PUBLIC FINANCIAL MANAGEMENT AND FINANCIAL PERFORMANCE OF COUNTY GOVERNMENTS IN KENYA

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NOVEMBER, 2021

DECLARATION

I declare and confirm that this is my original work and has not been presented for any other degree in an institution of higher learning.

Signature Date

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Valerie Nandutu Kisaka,

D53/OL/KSU/ 26270/2018

I hereby confirm that the scholarly work in this project has been done by the candidate under my supervision as the appointed University Supervisor.

Signature Date

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DEDICATION

I would love to dedicate this work to my children Myles and Zani that this would be a stepping stone and an encouragement to you to go further in your academics. I am also grateful to my entire family members, for their warmth and encouragement throughout my life. Additionally, am further indebted to my co-workers at my place of work who provided me the much needed moral support while undertaking this course.

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OPERATIONAL DEFINITION OF TERMS

Budget: A budget is a comprehensive plan that outlines the acquisition and usage of financial and other resources for a certain defined duration of time.

Budgetary controls: Measures put in place for accurately managing sources of funds, its allocation and utilization in a cost effective manner.

County Government: A geographical unit proposed by the 2010 Constitution of Kenya devolution for administrative purposes.

Financial accountability: Availability and accessibility of all financial transactions, reports and audits to encourage transparency and openness in usage of public funds by the authorizing body –county government.

Financial controls: The procedures set in the County Government's system to protect and safeguard financial assets through proper recording of transactions to avoid errors and fraud and ensure proper use of funds to meet the expected outcomes of the County.

Financial monitoring: Tracking down expenditures by comparing the County's projected budget and the actual budget, noting the variances and following up on each revenue and funds on its utilization. This can be done audits and financial reporting by the county government.

Financial performance: The measurement of an organization's results in terms of its operations and policies, but in monetary terms.

Public financial management: A combination of processes, systems and rules employed by a public entity for proper mobilization of revenues, allocation of public resources and funds, undertaking of public expenditure and accountability of audit results and funds.

ABBREVATIONS AND ACRONYMS

ACCA: Association of Chartered Certified Accountants

ANOVA: Analysis of Variance

PBO: Public Benefit Organizations

CBK: Central Bank of Kenya

COB: Controller of budge

CoG: Council of Governors

CRA: Commission on Revenue Allocation

CRF: County Revenue Fund

FY: Financial year

GoK: Government of Kenya

IFAC: International Federation of Accountants

IFMIS: Integrated Financial Management Information System

KENAO: Kenya National Audit Office

OAG: Office of the Auditor General

OCOB: Office of the Controller of Budget

PFM: Public Finance Management (PFM) Act

ABSTRACT

The annual amount of funds in the counties are not well utilized in the past years, and even the money that was returned to the treasury at the end of each financial year has always been less than what has remained after the total expenditure for the year. Worse still, there has been lack of accountability for the discrepancies and the gap between the allocated funds and the money spent. Based on these concerns, this study investigated the relationship between public financial management and the financial performance of County Governments in Kenya. The specific independent study objectives included: budgetary controls, financial accountability, financial controls and financial monitoring and linked to their influence of financial performance. The study was anchored on agency theory, the stewardship theory, accounting theory and new public management theory. The descriptive explanatory cross sectional survey design was adopted targeting 47 counties in Kenya being the unit of analysis with unit of observation (respondents being the finance managers. The study used census sampling technique was used and thus all the 47counties and its finance managers made the respondent list in this study. Structured questionnaires were used to collect primary data and secondary data was collected using data collection sheet on the dependent variable. The researcher collected data on the financial performance of the counties for a five-year period from 2016-2020. The pilot study was conducted using four staff of the National Government to test the reliability and validity of the instrument. The collected data was entered into statistical package for social sciences analysis tool where descriptive statistics was done and created means and standard deviations. Inferential statistics were also employed in establishing the relationships between the independent and dependent variables. The descriptive analysis showed that respondents agreed that adoption of public financial management practices has improved the financial performance of the counties. The correlation results showed that financial controls and financial monitoring were strongly and positively correlated to financial performance with R values at 0.584 and 0.557 respectively. Furthermore, the budget controls and financial accountability have a moderate effect to financial performance in the county governments based on the R values of 0.465 and 0.403 respectively. The adjusted coefficient of determination was found to be 0.632 meaning that public financial management practices accounted for 63.2% of financial performance in the county governments in Kenya. Based on the study findings, this study then concludes that public financial management practices of budgetary controls, financial accountability, financial controls and financial monitoring led to improvement of financial performance in the Kenyan county governments. Since public financial management practices led to enhanced financial performance in counties; the study recommends counties seeking to improve their financial performance to employ public financial management practices.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial performance is an important aspect that communicates whether an organization, institution or business entity is able to cover its operational costs, survive the operating environment and succeed. It is a concern for many managers on what strategies can be adopted to improve the ultimate goals of the firm in terms of getting high financial performance. Thus, the need for adoption of financial management aspects and for public institutions, then the concern is on measures of public financial management that will deliver high quality services to the general population. According to Aramide and Bashir (2015), local authorities in most developing nations are said to continue playing a minor role in public service delivery, whereby some notable nations such as Brazil and China are dominating in the list. Despite the increasing expectation of the role of local authorities, the minor role played by these local authorities in developing nations is explained by the heavy regulation of the local authority activities coupled with scarcity of financial resources (Gomes, Alfinito & Albuquerque, 2013).

A report by International Federation of Accountants (IFAC) documents that in most countries across the globe, there is a surging need for channeling more efforts towards supporting management of finances and accountancy in the public sector. The report further admits that, the support for public sector financial management tends to be curtailed by both organizational and legislation of by-laws. The Association of Chartered Certified Accountants (ACCA) report has cited worrying governance and public financial management gaps in most countries which must be addressed. The ACCA brings to bare the fact that financial management reforms in the public sector are below par as compared to the private sector. The poorly implemented governance reforms and financial management have escalated poor financial performance in most countries.

Public financial management (PFM) is about the governments coming up with strong systems and structures for managing of their finances collected from revenues and income from

investments. PFM includes the government developing best practices in financial management that covers the four key dimensions of fiscal management, operational management, fiduciary risk management and governance (Bashir, 2016). These dimensions are part of the PFM information system for provision of ex ante cents like the budgets and financial plans and post management through provision of financial statements and financial reports. Dandago (2018) stated that under fiscal management the accounting model considers the expenses and revenues and places emphasis on maximizing resource utilization to avoid instances of wastages and losses. Local governments can adopt this model by setting policies that dictate the allocation of financial resources in the generated budgets and monitoring and control measures to ensure proper use of the resources. The operational management is in terms of input-output model whose main objective is delivering value for money by sound budget management (Brusca, Gómez-villegas & Montesinos, 2016). Governments and their departments should set up financial control measures that ensure all monies used up bring output that has value to the masses.

Fiduciary risk management adopts the risk model by having in place financial control measures both the internal and external aspects, compliance with financial regulations and oversight measures through audits to protect against risks like fraud and theft of public funds. Governance and governance model is about sound management of public resources especially financial resources by developing structures that encourage transparency and accountability. Alkaraan (2018) shared that the local county government can also adopt the governance model that utilizes financial accountability to create transparency and account for all finances under its mandate. This study covered budgetary controls, financial accountability, financial controls and financial monitoring as key aspects of public financial management. These aspects were explored to see their impact on financial performance.

In the continent of Africa, majority of the nations have been bent on pursuing decentralization reforms which have ill-advisedly generated ineffective governance. A study carried out by Hendriks (2017) underscored that decentralization reforms are normally evident in key areas such as capital investment, budget and fiscal management, finance and revenue. Gomes, Alfinito

and Albuquerque (2013) stated that majority of African nations that attempted to centralize governance systems have showcased a myriad of poor and failed governance. Among the most serious pointers include the lack of ability to properly distinguish private and public funds owing to the notion that majority of those in leadership hierarchy have a tendency to exploit public resources for their own selfish personal interests.

According to Muli and Rotich (2016), the presence of poor public financial management has escalated budget implementation crisis across the forty-seven counties in Kenya. This observation is further supported by Simon and Muhamed (2017) who concurred that public financial management practices have drastically and heavily affected budget implementation at the County Government level. Resultantly, some of the public financial management practices such as funds allocation and control, sourcing for funds, budgeting and financial planning have been affected greatly (Wang'ombe & Kibati, 2016). Lotiaka, Namusonge and Wandera (2016) observed that there has been an endangerment of key expected principles of planning and development in Kenyan county governments including resource mobilization and financial sustainability. Additionally, Mugambi and Theuri (2014) informed that nearly all Kenyan County governments are facing serious challenges far as budget preparation and implementation is concerned. In as much as Kenyan County Governments adhere to the laid down stipulated procedures when preparing for annual budgets and that their technical teams have the necessary capacity needed in the preparation process. Lubale (2017) noted that lack of adequate stakeholder engagement and political interference have largely hampered the efforts of realizing the expected and desirable financial performance. Public financial management across Kenyan counties have shown wanting results. Data available from the Capital Markets Authority (2018) indicated that the poor financial performance of Kenyan counties tends to adversely affect the overall economic growth of the Kenyan economy.

1.1.1 Financial Performance

Financial performance in general is about an entity's financial performance is an outcome of: liquidity (the availability of cash to facilitate payment of bills); net income (the amount of surplus revenues vs expenses) and solvency (comparison of assets vs liabilities and debts). Kiilu

and Ngugi (2014) asserted that financial performance entails the art of maintaining a precise record of all financial transactions in terms of proper budgeting of a firm's strategic plans with the expected expenditure. Financial performance necessitates the harmonious generation of management accounts to enable the management of entities compare their entities' progress versus planned budget, thus allowing them to make informed financial decisions regarding their future.

