; and Promoting transparency and the modernization of the statistical information relating to public debt. Furthermore, it provides the principles and techniques that should be embraced by county governments to include: Transparency and accountability; Legal institutional framework; Debt management strategy; Risk management framework and Development and Maintenance of an Efficient Market for Government Securities.

A study carried out by the World Bank (2012) on a cross-country analysis of public debt management strategies revealed that a higher level of income in a country appears to increase its probability of having a debt management strategy. It also established that the level of indebtedness positively correlated with the incidence of a strategy. This implies that as a country becomes more indebted it aims at increasing the quality of debt management, however, after
reaching high levels of indebtedness it gives up on debt management and possibly engages in
debt renegotiations and focus on debt sustainability issues. However, the study narrowly covered
on the strategies. The current study will borrow from this research on the levels of indebtedness
and actions to be taken at a given point and extends the study to costs of borrowing effect on
county government absorption rates in Kenya.

Furthermore, a study carried out by cavalcanti, Marrero and minh (2014) on “measuring the
impact of debt-financed public investment”, used the public investment management (PIMA)
index and public investment, savings and macroeconomic (PISM) tool to track a country’s trends
in public sector revenues, expenditure and capital formation, and how these decisions are being
financed. The study revealed that the PIMA index highlights the country’s position in the project
management cycle, finding that the degree of centralization and quality of the project screening
and appraisal responsibilities, as well as the connection between budgeting capital and recurrent
expenditures once these projects are launched, emerge as the most important factors for
performance of the project. On the other hand, the PISM tool underscores the parallel between
the discipline in the public investment management and in the management of public finances.
Countries committed and able to harmonize capital and recurrent expenditures tend to build more
productive public capital assets. Countries that better manage public investments appear to
complement better the private investment inductive to growth. The current study brought out the
relationship between effective public debt management and county government funds absorption
rate in Kenya.

2.3.2 Expenditure Controls

Public Expenditure Controls play a significant role in promoting sound financial management in
public institutions and therefore embraced by most Governments. The concept of Public
Expenditure Control has been developed by the European Commission in order to provide a structured and operational model to assist national governments in re-engineering their internal control environment and in particular to upgrade their public expenditure control systems in line with international standards (Requena, 2006).

Expenditure control focus on transparency, both in terms of clear lines of responsibility and standards. Transparency is a manifestation of holding the government accountable to the public for spending revenue on its behalf. Public expenditure control is a preventive mechanism aimed at ensuring that adequate systems are in place to thwart the occurrence of corruption and fraud.

Effective expenditure controls are crucial for the integrity of the overall public finance management system, yet there is surprisingly no substantial discussion on this topic. The task force on devolved government (TFDG, 2011) carried out a survey on the funds expected to be withdrawn from the Revenue Fund account and the control mechanism of the spending. Article 190 and Article 225 require all the county governments to maintain proper and adequate financial management systems and to be fully accountable to the public on the expenditure and utilization of the funds of the county.
According to Brown and Owler (1984), a budget is a plan quantified in monetary terms, prepared and approved prior to a given period of time, showing income to be generated and expenditure to be incurred during that period to achieve set objectives. Consequently, budgetary control is the establishment of budgets relating to responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results to detect any variances arising as a result of favorable or unfavorable conditions. Pandey (2002) on his studies noted that budget and budgetary control system predicts the future with reasonable precision and removes uncertainty to a greater extent. He further found that this system is advantageous to an organization as it: helps to coordinate, integrate and balance the efforts of various departments;
facilitates control by providing set expectations in the planning stage that can be used as a frame of reference in measuring performance; improves quality of communication on objectives to all individuals in the organization and helps to optimize the use of the organizational resources in directing the total efforts of the firm into the most profitable channels.

According to Barata, Cain and Routledge (2011), the expenditure records are subsequently maintained as evidence by those responsible for the transactions, who keep the records for future use or for those with a legitimate interest in the records, such as Auditors. Expenditure records can be created on paper or computer generated. Without expenditure records there can be no rule of law and accountability. Consolidated expenditure records and a summary of timely, accurate and complete statements are essential for transparency in the PFM system (PEFA, 2005).

A study conducted by Abdul-Rahamon (2014) to analyze the impact of accounting record keeping on the performance of the small scale enterprises in Nigeria revealed a strong positive relationship between accounting record keeping and performance of small scale enterprises. This finding implies that accounting record keeping affects performance of small scale businesses.

Although the study focused on records management in the context of private businesses, it brought out the relationship. The current study assessed expenditure control through financial records in the public sector which borrows heavily from the private sector enterprises. Likewise, a research carried out by Mpakinye (2014) on public expenditure and effective financial management in developing countries, case study: Rwanda (2009-2012) revealed that there is need for the Rwanda government to enhance the training programmes for users of IFMIS to better their understanding of the system and improve on the quality of accounting records. The current study closely related and greatly borrowed from the findings of the study.
Pertaining internal audit as an expenditure control measure, A study carried out by Ahmad, Othman, and Jusoff (2009) on the effectiveness of internal audit in Malaysian public sector, found that lack of audit staff was ranked as the major problem faced by internal auditors in conducting an effective internal auditing hence compromising internal audit function as a tool of expenditure control. This study extended the studies above by examining the relationship between expenditure control measures and county government funds absorption rate in Kenya.

2.3.3 Revenue Collection Administration

The Constitution establishes County governments as independent entities with both executive and legislative powers. In performing the assigned functions counties will utilize resources from intergovernmental transfers, County revenues (own revenues), borrowing and grants (TFDG, 2011). COK (2010) proposes mechanisms for ensuring that intergovernmental transfers are equitably shared between national and county governments and among county governments. This is important because revenue assignments must ensure that the principle of finance-follow-function-apply. The Constitution provides for intergovernmental transfers that include; General Purpose Transfers, Equalization Grant, Conditional grants and Unconditional Grants.

The principles set out in Article 203 of the Constitution provides a basis for national revenue allocation and include: the national interest; any provision that must be made in respect of the public debt and other national obligations; the needs of the national government, determined by objective criteria; the need to ensure that county governments are able to perform the functions allocated to them; the fiscal capacity and efficiency of county governments; developmental and other needs of counties; economic disparities within and among counties and the need to remedy them; the need for affirmative action in respect of disadvantaged areas and groups; the need for economic optimization of each county and to provide incentives for each county to optimize its
capacity to raise revenue; and the need for flexibility in responding to emergencies and other temporary needs, based on similar objective criteria.

The Constitution of Kenya 2010 (Article 204) establishes the Equalization Fund into which 0.5 percent of revenue collected by the national government is paid every year initially for a twenty year period. Monies in the Fund will be used to uplift the quality of basic services such as water, roads, electricity and health in marginalized areas to levels enjoyed by the rest of the country. County governments may be given additional allocations from the national government’s share of revenue, either conditionally or unconditionally (Article 202).

County governments may raise their own revenues by imposing taxes and charging fees for services. Such taxes should however be raised in a way that does not prejudice national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labor (Article 209). The constitutional powers and functions on tax revenues administration in counties have five elements: power to impose tax, tax revenue collection, tax revenue control, tax expenditure and related controls, and tax revenue reporting and auditing. The taxes and charges that county governments can impose or charge include property rates, entertainment taxes and any other tax authorized by an Act of Parliament (Article 209 (3c). The envisaged legislation on County taxation should cover rating, valuation for rating, the criteria, steps and procedures for tax or fees calculation, tax collection procedures and should also specify the sanctions for non-compliance.

County Governments may receive donor grants. These donor funds should be captured and appropriated as revenue or appropriations-in-aid in the annual and forward budgets of County Governments. County Governments may borrow only with the approval of their respective
county assemblies and if the national government guarantees the loan (Article 212). The county
governments should have the option of borrowing from both the money and capital markets
either externally and internally.

A research conducted by Mtasiwa (2013) on the factors causing inefficiency on tax revenue
collection in Tanzania, a case of Tanzania revenue authority located in Temeke tax region
reveals that TRA is facing complaints and hindrances in collecting taxes due to tax evasion, tax
avoidance, and tax complexities. It further established that tax officials misuse the principle of
tax exemptions extended to business communities. Tax officials face difficulties such as
administering all tax laws by failing to access, collect and account for the tax revenues. The
current research borrowed heavily from this study since it deals with the public sector and
broadens the scope to capture revenue sources hence ideal in relation to study on revenue
collection administration and its effect on county government funds absorption rate in Kenya.

2.3.4 Political risk and uncertainty

According to Demirag and Goddard (1994), political risk is categorized into two. The first
category described political risk in terms of government interference, while the second risk was
in terms of events. Greene (1974) defined political risk as that uncertainty stemming from
unexpected and unanticipated acts of governments which may cause disruption of normal
operations of firm’s activities. He also defined it as that possible occurrence of political events of
any kind (such as war, coup, taxation and revolution) that causes deviation from expected
objectives. Friedman and Kim (1988) agree with the proviso that it represents unwanted
consequences of political activity, while Eitman and Stonehill (1986) argue that political risk can
affect an organization either positively or negatively. In the light of the current study, political
risk and uncertainty plays a moderating role in finding out the relationship between public financial management practices and county government funds absorption rate in Kenya.

2.3.5 Funds Absorption Rate

According to the controller of budget (CoB, 2014), funds absorption rate is the actual expenditure as a percentage of approved budgets. The 2014 Report on Annual Budget Implementation Review covering the financial year 2013/2014 shows that county government absorption of funds improved from sh86.7 billion equivalents to 32.2 percent during the third quarter to sh169.4 billion equivalent to 64.9 percent at year end reflected by the level of development providing the basis on which funds absorption rate is measured.

2.4 Conceptual Framework

This study was guided by the following conceptual framework, which was used to explain the interrelationship between variables. A conceptual framework is a scheme of variables researcher operationalise in order to achieve the set objectives (Oso and Onen, 2000). The independent variable which is Public Financial Management practices was measured in terms of Public Debt Management, Expenditure Controls and Revenue Collection Administration. Public Debt Management was measured in terms of management strategies, debt levels and borrowing costs. Expenditure controls was measured in terms of budgeting and budgetary control, financial records and internal audit. Revenue Collection Administration was measured in terms of intergovernmental transfers and own revenues. County Government Absorption rate as dependent variable was measured in terms of level of development. The moderating variable was political risk and uncertainty.
Figure 2.3: Conceptual Framework

**Independent Variables**

**Financial Management Practices**
- Public Debt Management
  - Management strategies
  - Debt levels
  - Borrowing costs
- Expenditure Controls
  - Budgeting and budgetary control
  - Financial records
  - Internal audit
- Revenue Collection Administration
  - Inter-governmental transfers
  - Own revenues

**Dependent Variable**
- County Government Absorption rates
  - Level of Development

**Moderating variable**
- Political risk and uncertainty

Source: Researcher (2017)
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the procedures that will be used to conduct the study, focusing on research design, target population, sample size and sampling procedures, research instruments, data collection and data analysis.

3.2 Research Design

This study employed a descriptive survey research design. Descriptive survey research designs are used in preliminary and exploratory studies to allow researchers to gather information, summarize, present and interpret for the purpose of clarification. Borg and Gall (1989) noted that descriptive survey research is intended to produce statistical information about aspects of financial management that interest policy makers and the government. The study fits within the provisions of descriptive survey research design because the researcher collected data and reported the way things were without manipulating any variables.

3.3 Target Population

Target population is defined as all the members of a real or hypothetical set of people, events or objects to which a researcher wishes to generalize the results of the research study (Borg and Gall, 1989). Kenya consists of 47 County Governments which are used as units of analysis. The 94 County Chief Officers and Principal Accountants form units of observation, giving a target population of 94 respondents.
Table 3.1: Targeted Population.

<table>
<thead>
<tr>
<th>Designation</th>
<th>Targeted Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Officers- Finance</td>
<td>47</td>
</tr>
<tr>
<td>Principal Accountants</td>
<td>47</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>94</strong></td>
</tr>
</tbody>
</table>

Source: researcher (2017)

3.4 Sample Size and Sampling Procedures

Sampling means selecting a given number of subjects from a defined population as representative of that population. Any statement made about the sample should also be true of the population (Orodho, 2002). A census of all county governments was taken into account with the unit of observation as the County Chief Officer of Finance and the Principal Accountant because the target population of 94 was manageable for data collection.

3.5 Research instruments

The main tools of data collection for this study were questionnaires. The questionnaires were used for data collection because it offers considerable advantages in the administration. It also presents a perfect method to reach a large number of people simultaneously and provide the researcher with an easy accumulation of data. Gay (1992) maintains that questionnaires give respondents freedom to express their views or opinion and also to make suggestions. It is also anonymous. Anonymity helps to produce more candid answers than is not possible in an interview. The questionnaires comprised four sections; the first one collected general information
of the respondent and each of the other three sections collected data based on the study objectives. The questionnaire comprised both closed-ended and open-ended items.

3.5.1 Pilot Study

Before collecting the actual data, the researcher conducted a pilot study. The rule of the thumb suggests that 5 to 10 percent of the target sample should constitute the pilot test (Cooper and Schilder, 2011). Thus in the current study, 10 percent was selected which represents 8 respondents. Results from the pilot study were excluded from the main study. Selection was carefully done not to include County Treasury staff members who participated in the actual study. The purpose of the pilot study was to enable the researcher to ascertain the reliability and validity of the instruments, and to familiarize himself with the administration of the questionnaires hence improving the instruments and procedures.

3.5.2 Reliability

Mugenda and Mugenda (2003) define reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trial. The pilot study enabled the researcher to assess the clarity of the questionnaire items so that those items found to be inadequate or vague are modified to improve the quality of the research instrument thus increasing its reliability. Split-Half technique of reliability testing was employed; whereby the pilot questionnaires were divided into two equivalent halves and then a correlation coefficient for the two halves were computed using the Spearman Brown Prophesy formula. The coefficient indicates the degree to which the two halves of the test provide the same results and hence describe the internal consistency of the test.
From the results in table 3.3 above, correlation coefficient of 0.824 indicate that there was internal consistency of the test and hence the instruments were reliable. This was confirmed by Mugenda and Mugenda (2003), who stated that correlation coefficient of 0.8 and above shows that the instruments are reliable.

### 3.5.3 Validity

Validity is defined as the accuracy and meaningfulness of inferences, which are based on the research results (Mugenda and Mugenda, 1999). In other words, validity is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. The pilot study helped improve face validity of the instruments. According to Borg and Gall (1989) content validity of an instrument is improved through expert judgment. As such, the researcher sought assistance from his supervisors, who, as an expert in research, helped improve content validity of the instruments (William O. Omamo, 1995).

### 3.6 Data Collection Procedure

A research permit was obtained from the county government offices after approval by the university. Thereafter, the County Chief Officers of Finance and the Principal Accountants were
contacted before the start of the study. The respondents were given about one week to fill in the questionnaires after which the filled-in questionnaires were collected.