In county governments' financial performance is a measure of financial allocation from the central governing unit to ease collecting revenues and allocation of expenses and its utilization as per the county budget (Lubale, 2017). Measurement of financial performance is different unlike other business enterprises this is due to the fact that county governments are affected by political influence, communities and other interested parties influence and lengthy bureaucracy in release of finances for different projects. Wang'ombe and Kibati (2016) define financial performance as a county's capacity to finance all its services on a continuous basis coupled with the capability to meet various fiscal obligations. The most common way of obtaining a true measurement of financial performance, according to Mogaka, Atambo and Mogwambo (2016), is the adoption of financial, budgetary and economic information. As implied by Mugambi and Theuri (2014), the financial condition of a county government can be measured in terms of: budgetary solvency, cash solvency, and long-run solvency. Budgetary solvency refers to the capability to mobilize satisfactory budgetary income without incurring any deficits. Cash solvency deals with the capability of the firm to make enough cash to handle the firm's short term obligations. Long-run solvency refers to the entity's ability to handle the arising long-term commitments. To Mugambi and Theuri (2014), these solvency metrics embodies the financial performance measurement.

1.1.2 Public Financial Management

As per definition provided by Simon and Muhamed (2017), public financial management (PFM) is a wider term that stands for functions and operations of budgeting, accounting, auditing, supervision of public entity's finances, and funds disbursement. According to Aramide and Bashir (2015), PFM covers all the financial processes under legislation for purposes of financial control and this view looks ta making budget estimates, allocation of funds, setting limits on the

expenditures, development of reports, audits and accounting for all the monies. This further denotes that public financial management is restricted to the preparation of budgets and implementation of budgets. PFM needs other elements and operations that go beyond the budget, its preparation and utilization.

In the context of this study, public financial management constitutes financial practices, namely budgetary controls, financial accountability, financial controls and financial monitoring. Budgetary controls involve the accurate management of sources of funds and allocation of resources meant to meet organizational priorities and realize cost-effectiveness of the aforesaid resources. Further, budgetary controls entail examining and formulating of critical elements such as social justice, equity and fiscal policy. According to Kiilu and Ngugi (2014), modern budgeting can better support financial performance by incorporating financial outcomes and ensuring that the adopted control and accountability apparatuses are supportive. Budgetary controls are needed in enabling the executive management to formulate future plans through execution of monitoring activities that essentially conform to the plan.

The second practice is financial accountability. Financial accountability is well utilized in the presence of processes and structures that are needed in making the required decisions. For government and public entities, financial accountability should be seen in the way financial records are not only recorded but also made available and accessible for public view. This implies that all annual reports issued by public entities should be accessible to shareholders and interested stakeholders. The art of building a public finance management system in counties and the national government will go a long way to safeguard accountability, transparency and improved service delivery. In Kenya, the findings by Lotiaka and Namusonge (2017) establish that there is no evidence of adequate follow up done to verify the accountability reports submitted to the Office of the Auditor General by most County Governments to follow up activities reported. This heightens the need why financial accountability should be entrenched to be part of public financial management in aiding financial performance in county governments across Kenya.

The third practice is financial controls. Financial control encompasses procedures that protect

assets and safeguard the proper recording of all financial transactions to get appropriate recording to enable prevention and reduction of fraud and errors. Through financial controls, the firm will be able to strategically understand the major organizational uncertainties together with their potential benefits and costs. This in effect, provides a general guiding framework for a sound resource management. Secondly, financial control promotes the firm's capacity to attain its core objectives by offering reliable financial data that would safeguard the records of data and ensure that the firm adheres to the laid-down regulations and policies (Nyakundi, Nyamita & Tinega, 2014).

Financial monitoring, as a fourth practice, is a final crucial element in public financial management. Theletsane (2014) argues that financial monitoring involves monitoring of actual revenue together with cost data by specifically comparing on a continuous basis the budgeted performance versus the actual performance, and thereafter to regularly report any arising variances to the involved personnel and allowing them to take proper corrective mechanisms. While appraising financial monitoring, Mugambi and Theuri (2014) add financial monitoring should be a continuous non-routine activity that incorporates periodic auditing by internal auditors.

1.1.3 Financial Performance of the Devolved Government

A survey done by CoG (2017) revealed that financial performance of Kenyan counties is featured by certain common characteristics, namely poor system design, lack of systems documentation, lack of audit trails and lack of automated bank reconciliation. The findings further tabled that there existed a lack of system data checks and balances, lack of remote access, restricted capacity to produce reports and poor response time. Resultantly, the aforementioned problems have triggered extravagant and wastage in spending seen mostly in loss of resources via improper spending, irregularity and possible fraud (Simon & Muhamed, 2017). According to the Office of the Auditor General (OAG) report (2019), a huge gap exists between the finances received by County Governments and the utilization of the same. This gap raised eyebrows as to how County Governments do their budget planning and spend the monies allotted to them from the National Government and the revenue collections (Wang'ombe & Kibati, 2016).

According to the Transparency International Survey (2018), the outcomes showed that the Kenyan County Governments' performance recorded that 41% of the Kenyan population from across the forty-seven counties were not satisfied with the then current performance of their counties. The survey also gauged the satisfaction of the participants with the solutions that were given by the county governments. The service delivery by the county governments was shown to be below par, both according to the Ministry of Devolution demands and the Kenyan Constitution (2010) requirements regarding County Governments' performance.

There are forty-seven (47) County Governments of Kenya, established under Article 176 (clause 1) of the 2010 Kenyan Constitution. Most of the County Government's financial performance in the last decade since the promulgation of the New Constitution has been below par. For instance, some counties have had challenges touching on allegations of funds misappropriations given by the National Government; uncontrolled deficit and debt financing, stunted revenue growth, high recurrent expenditures and constant political interference. The undesirable financial performance in these counties could be attributed to improper public financial management practices, namely financial monitoring, financial accountability and budgetary controls. This phenomenon bespeaks the urgent need of integrating these practices in the processes of the counties (Muli & Rotich, 2016).

This study looked at financial performance in the counties that covered deficits and surplus and its operations within each of the forty seven counties. This was done through reviewing audited and reported financial records in the counties for the last five years 2016-2020.

1.2 Problem Statement

County governments receive more than the 15% of the national revenue and with incremental amounts with ksh.341 billion in the FY2017/18 and ksh.368 billion for the FY2018/19; But the annual Auditor General reports and the Controller of budgets report show many of these counties disregard the PFM Act of 2012 and other fiscal regulations and principles in allocation, utilization and reporting of financial resources resulting in poor performance. The financial performance is negatively affected due to lack of proper accounting systems, weak financial

controls and poor budgetary formulation and control measures that has seen misuse of funds allocated for public goods and poor quality of service delivery (CoB report, 2017). The decline in financial performance in the counties is such that the aggregate revenue collected for FY2016/17 was at ksh.32.52 billion and its target was set at ksh.57.66 billion as the annual budget declined by 7.1% as compared to the FY2015/16 at ksh.35.02 billion. These low revenues generated lead to delayed projects, insufficient funds to run the counties and poor service delivery.

According to the OAG report for 2017 most counties in Kenya have issues when it comes to their financial management practices. For instance, Trans Nzoia county government has poor public financial management practices that have led to poor financial performance due to haphazard budget formulation, lack of budgetary controls for the funds received from the national government and lack of financial controls on how finances are used throughout the financial year. Additionally, there is no financial accountability of the revenue collected at the county level combined with the annual money from the National Government versus the expenditure. There seems to lack any financial monitoring measures and involvement of the public in allocation and accountability for the funds. The OAG report for the FY ending June 2017 concluded by stating that 'I have not obtained sufficient and appropriate audit evidence for me to make an audit opinion' showing that internal and external audits might not have been carried out and if so, then there are no records. Furthermore, the statement says 'I confirm that public money has not been applied in a lawful and effective way' likely showing misappropriation and misuse of public funds and affecting performance of the counties and its ability to deliver services to the population.

The report by Africog (2015) on public procurement in Kenya revealed that Machakos, Mombasa and Wajir had extensively abused and violated the procurement rules and legislation. The FY 2013/14 revealed excessive hemorrhage of resources meant for public which made these three countries have poor performance and low service quality. Another example is the Nakuru County and the county government outlook of 2017 shows that budget estimates for FY 2015/16 was kshs.13.98 billion but it only received kshs.10.28 billion which was all spent. The county

has seen been delving and running into debts due to the differences in the revenues and expenditures. Debt management is an aspect of financial management and this exposes the challenges facing the Nakuru County. The OAG report for Kirinyaga County, for the FY 2018/19 showed a deficit of kshs.304, 761,511 since the expenditure was 5,241,797, 280 while the revenue for that year was kshs.4, 937,035,769.00. The IFMIS report shows that the expenditure was kshs.4, 561, 101,048.00 for the FY 2018/19 leading to un-reconciled variations. These examples, evidence that the counties have a challenges in financial management in terms of financial controls, accountability, debt management and keeping to the budgeted estimates. Since the counties adversely suffers from financial performance problems, it is apparently clear to integrate core PFM practices such as budgetary controls, financial accountability, financial controls and financial monitoring to rectify the problem.