3.7 Methods of Data Analysis

After data collection exercise, the researcher conducted a data cleaning, which involves identification of incomplete or inaccurate responses, which were sorted to improve the quality of the responses. Then the entry of the data was done. The data generated was analyzed and presented using frequency tables, means and percentages with the help of SPSS computer software.

3.8 Empirical Model

The independent variable which is Public Financial Management practices was measured in terms of Public Debt Management, Expenditure Controls and Revenue Collection Administration. Public Debt Management was measured in terms of management strategies, debt levels and borrowing costs. Expenditure controls were measured in terms of budget and budgetary control, financial records and internal audit. Revenue Collection Administration was measured in terms of intergovernmental transfers and own revenues. County Government Absorption rate as dependent variable was measured in terms of level of development. The moderating variable was political risk and uncertainty. Data analysis was carried out by use of narrative analysis strategy, by gauging the extent to which given information provides insights about the issues of financial management practices and County Government funds absorption rate. The following model was used:
Figure 3.1 Empirical Model

\[ Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e \]

Where:

- **Y**: County Government Funds Absorption Rate
- **\( \alpha \)**: Constant
- **X1**: Public Debt Management
- **X2**: Expenditure controls
- **X3**: Revenue Collection Administration
- **X4**: Moderating variable
- **\( \beta_1 \)**: Coefficient of net regression of X1
- **\( \beta_2 \)**: Coefficient of net regression of X2
- **\( \beta_3 \)**: Coefficient of net regression of X3
- **\( \beta_4 \)**: Coefficient of net regression of X4
- **e**: Error term

The model has two sections. The first section comprises Public Debt Management, Expenditure Controls and Revenue Collection Administration as independent variables while the second section consists of County Government Funds Absorption Rate as dependent variable.
Table 3.4 Operationalisation and measurement of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Operationalisation</th>
<th>Measurement scale</th>
<th>Tools of Analysis</th>
<th>Data presentation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independent</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Debt Management</td>
<td>- Management strategies</td>
<td>Ordinal</td>
<td>SPSS-descriptive tables</td>
<td>Tables</td>
</tr>
<tr>
<td></td>
<td>- Debt levels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Borrowing costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure controls</td>
<td>- Budgeting and budgetary control</td>
<td>Ordinal</td>
<td>SPSS-descriptive tables</td>
<td>Tables</td>
</tr>
<tr>
<td></td>
<td>- Financial records</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Internal audit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Collection Administration</td>
<td>- Inter-governmental transfers</td>
<td>Ordinal</td>
<td>SPSS-descriptive tables</td>
<td>Tables</td>
</tr>
<tr>
<td></td>
<td>- Own revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dependent</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County Government funds Absorption Rate</td>
<td>- Level of Development</td>
<td>Nominal</td>
<td>Regression model</td>
<td>Tables</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the output of data analysis that includes: Response rate results, demographic characteristics, descriptive statistics and regression analysis. The presentations are in form of tables and statements. Presentations are made according to the objectives of the study.

4.2 Response Rate

The respondents translated to 88.3 percent of the sample size and it was an independent proportion of the sample size of 94. According to Mugenda and Mugenda (2003), a 50 percent response rate is adequate, 60 percent good and above 70 percent rated very good. Hence 88.3 percent was considered adequate for analysis.

Table 4.1- Response Rate

<table>
<thead>
<tr>
<th>Expected Rate</th>
<th>Actual Rate</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>94</td>
<td>83</td>
<td>88.3</td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

4.3 General information

General information of the respondents were obtained to cover their gender, academic qualification, years worked and position held at the county government.

4.3.1 Gender of the Respondents

The respondents were asked to state their gender and the results are shown in the table below.
Table 4.2: Gender of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>52</td>
<td>62.7</td>
</tr>
<tr>
<td>Female</td>
<td>31</td>
<td>37.3</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From the table 4.2 above, it was found out that 62.7 percent of the respondents were male while 37.3 percent were female. This implies that the two third gender requirement is met by county governments.

### 4.3.2 Academic Qualification

The respondents were asked to state their academic qualifications and the results are shown in the table below.

Table 4.3- Academic Qualification

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Masters Degree</td>
<td>10</td>
<td>12.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Bachelors Degree</td>
<td>73</td>
<td>88.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From table 4.3 above, it was found out that 12 percent and 88 percent of the respondents in the county governments have attained Masters Degree and Bachelors Degree respectively. This implies that all respondents were able to read and fill the questionnaires given out without any problem. Furthermore, the academic qualifications held by the respondents were suitable for their positions.
4.4.3 Years of service

The respondents were asked to state the number of years worked in the county government and the results are shown in the table below

Table 4.4: Years of service

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>3</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Between 1 - 2 years</td>
<td>8</td>
<td>9.6</td>
<td>13.3</td>
</tr>
<tr>
<td>Between 2 - 3 years</td>
<td>12</td>
<td>14.5</td>
<td>27.7</td>
</tr>
<tr>
<td>Over 3 years</td>
<td>60</td>
<td>72.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From the table above, it was found out that 3.6 percent of respondents have worked in the county government for less than 1 year, 9.6 percent have worked between 1 to 2 years, 14.5 percent have worked between 2 to 3 years and 72.3 percent have worked for over 3 years. This implies that there is low turnover of employees in the county government.

4.4.4 Designation

The respondents were asked to state their position in the county government and the results are shown in the table below.

Table 4.5: Designation of respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief officer of Finance</td>
<td>40</td>
<td>48.2</td>
<td>48.2</td>
</tr>
<tr>
<td>Principal Accountant</td>
<td>43</td>
<td>51.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data 2017
From the table 4.5 above, it was found out that 48.2 percent and 51.8 percent of the respondents were chief officers of finance and principal accountants respectively. This implies that the two categories of respondents responded positively to the questionnaire.

4.4 Public Debt Management

Public debt management results sought to obtain responses on strategies employed, debt levels, policies and descriptive statistics.

4.4.1 Public Debt Management Strategies

The respondents were asked to state whether the county government have public debt management strategies in place and the results are shown below.

Table 4.6: Public Debt Management Strategies

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>70</td>
<td>84.3</td>
<td>84.3</td>
</tr>
<tr>
<td>No</td>
<td>13</td>
<td>15.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From table 4.6 above, it was found out that 84.3 percent of the respondents were aware of existence of county government public debt management strategies implying that county governments have in place strategies to manage public debt. This was also confirmed in the study carried out by the World Bank (2012) on a cross country analysis of public debt management strategies and found out that a higher level of income in a country appears to increase its probability of having a debt management strategy.
4.4.2 Debt Level at the end of FY 2015/2016

The respondents were asked to state the debt level at the end of financial year 2015/2016 and the results are shown in the table below.

**Table 4.7: Debt Level at the end of FY 2015/2016**

<table>
<thead>
<tr>
<th>Debt Level</th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25%</td>
<td>13</td>
<td>15.7</td>
<td>15.7</td>
</tr>
<tr>
<td>Between 25-50%</td>
<td>61</td>
<td>73.5</td>
<td>89.2</td>
</tr>
<tr>
<td>Between 50-75%</td>
<td>9</td>
<td>10.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From table 4.7 above, it was found out that 73.5 percent of the respondents stated that county government had debt level of between 25 – 50 percent at the end of financial year 2015/2016 implying that county governments maintain their debt levels between 25 to 50 percent. This was also confirmed by World Bank (2012) that conducted a study on a cross- country analysis and found out that the level of indebtedness positively correlated with the incidence of a strategy.

4.4.3 Policy to Minimize Borrowing Costs

The respondents were asked to state whether county government have put in place any policy to minimize borrowing costs and the results are shown in the table below.

**Table 4.8: Policy to Minimize Borrowing Cost**

<table>
<thead>
<tr>
<th>Policy</th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>67</td>
<td>80.7</td>
<td>80.7</td>
</tr>
<tr>
<td>No</td>
<td>16</td>
<td>19.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
From table 4.8 above, it was found out that 80.7 percent of the respondents were aware of the policies put in place to minimize borrowing costs implying that county governments are keen on minimizing costs of borrowing. This was also confirmed by Cavalcanti, Marrero and Minh (2014) who conducted a study on measuring the impact of debt financed public investment and found out that the PISM tool underscores the parallel between the discipline in the public investment management and in the management of public finances.

4.4.4 Descriptive Statistics on Public Debt Management

The respondents were asked to state the extent to which they agree with statements on how public debt management relates to county government absorption rates in Kenya. The responses were placed on a five likert scale of 5 (Strongly agree), 4 (Agree), 3 (Undecided), 2 (Disagree) and 1 (Strongly disagree). A mean of above 3 is regarded to measure satisfaction on the test variables. Standard deviation was used to indicate the variation (dispersion) from the average (mean). A high standard deviation indicates that the data is spread over large range of values, whereas a low standard deviation indicates that the data tend to be close to the mean. The results are shown in the table below.

Table 4.9 – Descriptive Statistics on Public Debt Management

<table>
<thead>
<tr>
<th>Response on Sufficient Strategies</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response on Sustainable Debt Level</td>
<td>3.7590</td>
<td>.77444</td>
</tr>
<tr>
<td>Response on Financing Requirements of Projects</td>
<td>2.9759</td>
<td>1.16845</td>
</tr>
<tr>
<td>Response on Cost Incurred In Borrowing</td>
<td>1.9398</td>
<td>1.02997</td>
</tr>
<tr>
<td>Response on Effectiveness of Strategies</td>
<td>3.9880</td>
<td>.86241</td>
</tr>
</tbody>
</table>

Source: Survey data (2017)
In table 4.9 above are the details of the measures of relationship between public debt management and county government funds absorption rate in Kenya. The statements have been ranked in terms of their means and standard deviation so as to deduce meaning out of the results. The study found that the respondents seemed to agree that sufficient strategies of public debt management relate to county government absorption rates in Kenya with a mean of 4.0843 which is above 3. However, the standard deviation of .56751 shows that there is clear variation in the responses provided by the respondents. The respondents seemed to agree that sustainable debt levels relate to county government absorption rates in Kenya with a mean of 3.7590 which is above 3. However, the standard deviation of .77444 shows that there is a significant varied responses provided by the respondents.

The respondents seemed to disagree with the statement that financing requirements of projects relate to county government absorption rates in Kenya with a mean of 2.9759 which is slightly below 3. Nevertheless, the corresponding standard deviation of 1.16845 suggests that respondents had greater variation of responses. The respondents seemed to disagree with the statement that cost incurred in borrowing relate to county government absorption rates in Kenya with a mean of 1.9398 which is below 3. Nevertheless, the corresponding standard deviation of 1.02997 suggests that respondents had greater variation of responses. The respondents seemed to agree with the statement that effectiveness of public debt management strategies relate to county government absorption rates in Kenya with a mean of 3.9880 which is above 3. However, the standard deviation of .86241 shows that there is a significant varied responses provided by the respondents.
4.5 Expenditure Controls

Expenditure control results include budgeting, expenditure records, internal audit function and descriptive statistics.

4.5.1 Budgeting and Budgetary Control Process

The respondents were asked to state whether budgets are approved by the controller of budget and the results are shown in the table below.

Table 4.10: Budgeting and Budgetary Control Process

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>75</td>
<td>90.4</td>
<td>90.4</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>9.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From table 4.10 above, it was found out that 90.4 percent of the respondents were aware of county government budget approval by the controller of budget implying that county governments adhere to the requirement of budget approval before implementation. This was also confirmed by Pandey (2002) who conducted a study on budgeting and budgetary control system and found out that this system predicts the future with reasonable precision and removes uncertainties to a greater extent.

4.5.2 Maintenance of Proper Expenditure Records

The respondents were asked to state whether county government maintain proper expenditure records and the results are shown in the table below.
Table 4.11: Proper Expenditure Records

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>68</td>
<td>81.9</td>
<td>81.9</td>
</tr>
<tr>
<td>No</td>
<td>15</td>
<td>18.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

From table 4.11 above, it was found out that 81.9 percent of the respondents stated that county government maintain proper expenditure records implying that there is proper maintenance of expenditure records in county governments. This was also confirmed by Abdul-Rahamon (2014) who conducted a study in Nigeria and found out that there is a strong positive relationship between accounting record keeping and performance of small scale enterprises.

4.5.3 Existence of Internal Audit Function

The respondents were asked to state whether there is internal audit function in place and the results are shown in the table below.

Table 4.12: Internal Audit Function

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>79</td>
<td>95.2</td>
<td>95.2</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>4.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From table 4.12 above, it was found out that 95.2 percent of the respondents stated that there is internal audit function in place implying that county government have in place internal audit function. This was also confirmed by Mpakinye (2014) who conducted a study in Rwanda and
found out that there is need for Rwandan government to enhance training programmers for users of IFMIS to better their understanding of the system.

### 4.5.4 Effectiveness of Internal Audit Function

The respondents were asked to state the effectiveness of internal audit function.

<table>
<thead>
<tr>
<th>Table 4.13 Effectiveness of Internal Audit Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Very Effective</td>
</tr>
<tr>
<td>Effective</td>
</tr>
<tr>
<td>Not Effective</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

From table 4.13 above, it was found out that 63.9 percent of the respondents stated that the internal audit function is effective implying that the internal audit function installed by county governments are effective. This was also confirmed by a study carried out by Ahmad, Othman, and Jusoff (2009) on the effectiveness of internal audit in Malaysian public sector and found out that lack of audit staff was ranked as the major problem faced by internal auditors in conducting an effective internal auditing hence compromising internal audit function as a tool of expenditure control.

### 4.5.5 Descriptive Statistics on Expenditure Control

The respondents were asked to state the extent to which they agree with statements on how expenditure controls relate to county government absorption rates in Kenya. The responses were placed on a five likert scale of 5 (Strongly agree), 4 (Agree), 3 (Undecided), 2 (Disagree) and 1
(Strongly disagree). A mean of above 3 is regarded to measure satisfaction on the test variables. Standard deviation was used to indicate the variation (dispersion) from the average (mean). A high standard deviation indicates that the data is spread over large range of values, whereas a low standard deviation indicates that the data tend to be close to the mean. The results are shown in the table below.