Poor financial performance, Njenga, Omondi and Omete (2014) noted that development at the grassroots level has been impaired and public resources that were meant to be brought closer to the common citizens has not been realized, and therefore, there is zero value for taxpayer's money. Mugambi and Theuri (2014) shared that the budgets of most counties, Trans-Nzoia County included have been done haphazard. This happens when counties allocate more funds on non-economic entities and fewer funds on economic entities and still cannot account for usage of the funds. Lubale (2017) reported that the procurement processes in most of these counties is filled with corruption whereby most of the figures captured on the budget and the books of accounts are exaggerated. Simon and Muhamed (2017) shared that poor mismanagement of funds is a critical factor that has derailed various important projects in the county government, which annuls the very purpose for which these funds were created and meant to score.

The gaps in performance and lack of adoption of the public financial management practices and the financial challenges noted by the OAG and controller of budgets reports justifies the need for the present study. Therefore, this study sought to assess the relations of public financial management and financial performance in the counties.

1.3 Study Objectives

1.3.1 General Objective

The general objective was to investigate the relationship between public financial management and financial performance of County Governments in Kenya.

1.3.2 Specific Objectives

The study's specific objectives were:

i. To determine the effect of budgetary controls on financial performance of County Governments in Kenya.
ii. To assess the effect of financial accountability on financial performance of County Governments in Kenya.
iii. To establish the effect of financial controls on financial performance of County Governments in Kenya.
iv. To find out the effect of financial monitoring on financial performance of County Governments in Kenya.

1.4 Research Hypothesis

The study adopted null hypothesis as follows:

H_{01}: Budgetary controls has no significant effect on financial performance at Trans Nzoia County Government

H_{02}: Financial accountability has no significant effect on financial performance at Trans Nzoia County Government

H_{03}: Financial controls has no significant effect on financial performance at Trans Nzoia County Government

H_{04}: Financial monitoring has no significant effect on financial performance at Trans-Nzoia County Government

1.5 Significance of the Study

To both County Governments and the National Government and, the study highlighted the common shortcomings that befall the management and balance of financial funds and resources in the county governments. This is will enable and direct the two governments to implement better policies that have the potential of aiding the management of financial resources in the Kenyan counties. In turn, proper financial performance will be achieved and allow total avoidance on the overdependence of the county governments on the national governments. The study intended to provide direction on harmonious relationship between the two levels of governments in Kenya in term of funds and resources management is concerned. The County Government leadership, the study may bring forth the existing loopholes in financial resources. The County leadership will, in turn, do proper planning of strategies and thus enhance mobilization of revenues.

The study would further benefit various oversight bodies, namely Office of Controller of Budget (OCOB), Commission on Revenue Allocation (CRA) and Kenya National Audit Office (KENAO). The outcomes from this study will greatly assist in operationalizing the present public financial management agenda, and additionally provide the needful adjustments to this agenda. The study intends that this way, these bodies will borrow the recommendations of the study to make critical reforms aimed at improving fiscal discipline, evaluation processes, enactment of auditing procedures and a better understanding of the challenges to deal with in order to help counties attain the desirable performance.

The general public and society can also benefit from the current study, this is through actively participation in public financial management aspects such as participation and contributing to financial controls and financial monitoring. In understanding the value of financial management, then the public and society can question the leadership in the countries on utilization of the finances. This will push for prudent use of financial resources that results in improved service

delivery to the members of the general public in the counties as well as the country.

Finally, the academic community and future researchers, the study will improve the existing knowledge on public financial management in relation to performance of public entities, private firms and public bodies. Researchers will most importantly borrow from the empirical literature, research methodology and study outcomes to enable them build upon and produce better academic studies. Still related to this, researchers will make use of this study as a good background for reference so that they can build a literature bank.

1.6 Scope of the Study

The general objective of the study was to investigate the relationship between public financial management and the performance of County Governments in Kenya. The study specifically focused on four variables, namely, budgetary controls, financial accountability, financial controls and financial monitoring. The study focused on 47 counties in Kenya and targeted the finance managers as the respondents in the current study. The study was cross sectional in nature since it covered different counties across the entire country's geographical location. The study covered a period of 5 years (2016-2020), that is 2015/16, 16/17, 17/18, 18/19 and 19/20 respectively. This period was selected upon because the county governments had just picked from their early stage of devolution having come into existence in 2013.

1.7 Organization of the Study

The project is structured and covers five chapters, apart from the preliminaries and appendices. The first chapter comprised of background of the study, problem statement, study objectives, questions appertaining to the study, the study's significance, the scope of the study and the major limitations facing the conducting of the study. The second chapter captured the literature, specifically the theoretical review, the empirical literature review, the research gaps drawn from the empirical literature review and the conceptual framework. The third chapter on research methodology, capturing the research design, the target population of the study, the sampling framework and sample size selection, data collection instruments and procedure of collecting

data, data analysis and finally ethical research considerations upheld while carrying out data collection. The fourth chapter presented the findings of the study from the descriptive and inferential analysis conducted and the last chapter –five shared the summaries of the findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents empirical studies done by various researchers on the relationship between public financial management and financial performance. The study presented the theoretical literature encompassing the theories that relate to the dependent variable and how they support each independent variable. The chapter additionally reviewed a summary table of the studies on each of independent variables. Finally, the chapter ended by presenting a conceptual framework that shows how each of the study's variables will be measured in terms of indicators.

2.2 Theoretical Literature Review

The main theory that the study was underpinned on is agency theory. The study was also supported by other theories, namely, stewardship theory and accounting theory.

2.2.1 Agency Theory

It was formulated by Jensen and Meckling in 1976 and is based on the relationship between the agent and that of the principal. An agency relationship refers to a contract whereby the principal engages the agent to carry out some services or activities and delegates the decision making powers. It also explains the multi-faceted relationships between government and the other agencies. In the background of government organizations, such as the National Government and County government, the agency theory explains the principal-agency relationship whereby the citizens being the principal, give the authority and power to the governments to carry out the mandate on their behalf.

The agency theory's major assumption is that, there is always a potential conflict of interest exiting between stakeholders and the management, which are driven by various interests thus

necessitating the need for monitoring and control of initiatives. Secondly, Hendriks (2017) criticized agency theory by arguing that the peripheral costs incurred in monitoring the agents tend to be higher as compared to the marginal cost incurred in the franchise's contractual agreement. The third criticism is that, during the formulation of the possession, there are problems with the controlling functions whereby the management shadow their own interests instead of their shareholders.

In the agency theory, the agents are expected by the shareholders to make informed and corrective decisions that are in tandem with those of the principal. Where the challenge arises is when the agent unavoidably makes decisions that capture the principal's interests. The theory fits well with the variables under study since it holds that employees working for a public entity ought to account for their tasks and responsibilities. Contextually, agency theory is very crucial. Financial accountability, as one of the study variables and the study was anchored on this theory since the implementation of public budgets is usually based on the varying interests of the people, who in turn, are mandated with the task of providing the government with the planning and implementation structure.

2.2.2 Stewardship Theory

It was advanced by Donaldson and Davis (1991) to explain the link between the steward and the firm inclusive of the managers and owners. The stewardship theory is rooted in sociology and psychology paradigms where the theorists, Donaldson, Schoorman and Davis (1997) define a steward as a "person who is mandated with the task of protecting and maximizing the wealth of shareholders by realizing organizational performance, since by so doing, there is full maximization of utility functions. In the lens of this theory and in the context of this study, stewards are county board members who have been tasked with the role of executing major functions of the county. Further, the theory does not emphasize much on individualism, rather on the role of top management who are assumed to be stewards and are therefore anticipated to integrate their goals for the good of the firm.

The stewardship theory assumes that stewards gain their motivation and satisfaction when a firm

attains its intended success. The stewardship theory further recognizes the centrality of structures that have been built to empower the steward by offering maximum autonomy that is premised on trust. In addition, stewardship theory rests its loins on the employees' position to act more autonomously in a bid to ensure full maximization of the returns of shareholders. To support stewardship theory, Simon and Muhamed (2017) posited that as a means of protecting their reputes as key decision-makers in a firm, directors and executives are disposed to act prudently to maximize the financial performance of the firm. The belief of the theory is that the performance of the firm can directly affect the perceptions as well as the individual performance.

Pankaj and Hare (2016) hypothesized the executive employees also strive hard to manage their careers and positions with the aim of being seen as good stewards of their firms, and further maintain that the management return finance to both establish and invest in a good reputation. Stewardship model suggests that employees should assume and own the position they hold at work as main stewards and handled them with all diligence. The stewardship theory is applicable in the context of this theory since it postulates the possibility of defining and unifying the role of management which in essence, will reduce the agency costs and have a bearing on the rest of employees in the firm.

2.2.3 Accounting Theory

The accounting theory was developed and advanced by Hendriksen in 1977 and the theory's main concept is to improve accounting and reporting of financials in organizations such that it is not static or fixed at a specific point. The theory is broad in its perspective by looking at all accounting regulations and legislation, its concepts and valuation models, its framework, hypotheses, reporting and theories that allow the academic body to be able to analyze the accounting aspect of any entity. The theory states that any accounting for an entity must be bound by set rules and regulations that determine the actions and behaviors of people in the accounting sector. At the same time, any accounting measures and activities adopted by an entity must be comprehensible and reliable (Watts & Zimmerman, 1986).

According to the accounting theory, it is essential for accounting that is adopted in entities to abide by the generally accepted rules and standards set, such as to avoid cases of chaos within the operations of an entity (Gaffikin, 2008). One of the founding rules of accounting is that it should agree with the truths in the economic systems and functions and the business enterprises to apply the law by adopting the common law and also the set regulations. As such these County governments must adopt the accounting practices as dictated by the PFM Act and other accounting bodies to ensure prudent use of public funds. The county government in line with accounting theory precedents will be able to have in place budgetary controls, financial controls, monitoring and accountability measures to realize high performance and quality service delivery to the people. This theory then advocates for adoption of public financial management practices including budgetary controls, financial controls, monitoring and accountability for effective financial performance.