**Table 4.14 – Descriptive Statistics on Expenditure Controls**

<table>
<thead>
<tr>
<th>Response on Management Information Systems</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response on Controller of budget Approval</td>
<td>4.4940</td>
<td>.77102</td>
</tr>
<tr>
<td>Response on Presence of Effective Internal Audit</td>
<td>4.5181</td>
<td>.84625</td>
</tr>
<tr>
<td>Response on Maintenance of Proper Records</td>
<td>4.4578</td>
<td>.68612</td>
</tr>
<tr>
<td>Response on Formulation of policies</td>
<td>4.4458</td>
<td>.66723</td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

In table 4.14 above are the details of the measures of relationship between expenditure controls and county government absorption rates in Kenya. The statements have been ranked in terms of their means and standard deviation so as to deduce meaning out of the results. The study found that the respondents agreed that application of management information system in expenditure controls relate to county government absorption rates in Kenya with a mean of 4.4940 which is above 3. However, the standard deviation of .77102 shows that there is slight variation in the responses provided by the respondents. The respondents seemed to agree that approval by the controller of budget before any spending is done relate to county government absorption rates in Kenya with a mean of 4.4699 which is above 3. However, the standard deviation of .73811 shows that there is a clear variation of responses provided by the respondents.
The respondents agreed with the statement that presence of an effective internal audit relate to county government absorption rates in Kenya with a mean of 4.5181 which is way far above 3. Furthermore, the corresponding standard deviation of .84625 suggests that respondents had slight variation of responses. The respondents agreed with the statement that maintenance of proper financial records relate to county government absorption rates in Kenya with a mean of 4.4578 which is above 3. Nevertheless, the corresponding standard deviation of .68612 suggests that respondents had clear variation of responses. The respondents greatly agreed with the statement that formulation of policies, guidelines, regulations to guide on how allocated resources should be used relate to county government absorption rates in Kenya with a mean of 4.4458 which is above 3. However, the standard deviation of .66723 shows that there is a clear variation of responses provided by the respondents.

4.6 Revenue Collection Administration

Revenue collection administration results include source of revenue, challenges, adequacy of allocated amount and descriptive statistics.

4.7.1 Major Source of Revenue

The respondents were asked to state the major source of revenue for the county government and the results are shown in the table below.

Table 4.15: Major Source of Revenue

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Revenue</td>
<td>38</td>
<td>45.8</td>
<td>45.8</td>
</tr>
<tr>
<td>Intergovernmental transfer</td>
<td>45</td>
<td>54.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
From table 4.15 above, it was found out that 54.2 percent of the respondents stated that intergovernmental transfer is the major source of revenue implying that the major source of revenue for county government is from intergovernmental transfer. This was also confirmed by TFDG (2011) that conducted a survey on devolved governments and found out that in performing the assigned functions counties will utilize resources from intergovernmental transfers, own revenues, borrowing and grants.

4.6.2 Major Challenge of Revenue Administration

The respondents were asked to state the major challenge facing implementation of the county government revenue collection administration and the results are shown in the table below.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>13</td>
<td>15.7</td>
<td>15.7</td>
</tr>
<tr>
<td>Poor Policies</td>
<td>15</td>
<td>18.1</td>
<td>33.7</td>
</tr>
<tr>
<td>Improper Training</td>
<td>8</td>
<td>9.6</td>
<td>43.4</td>
</tr>
<tr>
<td>Tax Evasion</td>
<td>47</td>
<td>56.6</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>83</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

From table 4.16 above, it was found out that 56.6 percent of the respondents stated that the major challenge facing county government implementation of revenue collection administration was tax evasion implying that county government greatly face the challenge of tax evasion in its implementation of revenue collection administration. This was also confirmed by Mtasiwa (2013) who conducted a study on the factors causing inefficiency on tax revenue collection in
Tanzania and found out that TRA is facing complaints and hindrances in collecting taxes due to tax evasion, tax avoidance, and tax complexities.

4.6.3 Adequacy of Amount Allocated

The respondents were asked to state whether the amount allocated to the county government is adequate and the results are shown in the table below.

Table 4.17: Amount Allocated

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate</td>
<td>26</td>
<td>31.3</td>
<td>31.3</td>
</tr>
<tr>
<td>Inadequate</td>
<td>57</td>
<td>68.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From table 4.18 above, it was found that 68.7 percent of the respondents stated that the amount allocated is inadequate implying that the amount allocated to county government is inadequate and cannot sufficiently serve the needs of the county government. This was also confirmed by constitution (2010) article 2009 which states that in addition to intergovernmental transfers, county government may raise their own revenues by imposing taxes and charging fees for services.

4.6.4 Descriptive Analysis on Revenue Collection Administration

The respondents were asked to state the extent to which they agree with statements on how revenue collection administration relates to county government absorption rates in Kenya. The responses were placed on a five likert scale of 5 (Strongly agree), 4 ( Agree), 3 (Undecided), 2 (Disagree) and 1 (Strongly disagree). A mean of above 3 is regarded to measure satisfaction on
the test variables. Standard deviation was used to indicate the variation (dispersion) from the average (mean). A high standard deviation indicates that the data is spread over large range of values, whereas a low standard deviation indicates that the data tend to be close to the mean. The results are shown in the table below.

<table>
<thead>
<tr>
<th>Response on Borrowing</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response on Revenue Collection</td>
<td>3.1205</td>
<td>1.20363</td>
</tr>
<tr>
<td>Response on Reference Materials</td>
<td>2.7229</td>
<td>1.14032</td>
</tr>
<tr>
<td>Response on Increased County Revenues</td>
<td>3.4940</td>
<td>1.08580</td>
</tr>
<tr>
<td>Response on Equitable sharing of Revenue</td>
<td>1.8313</td>
<td>.82372</td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

In table 4.18 above are the details of the measures of relationship between revenue collection administration and county government absorption rates in Kenya. The statements have been ranked in terms of their means and standard deviation so as to deduce meaning out of the results. The study found that the respondents disagreed with the statement that borrowing to finance development of projects relate to county government absorption rates in Kenya with a mean of 1.8072 which is below 3. However, the standard deviation of .87594 shows that there is significant variation in the responses provided by the respondents. The respondents seemed to slightly agree with the statement that revenue collection within the county by the county government relate to county government absorption rates in Kenya with a mean of 3.1205 which is slightly above 3. However, the standard deviation of 1.20363 shows that there is great variation of responses provided by the respondents.
The respondents disagreed slightly with the statement that accessibility and availability of reference materials generated from county revenues relate to county government absorption rates in Kenya with a mean of 2.7229 which is slightly below 3. Furthermore, the corresponding standard deviation of 1.14032 suggests that respondents had greater variation of responses. The respondents slightly agreed with the statement that increased county revenues would increase county government autonomy relate to county government absorption rates in Kenya with a mean of 3.4940 which is above 3. Nevertheless, the corresponding standard deviation of 1.0858 suggests that respondents had greatly varied responses. The respondents disagreed with the statement that equitable sharing of revenue raised relate to county government absorption rates in Kenya with a mean of 1.8313 which is below 3. However, the standard deviation of .82372 shows that there is slight variation of responses provided by the respondents.

4.7 County Government Funds Absorption Rate

County government funds absorption rate provides the descriptive statistics.

4.7.1 Descriptive Analysis on Absorption Rates

The respondents were asked to state the extent to which they agree with statements on county government absorption rates in Kenya. The responses were placed on a five likert scale of 5 (Strongly agree), 4 (Agree), 3 (Undecided), 2 (Disagree) and 1 (Strongly disagree). A mean of above 3 is regarded to measure satisfaction on the test variables. Standard deviation was used to indicate the variation (dispersion) from the average (mean). A high standard deviation indicates that the data is spread over large range of values, whereas a low standard deviation indicates that the data tend to be close to the mean. The results are shown in the table below.
Table 4.19 – Descriptive Statistics on Funds Absorption Rates

<table>
<thead>
<tr>
<th>Measures to Improve Absorption Rates</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response on Measures to Improve Absorption Rates</td>
<td>4.5904</td>
<td>.71629</td>
</tr>
<tr>
<td>Response on Enhanced Absorption Rates</td>
<td>4.5663</td>
<td>.78387</td>
</tr>
<tr>
<td>Response on County Government Operations</td>
<td>3.5060</td>
<td>1.08621</td>
</tr>
<tr>
<td>Response on absorption rate steady increase</td>
<td>4.0843</td>
<td>.56751</td>
</tr>
<tr>
<td>Response on county government commitment</td>
<td>4.4699</td>
<td>1.08580</td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

In table 4.19 above are the details of the measures on county government funds absorption rate in Kenya. The statements have been ranked in terms of their means and standard deviation so as to deduce meaning out of the results. The study found that the respondents agreed with the statement that measures can be put in place to improve county government absorption rates in Kenya with a mean of 4.5904 which is above 3. However, the standard deviation of .71629 shows that there is slight variation in the responses provided by the respondents. The respondents seemed to greatly agree with the statement that enhanced absorption rates lead to a higher level of development in county governments in Kenya with a mean of 4.5663 which is way far above 3. However, the standard deviation of .78387 shows that there is slight variation of responses provided by the respondents.

The respondents agreed slightly with the statement that county governments operate at low absorption rates in Kenya with a mean of 3.5060 which is above 3. Furthermore, the corresponding standard deviation of 1.08621 suggests that respondents had greater variation of responses. The respondents seemed to greatly agree with the statement that county government funds absorption rate has steadily increased within four years with a mean of 4.0843 which is way far above 3. However, the standard deviation of .56751 shows that there is slight variation of responses provided by the respondents. The respondents agreed slightly with the statement
that county governments are committed to improving funds absorption rate with a mean of 3.4699 which is above 3. Furthermore, the corresponding standard deviation of 1.08580 suggests that respondents had greater variation of responses.

4.8 Hypotheses Testing

The study sought to find out the relationship between: public debt management; expenditure controls; revenue collection administration; and the county government funds absorption rate in Kenya. The hypotheses were tested using a linear regression model and were stated as follows:
Ho: There is no relationship between: public debt management; expenditure controls; revenue collection administration; and county government funds absorption rate in Kenya.

4.8.1 Regression results without moderating effect

Regression analysis is the statistical technique that identifies the relationship between two or more quantitative variables: a dependent variable whose value is to be predicted and an independent variable (or variables), about which knowledge is available. The application of linear regression determines the predictive power of the public financial management practices on county government funds absorption rate in Kenya.

Tables 4.20, 4.21 and 2.22 display the regression results of the study.

Table 4.20 - Model Summary without moderating effect

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.446*</td>
<td>.199</td>
<td>.169</td>
<td>.35004</td>
</tr>
</tbody>
</table>

Source: Survey data (2017)
From table 4.21 above, the adjusted R square value (0.199) shows that the model accounted for 19.9 percent of variance on the county government funds absorption rate in Kenya. The R squared value is relatively low because the researcher limited the study to only cover the segment factors that influence county government funds absorption rate in Kenya.

**Table 4.21 – ANOVA without moderating effect**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>2.404</td>
<td>3</td>
<td>.801</td>
<td>6.540</td>
<td>.001b</td>
</tr>
<tr>
<td>Residual</td>
<td>9.680</td>
<td>79</td>
<td>.123</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12.084</td>
<td>82</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Funds absorption rate  
b. Predictors: (Constant), Revenue collection, Expenditure controls, Public debt management

From table 4.21 above, p value of 0.001 means the variables considered in this study fit into the regression model since (P<0.005), hence the model was adequate for the study.

**Table 4.22 – Coefficients without moderating effect**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-.235</td>
<td>.500</td>
<td>-.471</td>
<td>.000</td>
</tr>
<tr>
<td>Public debt management</td>
<td>.231</td>
<td>.100</td>
<td>.236</td>
<td>2.295</td>
</tr>
<tr>
<td>Expenditure controls</td>
<td>.275</td>
<td>.121</td>
<td>.233</td>
<td>2.271</td>
</tr>
<tr>
<td>Revenue collection</td>
<td>.341</td>
<td>.094</td>
<td>.375</td>
<td>3.613</td>
</tr>
</tbody>
</table>

Source: Survey data (2017)

From the above results in table 4.22, Public Debt Management values of $\beta_1 = 0.236$ and p = 0.024 provide strong evidence (p<0.05) to reject the null hypothesis at 0.05 significance level.
That is to say; public debt management significantly affect the county government funds absorption rate in Kenya. This was further confirmed by TFDG (2011) which argued that County Governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances while meeting cost and risk objectives.

Concerning Expenditure controls, coefficients of $\beta_2 = 0.233$ and $p = 0.026$ provide strong evidence ($p<0.05$) to reject the null hypothesis at 0.05 significance level. Therefore, Expenditure controls significantly affect the county government funds absorption rate in Kenya. This is in line with the findings of Mpakinye (2014) who established that there is need for the Rwandan government to enhance the training programmes for users of IFMIS to better their understanding of the system and improve on the quality of accounting records.

Regarding Revenue collection administration, coefficients of $\beta_2 = 0.375$ and $p = 0.001$ provide strong evidence ($p<0.05$) to reject the null hypothesis at 0.05 significance level. Therefore, Revenue collection administration significantly affects the county government funds absorption rate in Kenya. This was confirmed by Mtasiwa (2013), who stated that tax officials face difficulties such as administering all tax laws by failing to access, collect and account for the tax revenues.

### 4.8.2 Regression results with moderating effect

Regression results with moderating effect are as displayed below.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
</table>

Table 4.23 - Model Summary with moderating effect
From table 4.23 above, the R squared value (0.315) shows that the model accounted for 31.5 percent of variance on the county government funds absorption rate in Kenya. This therefore means the moderating variable significantly influence county government funds absorption rate in Kenya.

Table 4.24 – ANOVA with moderating effect

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>3.805</td>
<td>4</td>
<td>.951</td>
<td>8.963</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>8.279</td>
<td>78</td>
<td>.106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12.084</td>
<td>82</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: funds absorption rate  
b. Predictors: (Constant), political risk and uncertainty, expenditure controls, revenue collection, public debt management

From table 4.24 above, p value of 0.000 means the variables considered in this study fit into the regression model since (P<0.005), hence the model was adequate for the study. With the introduction of moderating variable, the F test of 8.963 implies that the moderating variable has significant effect on county government funds absorption rate in Kenya.

Table 4.25 – Coefficients with moderating effect

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.101</td>
<td>1.101</td>
<td>1.655</td>
<td>.002</td>
</tr>
<tr>
<td>Public debt management</td>
<td>.026</td>
<td>.027</td>
<td>.256</td>
<td>.099</td>
</tr>
<tr>
<td>Expenditure controls</td>
<td>.231</td>
<td>.195</td>
<td>2.040</td>
<td>.045</td>
</tr>
<tr>
<td>Revenue collection</td>
<td>.223</td>
<td>.249</td>
<td>2.512</td>
<td>.014</td>
</tr>
<tr>
<td>Political risk and uncertainty</td>
<td>.340</td>
<td>.419</td>
<td>3.980</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: funds absorption rate  

From the above results, the prediction equation becomes:
\[ Y = 1.101 + 0.27X1 + 0.195X2 + 0.249X3 + 0.419X4 + e \]

Political risk and uncertainty has a statistical positive coefficient (\( \beta \) value = 0.419, P value = 0.000), this means political risk and uncertainty moderates the relationship between public financial management practices and county government funds absorption rate in Kenya. The R squared value improved from 19.9 percent to 31.5 percent implying that political risk and uncertainty had significant variation on county government funds absorption rate in Kenya.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter covers the summary of major findings drawn from the study, conclusions and recommendations arrived at by the researcher. The chapter also presents suggestions for further studies.