The accounting theory looks at uniformity in accounting practices and reporting measures across all systems and operational areas. The theory creates an operating framework that makes sure that all the practices used in accounting adopt the aspect of uniformity and conformity (Malmi, & Granlund, 2009). The theory operates on duality of the basic economic truths; where its propositions are accepted in the economic order and these propositions apply both in the economic and natural laws. Such that specific causes generate specific consequences, which is application in the study as it exposes the value of sound financial management practices within the county for high financial performance.

2.2.4 New Public Management Theory

It was first developed by Hood (1991) and its key component is on developing administrative philosophies that is outcome-oriented and productive. The theory is based on seven aspects namely; performance management, control of outputs, shifting units within the public sector, setting explicit standards, competition and stress over adoption of private sector management. According to Kaboolian (1998) the theory's main focus is to increase efficiency in service provision among governments and governing agencies and institutions. The theory makes emphasis on practices that deal with ethical conduct, responsibility, fair and equitable treatment

of persons and adherence to the law. Therefore, the theory plays an important role in explain how best to improve financial management in the areas of public sector for high quality service delivery.

The new public management theory focuses on citizens at its core and advocates for use of decentralized service delivery models and platforms with the aim of bettering service delivery to the general public and community members. The local government agents are then charged with formulating programs and initiatives that reduce costs, expenses and wastage of public resources. Simonet (2015) shared that the key aspects of new public management theory includes value for money, financial control, increasing efficiency in service provision lines, monitoring and measuring performance against the targets. Thus, there is need for audits, benchmarks and evaluations of the systems, structures that impact the overall performance. NPM has been effectively applied in most of the developed nations such as Australia, UK and USA that has resulted in prudent use of public resources.

The NPM is based on using the approaches and strategies that were commonly used in the private sector, business entities and corporates and applied in the public sector and under the public administration setting. The NPM approaches have helped in reforming the programs, initiatives and policies in the public sector. The theory then helps to bring efficient and effective outcomes within the public sector by linking service managers and political leaders and the national and local governing structures. The theory then explains how county governments in Kenya can apply new public management theory approaches to improve on aspects of financial management to realize high financial performance. Adoption of public financial management aspects including budgetary controls, financial accountability, financial controls and financial monitoring will help in realizing high financial performance.

2.3 Empirical Literature Review

2.3.1 Budgetary Controls and Financial Performance

Pimpong and Laryea (2016) studied the influence of budgeting on organizational performance of Ghanaian non-bank financial institutions using quantitative research. The study collected primary data using questionnaires, employed step-wise method in generating models and adopted regression analysis in measuring the relationship between and organizational performance. The results established that budget coordination has statistical significance relationship on organizational performance. The contextual gap presented in the gap is evident, since the study is based in Ghana whilst the present study is based in Kenya. The study also looked at the financial institutions sector and as such there is need to look at government side where measures and perspective of performance are different. Expansion of literature to look at budgetary controls within the governments –national and locals/counties will give a different outlook. The study gap is in context as it was done in Ghana and the financial sector.

Otieno (2019) study was on the budgetary control uses and financial performance in public universities that are located within the Nairobi County. The researcher noted a declining financial performance in these public universities and hence considers budget control as a measure for utilizing, monitoring and controlling costs within the budget and over a given accounting period. It also works in a manner to align the financial performance goals as per the budget and the adjust performance expectations accordingly. The public universities have been operating on negative working capital, have excess outstanding fees, huge capital expenses, hence the need to look at budgetary controls. The focus is on planning, coordinating and control as elements of budget controls and its effect on performance. Data was collected from five public universities and 40 respondents who filled the questionnaire and secondary data collected from financial statements. The analysis done revealed that budget planning, budget coordination and budget control significantly affected the financial performance in the Kenyan public universities. The study was limited by covering only a small portion of the public universities in Kenya.

Adongo and Jagongo (2013) conducted a study on the influence of budgetary controls on financial performance of Kenyan state corporations, by focusing on specific variables namely, the challenges facing budgetary control, its process, the human factors and salient features of budgetary control. By using a descriptive survey design in data collection, the study focused on 14 corporations that were selected amongst 138 Kenyan state corporations. The study findings affirmed the correlation of budgetary control to financial performance of the studied firms. Contextually, the study was on state corporations that are funded and run by the national government, there is need to look at what is happening in the counties since they are funded by both levels of government but administered by the county government alone. The study's limitation lies in methodological gap since it targets 138 Kenyan state corporations whilst the present study focuses on only one institution allowing for in-depth of the present case. That implies that that the research design designs between the two studies would differ.

2.3.2 Financial Accountability and Financial Performance

Arinaitwe, Eton, Agaba, Turyehebwa, Ogwel and Mwosi (2021) study was on financial accountability mechanisms that have been adopted by local governments in Uganda. The reference was in Kabale District local government and its leadership where quantitative and qualitative data was collected using interviews and questionnaires. The analysis done revealed that some of the mechanisms adopted to improve financial accountability included service delivery, financial reporting, expenditure control and budgeting. Service delivery was the most commonly used mechanism for financial accountability. The study recommends that the local governments to ensure that the formulated budget is a reflection of the community's needs and preferences, salaries paid, expenditures and development projects are as per the stated budget. The financial reporting should be standardized and according to the accounting measures. The study created gaps in concept as it did not link financial accountability mechanisms to financial performance and it was limited to Uganda's Kabale district.

Muttaqin and Mulyasari (2018) investigated on financial accountability and organizational performance through the lens of culture control and contractibility. The researchers looked at performance contracts through the use of performance measurement systems and how they affect

the performance of government organizations. The focus was on government agencies that excessively report good performance while minimizing information on failed programs and projects. The reports were biasness and misleading to the general public who then raise their expectations from the service delivered from the government institutions. The study looked at contractibility and culture control as elements of financial accountability and organizational performance in Banten province and its regional government agency. The data was collected from 145 respondents and findings showed that contractibility and culture control affected performance of the public sector organizations and organizational performance affected the financial accountability in the public sector organizations. The study did not specify how the data was analyzed and its context is in Banten province and its regional government agency.

Ndikwe and Owino (2016) study was on the role of school board's accountability on the school's financial performance. The study employed stratified to draw 153 respondents. The study managed to use a descriptive review of 49 Kenyan public schools, and the resultant data was further subjected to a multivariate regression analysis. The study findings indicated that accountability of the school board led to significant effects on financial performance of the schools that were investigated. The contextual gap in the study is that it focused on schools while the present study covered the county governments; that imply that some of the outcomes from the study cannot be applicable to the current study which expands on literature. Conceptual financial performance is linked to accountability of the school's boards and there is need to explore how financial accountability affects the performance.

2.3.3 Financial Controls and Financial Performance

Said (2019) study was on financial controls and its effect on financial performance in the Kenyan devolved governments. The study was a case study of the Mombasa County government and noted that financial control is important since it helps organizations to remove chances for fraud and corruption, protect the resources of the firm and ensure financial reports generated are truthful. The focus of the study was financial controls and its elements included audit, reconciliation and control of payables and how they affect the financial performance of Mombasa County Government as a devolved governing unit in Kenya. The study was anchored

on systems theory, new public management theory, lending credibility theory and agency theory. Data was collected from employees of Mombasa County Government from the finance and accounts, internal audit, revenue and county procurement offices. Descriptive and inferential analysis were conducted where results showed that audits, periodic reconciliations and payables controls had positive and significant effects to financial performance in the county government of Mombasa. The study recommended that audits should track the budget and expenses and also check for value for money, periodic reconciliations should be done immediately after end of an accounting cycle and payables should be fast-tracked and maintain good relations with suppliers and contractors. The devolved units must ensure there is continuous monitoring process to check and report issues and corrective actions are taken.

Moudden (2020) study covered the aspect of financial control and its role in the performance of public institutions and companies. The study looked at Morocco and its modernization projects aimed at accelerating the development of the country. The expenses and public spending in these projects is overseen by public institutions that adopt new public financial governance. These public institutions employ moral personality and financial autonomy ion handling public finances. The public institutions have used financial control measure that is crucial to the state and the public institutions and companies to ensure that costs and expenses are as per the allocated budgets. Financial control measures ensure effective and efficient use of public finances for improved performance in the public institutions. The study is unclear on the sources of information in terms of respondents and data collected and how it was analyzed.

Abbas and Abu (2019) investigation was on the determining the influence of financial control mechanisms on manufacturing firms' profitability performance based in Nigeria. The study population was 275 firms and targeted 125 firms that were selected using simple random sampling technique. 101 questionnaires were returned during the data collection exercise. The researcher applied both the inferential and descriptive statistics during the analysis process to expose the relationship between the variables of the study. The results from the analysis showed that financial control measures had a significant correlation to profitability and firm performance. There are two limitations. The first is contextual gap since the study is based in

Nigeria and focuses on manufacturing firms unlike the current study that is based in Kenya and focuses on a county government. The findings might apply to the manufacturing sector and Nigerian context, thus the need to extend studies and cover the government sector in the Kenyan context hence the county governments.

2.3.4 Financial Monitoring and Financial Performance

Marwa and Wanjare (2018) investigated the relationship of financial monitoring and the performance of programs in Public Benefit Organizations (PBOs) operating in Kisumu County. The collection of primary data was conducted using questionnaires. The study acquired a sample size of 50 Public Benefit Organizations. The study employed descriptive statistics namely standard deviations, mean, percentages and frequencies as well as analysis of variance to analyze data. The study found out that all the financial monitoring techniques that were tested positively influenced the program performances of PBOs. Further, the study concluded that financial monitoring has a positive contribution to program performance of PBOs. Conceptually financial monitoring is linked to program performance and is based on different theoretical concepts that affect the findings and conclusions made about the relationship of the variables.

Kamwana and Muturi (2014) investigated the relationship between financial monitoring and financial performance. The researchers concentrated on World Bank funded projects like the Kenya Power and Lighting Company (KPLC) operating projects in Kenya. By applying descriptive research design, the authors of the study succeeded in using the questionnaires in collecting data from 500 respondents who are staff of KPLC. The conclusion of the study was that financial monitoring positively influenced the performance of these funded projects. Methodologically, the research design is causal and helped to assess the link of the study variable in the context that it covered on the World Bank funded projects and KPLC projects and these two projects might have differing results which affects the general conclusion drawn in the study. The gaps can be filled by looking at one firm/sector to draw conclusions hence looking at financial monitoring and financial performance at Kenyan counties.

Mathenge and Muturi (2017) determined the relationship between financial monitoring and

performance of Kenyan public universities in financial context. The study applied descriptive survey method and unstructured questionnaires on 22 chattered Kenyan public universities who formed the study population. The study respondents were the employees working in the finance departments of these universities. The results showed that financial monitoring positively influenced on the financial performance thus concluded that financial monitoring facilitates financial performance of the institutions under study. The first gap is the contextual gap since the study did not focus on county government, unlike the current study, and secondly is the methodological gap where the study focused on different institutions unlike the current study and it assess the relationship of the variables and this study will look at the cause-effect of the variables of the study.

2.4 Summary and Research Gaps

Table 2. 1: Summary and Research Gaps

Author & Year	**Topic**	**Findings**	**Research Gaps**
Otieno (2019)	Budgetary control uses and financial performance in public universities in Nairobi County	The budget planning, budget coordination and budget control significantly affected the financial performance in the Kenyan public universities	Contextual it covered five public universities in Nairobi County
Arinaitwe, *et al.* (2021)	The financial accountability mechanisms that have been adopted by local governments in Uganda. Case of Kabale District local government	service delivery, financial reporting, expenditure control and budgeting were the mechanisms included for financial accountability	It was a case study of Kabale District local government hence limiting the applicability of the findings.
Muttaqin and Mulyasari (2018)	Financial accountability and organizational performance through culture control and contractibility	Contractibility and culture control affected performance of the public sector organizations and financial accountability	The study created research methodologies by not mentioning the sources of data and its context was the Banten province.
Said (2019)	Financial controls and effect on financial performance in the Kenyan devolved governments -case of the Mombasa County	The audits, periodic reconciliations and payables controls had positive and significant effects to financial performance in the county government of Mombasa	Methodological gaps since the study was a case study of Mombasa County Government

	government		
Marwa and Wanjare (2018)	Relationship between financial monitoring and program performance of PBOs operating in Kisumu Count	The study found out that all the financial monitoring techniques tested led to high performance in the PBOs and concluded that financial monitoring has a positive contribution to program performance of PBOs.	The limitation of the study is that it did differ from the current study due to its theoretical gap; as it uses theories that are different from the ones that are used in the current study. This can potentially affect the findings of the study.
Kamwana and Muturi (2014)	The relationship between financial monitoring and financial performance in World Bank funded projects like the Kenya Power and Lighting Company (KPLC) operating projects in Kenya	The study found out that financial monitoring led to project performance.	The study failed to find the effect of financial management practices on financial sustainability.
Mathenge and Muturi (2017)	The relationship between financial monitoring on financial performance of Kenyan public universities	The findings established that financial monitoring poses a positive influence on financial performance, thus concluded that financial monitoring facilitates financial performance of the institutions under study.	The study context is the public universities and hence the need to cover the counties in Kenya
Pimpong and Laryea (2016)	The influence of budgeting on organizational performance of Ghanaian non-bank institutions	The study findings established that budget coordination has statistical significance relationship on organizational performance. The contextual gap presented in the gap is evident, since the study is based	The contextual gap presented in the gap is evident, since the study is based in Ghana whilst the present study is based in Kenya.

		in Ghana whilst the present study is based in Kenya.	
Adongo and Jagongo (2013)	The influence of budgetary controls on financial performance of Kenyan state corporations.	The study findings affirmed the correlation of budgetary control to financial performance of the studied firms	The study's limitation lies in methodological gap since it targets 138 Kenyan state corporations whilst the present study focuses on only one institution. That implies that that the research design designs between the two studies would differ.
Ndikwe and Owino (2016)	The role of school board's accountability on the school's financial performance.	The study findings indicated that accountability of the school board led to significant effects on financial performance.	The study covered the schools and the present study covered county government meaning that the outcomes from the study cannot be applicable to the current study.
Abbas and Abu (2019)	The influence of financial control mechanisms on manufacturing firms' profitability performance based in Nigeria.	The study findings indicated that financial control measures led to profitability performance of the firms.	The gap is in context as it was done in Nigeria and methodological gap since the study used a large target population of 275 firms.
Mathenge and Muturi (2017)	The relationship between financial monitoring on financial performance of Kenyan public universities.	The results showed that financial monitoring led to improved financial performance, thus concluded that financial monitoring facilitates financial performance of the universities	The first gap is the contextual gap since the study did not focus on county government, unlike the current study, and secondly is the methodological gap where the study focused on different institutions unlike the current study.

Source: Researcher (2021)

2.5 Conceptual Framework

Figure 2.1 below presents a conceptual framework which explores the relationships between independent variables and dependent variables. The dependent variable in this study is financial performance while the independent variables are: budgetary controls, financial accountability, financial controls and financial monitoring. This is shown in Figure 2.1

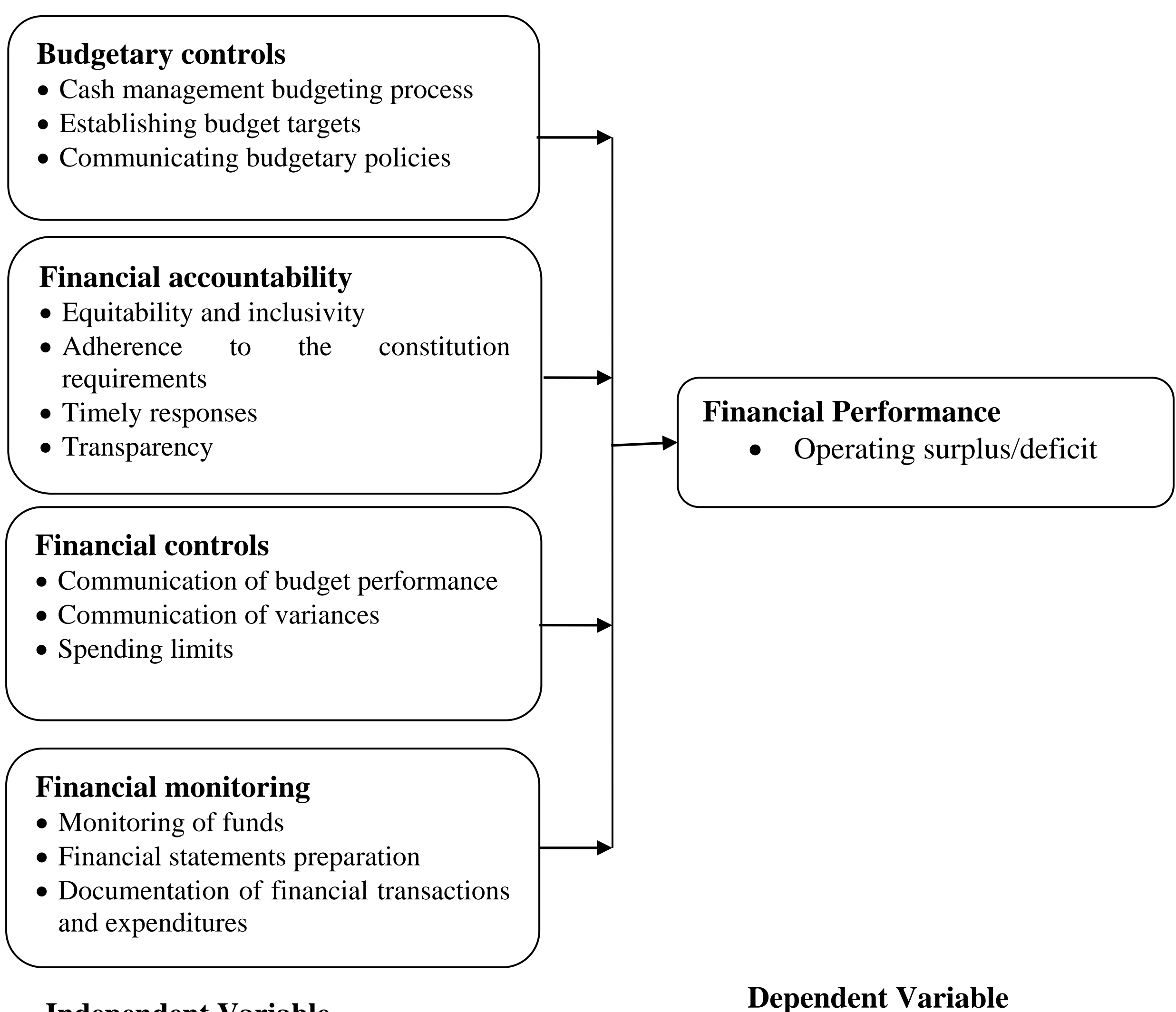

Figure 2. 1: Conceptual Framework
Source: Researcher (2021).