5.2 Summary of Findings.

The study sought to find out the relationship between public financial management practices and county government funds absorption rate in Kenya. The findings of this study indicated that there is a positive relationship between public debt management and the county government funds absorption rate in Kenya. This implies that improved public debt management leads to enhanced county government funds absorption rate in Kenya. The findings of this study are consistent with the findings of TFDG (2011) which argued that County Governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances while meeting cost and risk objectives.

Concerning the expenditure controls, the study revealed a positive relationship between expenditure controls and county government funds absorption rate in Kenya. This implies that improved expenditure controls leads to increased county government funds absorption rate in Kenya. This is in line with the findings of Mpakinye (2014) who established that there is need for the Rwandan government to enhance the training programmes for users of IFMIS to better their understanding of the system and improve on the quality of accounting records.
Regarding revenue collection administration, the study revealed a positive relationship between Revenue collection administration and county government funds absorption rate in Kenya. This implies that enhanced revenue collection administration leads to increased county government funds absorption rate in Kenya. This is in line with the arguments of Mtasiwa (2013), which states that tax officials face difficulties such as administering all tax laws by failing to access, collect and account for the tax revenues.

5.3 Conclusion

Improvement of public financial management practices is widely recognized as one of the essential elements in enhancing the county government funds absorption rate in Kenya. If county governments will adopt sufficient public debt management; embrace maintenance of proper financial records and ensure that they keep reference materials pertaining to revenue collection, then it will realize enhanced funds absorption rates.

5.4 Recommendation

The county government should put in place sufficient public debt management strategies which should not only be sufficient, but also effective. The county government chief finance officers who are responsible for public debt management should ensure that public debt levels are sustainable while at the same time attaining minimum borrowing costs.

The expenditure controls should be upheld through embracing maintenance of proper financial records by the county government principal accountants. The principal accountants need to be trained on proper record keeping and the use of technological systems like the accounting softwares that improves the accuracy and safety of financial records. Likewise, effective internal
audit function should be in existence to provide a basis in which reconciliation of financial statements is done periodically.

The revenue collection administration should be enhanced by ensuring that reference materials generated from county government revenue section are available and accessible at all times to the county government internal and external auditors. The procedures and policies on the collection of county government own revenues should be strengthened and adhered to by the revenue collection administrative officers.

5.5 Suggestion for Future Research Study

The researcher suggests the following areas, which the researchers can consider for further research.

A similar study in other types of governments, particularly the national government is suggested for further studies. Furthermore, since the study covered the county governments in Kenya, comparative studies would be appropriate in other areas.
REFERENCES


APPENDIX I: THE MAP OF COUNTY GOVERNMENTS IN KENYA

## APPENDIX 11: COUNTY GOVERNMENT FUNDS ABSORPTION RATES

### STATISTICS

<table>
<thead>
<tr>
<th>County</th>
<th>Total Budget</th>
<th>Budget of the two arms of County Governments</th>
<th>Expenditure by the two arms of County Governments</th>
<th>Absorption Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>County Assembly Budget</td>
<td>County Executive Budget</td>
<td>County Assembly Expenditure</td>
</tr>
<tr>
<td>MANDERA</td>
<td>6,987,632,929</td>
<td>880,721,416</td>
<td>6,106,911,513</td>
<td>175,604,728</td>
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<tr>
<td>MARSABIT</td>
<td>3,840,608,898</td>
<td>415,043,304</td>
<td>3,424,965,594</td>
<td>95,697,528</td>
</tr>
<tr>
<td>MERU</td>
<td>5,681,680,382</td>
<td>810,477,204</td>
<td>4,871,203,178</td>
<td>359,768,752</td>
</tr>
<tr>
<td>MIGORI</td>
<td>5,530,654,457</td>
<td>848,935,737</td>
<td>4,681,718,720</td>
<td>215,973,202</td>
</tr>
<tr>
<td>MOMBASA</td>
<td>11,686,014,896</td>
<td>855,841,396</td>
<td>10,830,173,500</td>
<td>271,313,611</td>
</tr>
<tr>
<td>MURANGA</td>
<td>5,621,869,067</td>
<td>497,556,009</td>
<td>5,124,313,067</td>
<td>164,398,453</td>
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<tr>
<td>NAIROBI</td>
<td>25,225,181,329</td>
<td>1,620,201,208</td>
<td>23,604,980,184</td>
<td>598,336,042</td>
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<tr>
<td>NAKURU</td>
<td>10,038,042,113</td>
<td>979,547,831</td>
<td>9,058,494,282</td>
<td>490,746,634</td>
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<tr>
<td>NANDI</td>
<td>3,899,794,019</td>
<td>704,040,331</td>
<td>3,195,753,688</td>
<td>296,264,795</td>
</tr>
<tr>
<td>NAROK</td>
<td>8,083,853,311</td>
<td>701,915,629</td>
<td>7,381,937,682</td>
<td>229,101,730</td>
</tr>
<tr>
<td>NYAMIRA</td>
<td>3,415,715,932</td>
<td>658,734,200</td>
<td>2,756,981,732</td>
<td>189,748,990</td>
</tr>
<tr>
<td>NYANDARUA</td>
<td>3,639,860,739</td>
<td>546,860,002</td>
<td>3,093,000,737</td>
<td>201,267,574</td>
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<tr>
<td>NYERI</td>
<td>4,550,415,709</td>
<td>598,654,331</td>
<td>3,951,761,378</td>
<td>258,876,272</td>
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<tr>
<td>SAMBURU</td>
<td>2,906,460,855</td>
<td>447,767,621</td>
<td>2,458,693,234</td>
<td>104,875,393</td>
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<tr>
<td>SIAYA</td>
<td>4,264,697,958</td>
<td>664,608,056</td>
<td>3,599,489,902</td>
<td>184,976,070</td>
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<tr>
<td>TAITA TAVETA</td>
<td>2,858,870,449</td>
<td>417,474,217</td>
<td>2,441,396,232</td>
<td>90,086,874</td>
</tr>
<tr>
<td>TANARIVER</td>
<td>3,206,697,123</td>
<td>511,164,000</td>
<td>2,694,933,123</td>
<td>128,377,670</td>
</tr>
<tr>
<td>THARAKA NITHI</td>
<td>2,518,590,070</td>
<td>260,281,769</td>
<td>2,258,308,301</td>
<td>162,711,552</td>
</tr>
<tr>
<td>TRANS-NZOIA</td>
<td>4,424,512,783</td>
<td>641,699,379</td>
<td>3,782,813,404</td>
<td>185,880,468</td>
</tr>
<tr>
<td>TURKANA</td>
<td>8,145,687,939</td>
<td>1,196,834,342</td>
<td>6,948,253,597</td>
<td>342,625,655</td>
</tr>
<tr>
<td>UASIN GISHU</td>
<td>5,727,883,679</td>
<td>573,391,967</td>
<td>5,154,491,712</td>
<td>250,477,949</td>
</tr>
<tr>
<td>VIHIGA</td>
<td>3,263,931,119</td>
<td>696,718,231</td>
<td>2,567,212,888</td>
<td>227,997,648</td>
</tr>
<tr>
<td>WAHIR</td>
<td>5,413,561,682</td>
<td>400,428,626</td>
<td>5,013,133,056</td>
<td>228,461,075</td>
</tr>
<tr>
<td>WEST POKOT</td>
<td>3,631,252,476</td>
<td>404,846,804</td>
<td>3,226,465,672</td>
<td>176,564,446</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>269,134,214,016</strong></td>
<td><strong>31,396,437,854</strong></td>
<td><strong>237,737,776,222</strong></td>
<td><strong>11,274,607,483</strong></td>
</tr>
</tbody>
</table>