The conceptual framework links the independent and dependent variables of the study and highlighting the indicators for each variable. For budgetary controls the indicators include cash management budgeting processes, setting the targets and purpose of budget and communicating the budgetary policies and processes to everyone at the county government in a manner to improve the financial performance On financial accountability, it was measured through elements including transparency measures that have been installed at the county government. It also includes timely reporting and responding to the financial reports to inform the decision makers at the county. It also involves equitable and inclusivity when accounting for use of public funds, as the public must confirm to the truthfulness of the expenditures and purchases and it is also about the adherence to constitutional requirements.

On financial control, the study looks into sound communication system that is employ to inform on the budget performance. The financial control also employs measures that have capping and limits on spending and communication of variances between what is expected and what is delivered in terms of public funds. There must be an element getting value for money spent on different programs and initiatives for good of the public. Financial monitoring covers aspects of preparation of financial statements in a manner that abides by accounting principles, there should be committee and people to offer oversight role and monitor use of funds to avoid fraud, wastage and corruption. Another way for financial monitoring involves documenting all financial transactions and receipting for all purchases this will ensure that financial expenses and purchases can be tracked. Financial performance is a measure of operating funds that can either be in terms of deficits or surpluses and showcases how well or poorly the county governments are doing in terms of financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlined the methodology that was used in gathering the data, analysing the data and reporting the results. The captured sections in the chapter included research design, target population, sampling technique, sample size, data collection instruments and procedures, pretesting of research tools, conceptual and mathematical data analysis and finally ethical considerations.

3.2 Research Design

The study adopted descriptive, explanatory cross sectional survey design. The rationale behind the selection of this explanatory design is because the study explored the effect that the variables and they include the public financial management and financial performance. Cross sectional design was adopted because different counties were covered over the same period. The use of survey design allowed the researcher to obtain data from all the counties in Kenya. The descriptive design allowed the respondents to share accurate information without any manipulation or exaggeration of facts and the situation on public financial management and financial performance in the 47 counties in Kenya.

3.3 Target Population

The study targeted 47 counties in Kenya (appendix II) with financial managers being the respondents. Thus, the county governments were the unit of analysis while the finance managers were the unit of observation. Thus, in total, 47 respondents were targeted (1 finance manager from each of the counties in Kenya. The main reason for picking on finance managers is because they were deemed to be having relevant information to share on study topic on public financial management and performance of their respective counties.

3.4 Sampling Design and Sample Size

This study adopted census and thus all the 47 Counties in Kenya were included. The use of census was justified on account that the counties are relatively small to carry out sampling. Mugenda and Mugenda (2013) argue that census is ideal when the population has less than 200 units. Thus, census was ideal in this given a total of 47 counties in Kenya.

3.5 Data Collection Instruments

The study sought to capture both primary and secondary data. Primary data was gathered by structured questionnaires. The questionnaires were employed in the study because they were simple to administer and would potentially gather a large chunk of data from a large population faster. The questionnaire had three major sections. The first section introduced the researcher to the respondents; the second section enumerated the respondents' personal data while the final section was sub-divided into 5 segments. The first four segments measured the independent variables while the final segment measured the dependent variable. In these five segments, a five-point Likert scale was employed to measure the extent of agreement on the statements. On the other hand, secondary data was collected on the dependent variable being financial performance covering a 5-year period (2016-2020). This period is recent and it is likely that the records can be easily accessed so as to collect accurate data in the study and draw informed conclusions. Secondary data will be collected with the help of the data collection sheet.

3.5.1 Pilot Study

The questionnaire was subjected to pilot study first before conducting the final data collection process. To achieve this, the researcher undertook piloting of the study by administering questionnaires to four National government staff members in Nairobi. The four employees were drawn from the finance department in four different ministries at the national governing level. The four employees are formed an ideal number because it represented 1% of the accessible target population. According to Mugenda and Mugenda (2003) stipulation that an excellent pilot study should use 1-10% participants from the targeted sampled size and the exercise should be

done in a different environment. These considerations ensure that the researcher does not mix respondents and gets a glimpse into the final study exercise.

3.5.2 Validity Test

The research instrument's validity testing were ascertained in various ways and included face validity is based on view whether the content appear to be valid, construct validity-does the test of measuring what it was intended to measure; the content validity covers the test fully representing what it intends to measure and criterion validity focuses on results if they correspond with the different tests to get the same thing; these are common in research and academia (Creswell, 2014). First, the researcher endeavoured to validate the study findings by establishing construct validity where the questionnaire was divided into various segments where each segment evaluated information for a specific objective and further ensure that each segment measures what has been captured in the study's conceptual framework. Thirdly, the researcher undertook content validity by subjecting the questionnaire to a thorough examination by interrogating expert opinions in matters of county governance, financial performance of county governments and public financial management of public entities. The researcher's supervisor was the best informer in this regard. After validation, the researcher then adjusted the instrument before the final actual data collection.

3.5.3 Reliability Test

Creswell (2014) define reliability as a degree and extent to which the research instrument generates consistent results. The researcher used the Cronbach alpha coefficient and its index was computed by applying SPSS. The researcher endeavoured to attain a reliability test of 0.7 and above to enable easier conclusion of the acceptability of the reliability coefficient and hence the appropriateness of the items of the questionnaire in the study. The reliability test results from the pilot study was done using 4 participants and on 47 items are as shown in Table 3.1

Table 3.1: Reliability Results

Variable	Number of Items	Cronbach Alpha
Budgetary Controls	12	.741
Financial Accountability	9	.800
Financial Controls	7	.830
Financial Monitoring	9	.853
Financial Performance	10	.855
Overall Score	**47**	**.923**

Source: Researcher (2021)

This results show that the elements tested realized Cronbach Alpha of above 0.7 and overall score of 0.9 an indication that the questionnaire was reliable and fit for use in the study.

3.6 Data Collection Procedure

The researcher self-administered the questionnaires to the respondents. To begin with, the researcher acquired an introductory letter from Kenyatta University. The letter together with the NACOSTI permit was given to the leadership of Counties. Upon approval, the researcher gave the respondents the instrument and guided them on how to fill, inform them of confidentiality and ethical considerations and allow them to fill on their own. The researcher gave the respondents a maximum of seven business working days, and thereafter collected the questionnaires. Upon collection, the questionnaires were labelled Q1, Q2, Q3…etc up to the last questionnaire. At this point, the questionnaires were ready for data analysis.

3.7 Data Analysis and Presentation

After collecting data in the field, the data was checked thoroughly to ensure that they are completely filled and all errors are reduced and minimized. Data entry was done using SPSS software. The results and outputs were presented through bar charts, pie charts and tables. Descriptive statistics in the analysis of data included median, standard deviation, mode and mean while inferential statistics, namely analysis of variance and regression analysis were employed to show the inter-relations of the study's variables. The regression model was as follows:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y= Financial Performance

$\beta 0$= Constant

β_1 - β_4= Regression coefficient of public financial management

X_1= Budgetary Controls

X_2= Financial Accountability

X_3= Financial Controls

X_4= Financial Monitoring

Table 3.2: Measurement and Operationalization of Study Variables

Type of Variable (Independent /Dependent Variable)	Variables	Measurement Constructs	Measurement	Means of Data Collection	Data Analysis
Dependent Variable	Financial Performance	Operating surplus/deficit	Mean	Data collection sheet	Multiple regression analysis
Independent Variable	Budgetary controls	Was measured by: cash management budgeting process, establishing budget targets and communicating budgetary policies.	Mean	Structured questionnaire	Multiple regression analysis
Independent Variable	Financial accountability	Was measured by: equitability and	Mean	Structured questionnaire	Multiple regression analysis

		inclusivity, adherence to Constitution requirements, timely responsiveness and transparency.			
Independent Variable	Financial controls	Was measured by: communication of budget performance, communication of variances and spending limits.	Mean	Structured questionnaire	Multiple regression analysis
Independent Variable	Financial monitoring	Was measured by: monitoring of funds, financial statements preparation and documentation of financial transactions and expenditures.	Mean	Structured questionnaire	Correlation

Source: Researcher (2021).

3.8 Ethical Considerations

Ethical considerations of the research were upheld. Frist, the respondents were informed on the nature of conducting the study and were given the liberty to either take part in the study or not (Collis & Hussey, 2014). Secondly, the researcher safeguarded the privacy of the respondents by keeping them in a private environment that is tranquil. Third, the researcher requested the respondents not to write their individual names on the questionnaires to ensure anonymity.

CHAPTER FOUR

STUDY FINDINGS, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings after analysis on public financial management and financial performance. The analysis was done using SPSS version 25.0 and analysed through descriptions and inferential statistics. The section presents these findings in form of tables, charts and discussions. The chapter is arranged in sections covering the response rate, general information of the respondents, descriptive analysis, correlation and regression analysis that were performed.

4.2 Response Rate

From the 47 questionnaire that were administered to the respondents, 43 of them were filled and returned. This represented a response rate of 91.5%. As per the stipulation of Mugenda and Mugenda (2003) stipulation that 70% and above of a response rate is ideal to use in research and for drawing conclusions and recommendations of the study.

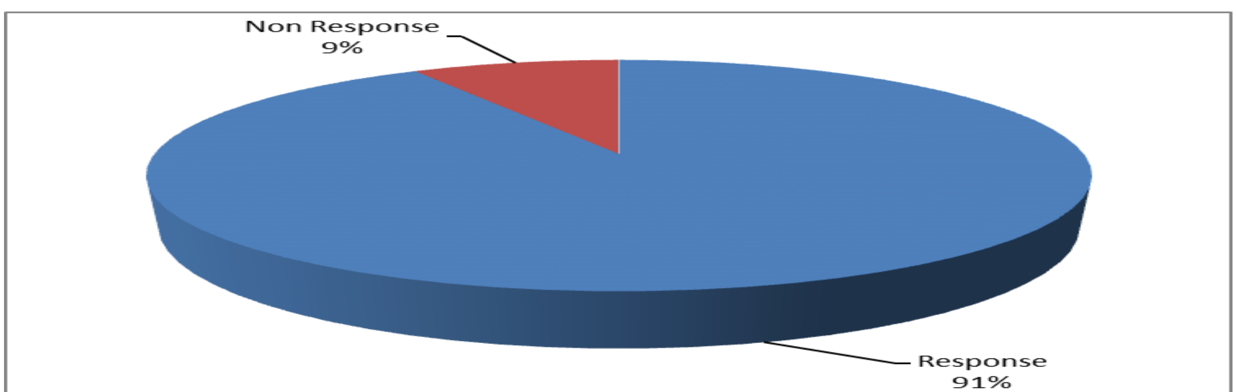

Figure 4. 1: Response Rate

Source: Researcher (2021)

4.3 General Information

The study sought information on demographic information of the respondents like their gender, age, academic qualifications and length working at the county. These next sections show the results.

4.3.1 Gender

The respondents were asked to indicate their gender and Figure 4.2 shows the results of the responses that the respondents gave.

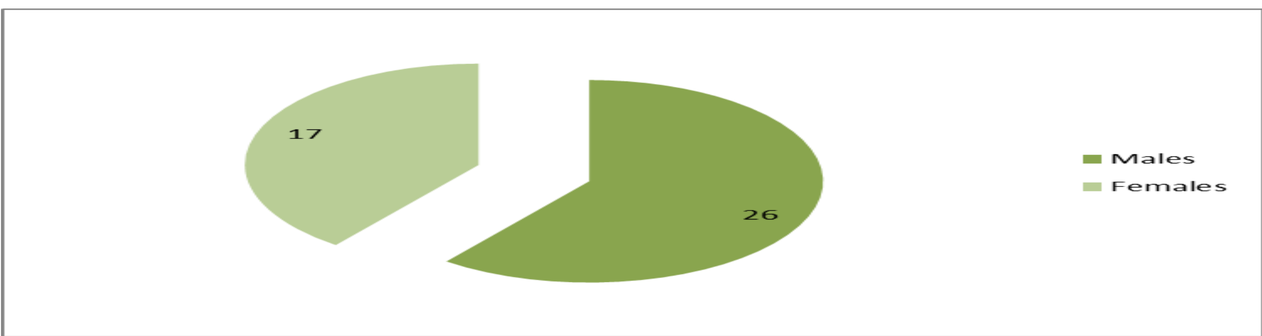

Figure 4. 2: Gender of Respondents
Source: Researcher (2021)

The figure shows that 26 respondents were male and 17 were females and indication that there was no bias as both genders were allowed and participated in the study.

4.3.2 Age

The study participants revealed their age groups as shown in figure 4.3

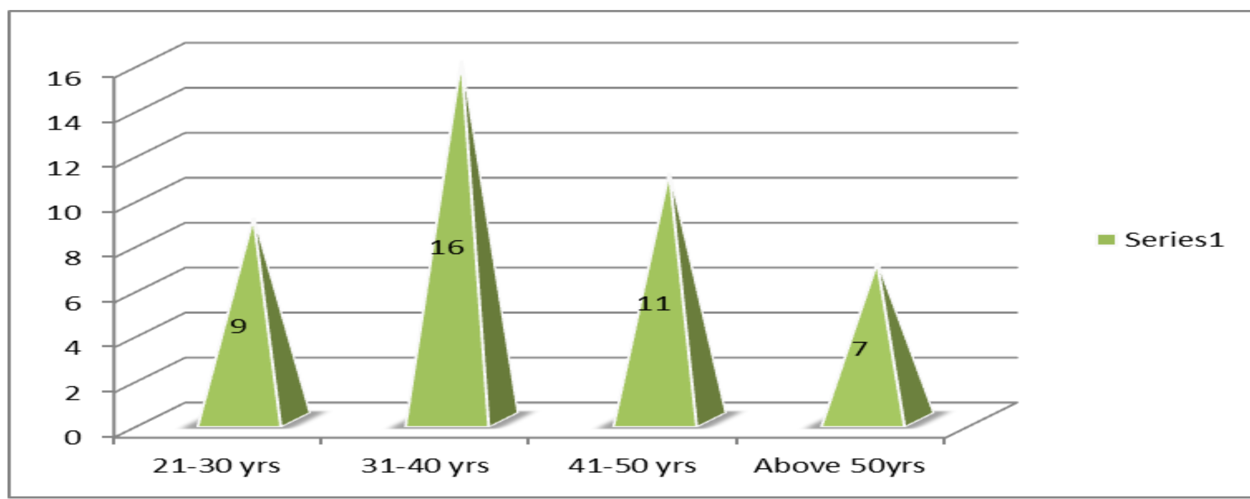

Figure 4. 3: Age
Source: Researcher (2021)

Findings shown in fire 4.3 show that majority of the respondents stated that there age group range was 31-40 years with 16 members; followed by respondents who were aged 41-50 years at a frequency of 11. Those who stated that their age ranged from 21 to 30 years were 9 and the least group with 7 respondents stated they were above 50 years of age. The results show variety in the response group which reflects the vastness of the responses and variety in the findings.

4.3.3 Academic Qualifications

Figure 4.4 shows the results when the respondents were asked to share their highest academic qualifications.

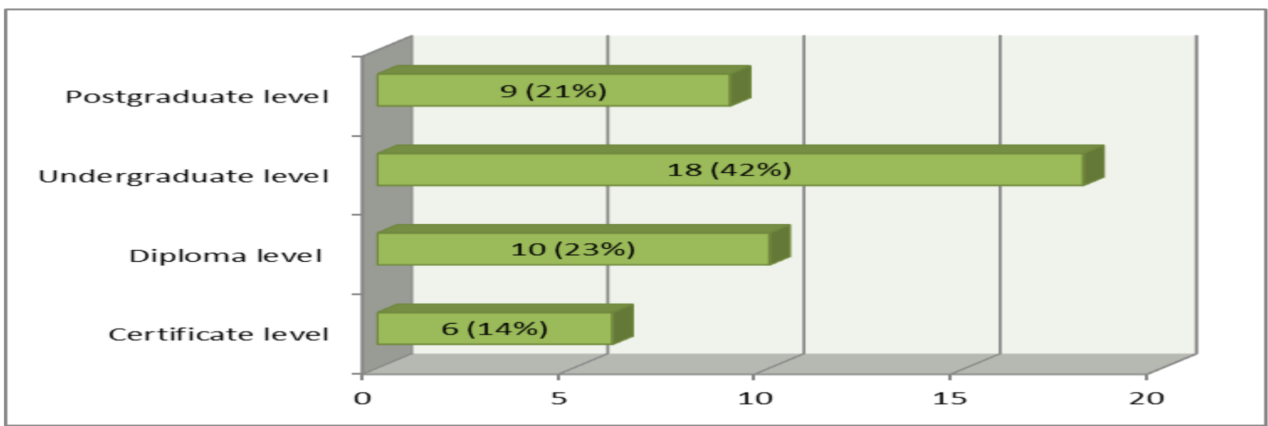

Figure 4. 4: Highest Academic Qualifications

The Figure 4.4 show that respondents with undergraduate level of education were the highest at 42%, this is followed by diploma holders with 23% and postgraduate level respondents at 21% and those who stated had certificate level of academic qualifications were only 14%. The findings indicate that most of respondents had tertiary level of education hence they could understand what is asked of them and be able to fill out the questionnaire.

4.3.4 Working Length

The respondents were asked how long they had worked in their organization the results of their responses is as indicated in Figure 4.5

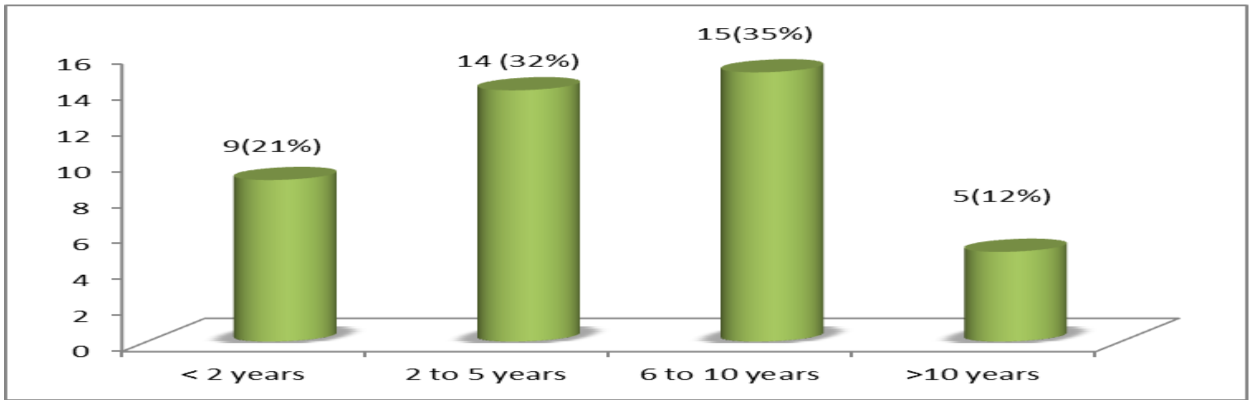

Figure 4. 5: Length Working the County
Source: Survey Data (2021).