Source: Controller of Budget Quarter III Report - June 2014
APPENDIX III: INTRODUCTORY LETTER TO THE RESPONDENT

Dear respondent,

RE: COLLECTION OF DATA ON FUNDS ABSORPTION RATE IN KENYA

In partial fulfillment of the stated degree, I am undertaking a study on the relationship between public financial management practices and County government funds absorption rate in Kenya. In that regard, I have developed a questionnaire to help in obtaining relevant data for this research. I would appreciate if you kindly take some of your time to answer the questionnaire appropriately. The information gathered will be accorded a high degree of confidentiality.

Thank you.

Yours faithfully,

Serem Kibiwott Joseph.

D53/CTY/PT/33272/2014.
APENDIX IV: REQUEST FOR PERMISSION TO COLLECT DATA

To the County Government,

Treasury Office.

Dear Sir / Madam

RE: PERMISSION TO COLLECT DATA.

In partial fulfillment of the stated degree, I am undertaking a study on the relationship between public financial management practices and county government funds absorption rate in Kenya. In that regard, I would like to request your office to grant me permission to visit your county for purposes of data collection. The information gathered will be accorded a high degree of confidentiality.

Thank you.

Yours faithfully,

Serem Kibiwott Joseph.

D53/CTY/PT/33272/2014.
APPENDIX V: QUESTIONNAIRES

FOR THE COUNTY CHIEF OFFICERS OF FINANCE AND PRINCIPAL ACCOUNTANTS

SECTION A: Demographic information.

1. Your gender

   Male [ ] Female [ ]

2. Academic Qualifications

   Masters Degree [ ] Bachelors Degree [ ]
   Diploma [ ] Certificate [ ]

3. For how long have you worked with the County Government?

   Less than 1 year [ ] Between 1-2 years [ ]
   Between 2-3 years [ ] Above 3 years [ ]

4. What is your current position in the County Government?

   Chief Officer of Finance [ ] Principal Accountant [ ]

SECTION B: RELATIONSHIP BETWEEN PUBLIC DEBT MANAGEMENT AND COUNTY GOVERNMENT ABSORPTION RATES IN KENYA.

   a) Does the County Government have Public Debt Management strategies in place?

      (Please Tick)

      Yes [ ] No [ ]

      If yes (Explain)………………………………………………………………………………………………………………

   b) What was the County Government debt level at the end of FY 2015/2016?

      Less than 25% [ ] Between 25-50% [ ]
      Between 50-75% [ ] Over 75% [ ]

   c) Has the County Government put in place any policy to minimize borrowing costs?

      (Please Tick)

      Yes [ ] No [ ]

      If yes (Explain)………………………………………………………………………………………………………………

Kindly give your opinion on how you agree/disagree on how public debt management relates to county government absorption rates in Kenya.
### SECTION C: RELATIONSHIP BETWEEN EXPENDITURE CONTROLS AND COUNTY GOVERNMENT ABSORPTION RATES IN KENYA.

a) Does the county government adhere to the budgeting and budgetary control process? (please tick)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

b) Does the county government maintain proper expenditure records? (please tick)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

If yes, explain …………………………………………………………………………………………………………………

c) Is the internal audit function in place? (please tick)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

d) How effective is the internal audit function? (please tick)

<table>
<thead>
<tr>
<th>Very Effective</th>
<th>Effective</th>
<th>Not effective</th>
</tr>
</thead>
</table>

Kindly give your opinion on how you agree/disagree on how expenditure controls relate to county government absorption rates in Kenya

**KEY 5: STRONGLY AGREE; 4: AGREE; 3: UNDECIDED; 2: DISAGREE; 1: STRONGLY DISAGREE**

<table>
<thead>
<tr>
<th>Statements</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application of Management Information Systems in expenditure control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval by the controller of budget before any spending is done</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Presence of an effective internal audit function</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Maintenance of proper financial records
Formulation of policies, guidelines, regulations to guide on how allocated resources should be used

SECTION D: RELATIONSHIP BETWEEN REVENUE COLLECTION ADMINISTRATION AND COUNTY GOVERNMENT ABSORPTION RATES IN KENYA.

a.) What is the main source of revenue for the County Government? (please tick)
   - Own revenue [ ]
   - Intergovernmental transfer [ ]
   - Loans [ ]
   - Grants and Donations [ ]

b.) What is the major challenge facing County Governments in the implementation of the Revenue collection administration?
   - Corruption [ ]
   - Poor policies [ ]
   - Improper training [ ]
   - Tax evasion [ ]

c) Do you think the amount allocated to the County Government is adequate for the county to fulfill its functions?
   - Adequate [ ]
   - Inadequate [ ]

(Explain) ……………………………………………………………………………………………………………………………

Kindly give your opinion on how you agree/disagree on how revenue collection administration relates to County government absorption rates in Kenya.

KEY 5: STRONGLY AGREE; 4: AGREE; 3: UNDECIDED; 2: DISAGREE; 1: STRONGLY DISAGREE

<table>
<thead>
<tr>
<th>Statements</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing to finance development projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue collection within the county by the county government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accessibility and availability of reference materials generated from county revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased county Revenues would increase county governments’ autonomy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equitable Sharing of Revenue raised</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION E: RELATIONSHIP BETWEEN POLITICAL RISKS AND UNCERTAINTIES AND COUNTY GOVERNMENT FUNDS ABSORPTION RATES.

Kindly give your opinion on how you agree/disagree on relationship between political risks and uncertainties and county government funds absorption rates in Kenya
KEY 5: STRONGLY AGREE; 4: AGREE; 3: UNDECIDED; 2: DISAGREE; 1: STRONGLY DISAGREE

<table>
<thead>
<tr>
<th>Statements</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political risks influence county government funds absorption rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Where there is no political risks, county governments realise high funds absorption rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fluctuations in funds absorption rate are in line with political risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County governments can mitigate political risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political risks impact negatively on county government funds absorption rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION F: COUNTY GOVERNMENT ABSORPTION RATES IN KENYA

a) Does the county government have absorption rate tracking measures? (please tick)
   Yes [ ] No [ ]

b) What was the county government absorption rate at the end of financial year 2015/2016?
   Less than 25% [ ] Between 25-50% [ ] Between 50-75% [ ]

c) Has the county government put in place any policy to improve absorption rates?
   Yes [ ] No [ ]

If yes, explain……………………………………………………………………………………………………………………………………

Kindly give your opinion on how you agree/disagree on county government absorption rates in Kenya
KEY 5: STRONGLY AGREE; 4: AGREE; 3: UNDECIDED; 2: DISAGREE; 1: STRONGLY DISAGREE

<table>
<thead>
<tr>
<th>Statements</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measures can be put in place to improve funds absorption rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced funds absorption rate lead to a higher level of development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
County Governments operate at low fund absorption rate

County government funds absorption rate has increased steadily over four years

County governments are committed towards improving funds absorption rate.

Thank you for participating