Many of them shared that they had worked in the counties for 6-10 years at a frequency of 15 and 35%. Another 32% of the respondents stated that they had worked for 2-5 years and those who had worked in the county for less than 2yrs were 21% and only 12% of the respondents had worked for more than 10 years. These findings show that most had worked long enough in the county to be able to understand, the operations and performance.

4.3.5 Department Serving in the County

The respondents were asked to indicate the department in which they served within the counties and 7 respondents were drawn from finance & economic planning ministry, 3 were from agriculture and 2 respondents from ministry of health services. The results also show that 1 respondent working in the social services, youth and sports ministry, 3 came from the lands ministry and another 4 were drawn from the ministry of environment. 4 respondents indicated that they serve in the education ministry, 3 were from the trade, industrialization and tourism ministry; 6 respondents indicated that they worked on the transport sector, 5 were from public service ministry and 4 came from the ICT, e-government and communication ministry.

These results show that the respondents were representative of all ministries within counties. It cuts off instances of biasness and gets robust data from different viewpoints of the respondents.

4.4 Descriptive Analysis

The researcher conducted descriptive analysis and this section presents the findings in means, standard deviations and thereafter a discussion of the findings and linking it to previous studies. The subsequent sections are arranged as per the study variables.

4.4.1 Budgetary Controls

Table 4. 1: Budgetary Controls

Budgetary Controls	Mean	Std. Dev
We do timely and precise financial records which we submit to the controller of budgets	4.4651	.54984
We regularly compare the actual and planned budgets to determine the need for taking a corrective action	4.4884	.66805
We normally agree on budget allocations before the budget is rolled out	4.2558	.90219
We closely monitor the budget allocations	4.2791	.66639
Our County has an effective system that helps to track and control the budget	4.5116	.63140
Any budget set at the County can be amended during its implementation	4.3953	.49471
Whenever expenditure is done outside the budget, responsible county officials have to approve and justify	4.5349	.54984
Departmental heads are responsible for controlling how the budget is implemented	4.5349	.54984
The Budget Committee and/or departmental heads regularly follow up on budget plans	4.4884	.63140
The County Government has put in place budget policies to check on spending	4.5814	.69804
The budgeting process is followed as per the constitutional requirements	4.1860	.85233
The budget implementation is made in line with the budget and within requirements of law	4.3721	.65550
Overall Score	**4.4244**	**.6541**

Table 4.1 shows that the overall mean for statements on budgetary controls was 4.4244 with a standard deviation of .6541. All the statements had means of over 4.0 but the highest ones were that county officials were responsible for approving and justifying any expenses outside the budgets, the department heads were in charge of controlling the budget implementation process and the county government had formulated budget policies to cut on spending. The respondents agreed to these statements with means of 4.5. These statements are similar to the findings of Pimpong and Laryea (2016) who shared that budget coordination led to improved performance in the non-financial institutions of Ghana. While Otieno (2019) noted a declining financial performance in public universities due to issues with budget control. Budget control measures allowed for proper utilization of resources, monitoring and controlling costs.

The means scores of 4.4 were for statements stating that the budget committees heads did a follow-up to check on the budget plans, the staffs did timely and precise submission of financial records to controller of budgets and there was regular comparison between the actual and planned budget. The study by Adongo and Jagongo (2013) noted that the influence of budgetary controls was negatively affected by elements like process of budgetary control, human factors in budgetary control and salient features of budgetary control, and these needed to be addressed so as to positively influence the financial performance in state corporations. On the statements of budget implementation made as per the requirements of law and the respondents agreed that the county budgets could be amended during the implementation phase had scores of 4.3. The lowest means scores as agreed by the respondents was 4.2 and 4.1 for statements on agreeing to budget allocation and close monitoring of the budget allocations and the fact that the budget process is as per the constitutional requirements. Similar to the study by Adongo and Jagongo (2013) who realized that budgetary control was positively related to financial performance of firms.

4.4.2 Financial Accountability

Table 4. 2: Financial Accountability

Financial Accountability	Mean	Std. Dev
The senior finance personnel take responsibility for timely delivery of accurate financial statements	4.3721	.65550
To ensure transparency, all the reports made public /accessible by the public	4.5349	.63053
All the reports adhere to constitutional requirements and/or financial standards	4.3023	.67383
To control misappropriation of funds, any officer suspected to be involved is supposed to be brought to book, provided there is available and sufficient evidence	4.2558	.65803
The County Government has set accounting standards	4.5116	.55085
The county has recruited knowledgeable staff who are responsible for the implementation of the accounting standards	4.5349	.63053
The senior finance personnel take responsibility for timely delivery of operating metrics	4.5116	.50578
The county government has instituted equitability when making financial decisions	4.4186	.62612
There is transparency when making the financial decision-making	4.2791	.45385
Overall Score	**4.4134**	**.5983**

The findings in Table 4.2 show that statements on financial accountability had an overall mean of 4.4134 and standard deviation of .45385. The findings also reveal that all statements had means of 4.0 and above with highest at 4.5 with statements on transparency of reports that are made public, setting of accounting standards by the county government, the county recruiting knowledgeable staffs and the senior finance staffs taking charge of timely delivery of operating metrics. Means of 4.4 was for the statement on equitability when making financial decisions within the county. These statements align to findings by Arinaitwe, *et al.* (2021) who shared that financial accountability mechanism including financial reporting, budgeting and expenditure controls and service delivery were adopted by the local governments in Uganda. And Ndikwe and Owino (2016) reveal that accountability led to improved financial performance of the schools in that study.

The means of 4.3 were obtained from the statements on senior finance personnel taking the charge and responsibility for delivering accurate financial statements and adherence to constitutional requirements set for financial handling standings. The mean of 4.2 was reached by agreement of the respondents on statements on transparency in making decisions on finances in the county and efforts that are made to control misappropriation of funds by staff who are then punished for their activities based on the collected evidence. Just as Muttaqin and Mulyasari (2018) noted that transparency and openness in financial reporting helped in financial decision making that ensures that finances will be prudently used and brought about high financial performance in the government agencies. Meanwhile, Ndikwe and Owino (2016) share that financial performance is linked to accountability.

4.4.3 Financial Controls

Table 4. 3: Financial Controls

Financial controls	Mean	Std. Dev
The county government ensures that all the budgeted items have limits of expenditure	4.6047	.72793
Whenever there are variances on budgets, the responsible personnel have to rectify the same	4.4186	.49917
Variances on budgets are communicated to the concerned personnel so that they take action	4.3721	.53556

The controls put on expenditures are in accordance with the expected budget regulations	4.2791	.66639
There are timely and periodic financial controls instituted at the County	4.3023	.63751
The recommendations made by the concerned financial committees are normally followed up by top management	4.3256	.68037
The County has employed IT specialist(s) who do(es) regular system audit	4.3256	.74709
Overall Score	**4.3754**	**.64200**

Table 4.3 shows that in general the financial controls have a mean score of 4.3754 and overall standard deviation is at .64200. All the means are above 4.2, with the highest means at 4.6 on the fact that the county government has set limits on expenditures for all the budgeted items and personnel in charge have to make changes and rectify the budget in instances where there are variances scoring a mean of 4.4. These findings are similar to what Abbas and Abu (2019) found that the financial control mechanisms used in the manufacturing firms led to improved profits and high firm performance. The study revealed that financial control mechanisms led to improved firm performance in terms of its profitability. Said (2019) shared that financial control with elements of control payables, auditing and reconciliation have improved performance in financial terms at the Mombasa County Government

Mean score of 4.3 were for statements on employment and use of IT specialists to do audits, any and all recommendations to be followed up by the top managers, instituted financial controls on a timely or periodic schedule and passing communications to the key personnel whenever the budgets have variances and the controls in expenditures were based on budget regulations. It is similar to Lotiaka and Namusonge (2017) findings which established that there was lack of follow-up to verify the accountability reports submitted to the Office of the Auditor General by most County Governments to follow up activities reported. This calls for financial accountability to be entrenched as part of public financial management in aiding financial performance in the counties. At the same time, Moudden (2020) revealed that effective financial control demands high moral personality and financial autonomy and use of new public financial governance elements that have improved the performance of the public institutions in Morocco.

4.4.4 Financial Monitoring

Table 4. 4: Financial Monitoring

Financial Monitoring	Mean	Std. Dev
The County Treasury is responsible for timely preparation of quarterly reports and submission to the controller of budget	4.3488	.48224
The reports are forwarded to the County assembly budget committee for further deliberation and report writing	4.4884	.55085
I confirm that the County Assembly does oversight role where the members involved recommend to the budget committee on various reports	4.4651	.63053
All the county expenditures continually monitored to ensure compliance to the budgeted county funds	4.5581	.66556
The results obtained from monitoring funds are appropriately documented	4.6279	.53556
The results obtained from monitoring funds are appropriately communicated to the relevant stakeholders	4.5581	.62877
All financial transactions are recorded immediately they happen	4.5116	.55085
Management reports and financial statements are always reliable and timely	4.3953	.54070
The county has employees who are mandated with monitoring the finances of the county	4.4419	.58969
Overall Score	**4.4883**	**.57497**

The findings from descriptive analysis on financial monitoring show overall mean score was 4.4883 and variation was at .57497. The highest mean score was at 4.6 where the respondents agreed that there is appropriate documentation of the results from monitoring of funds. The means of 4.5 were agreed upon on statements on communication to all stakeholders after results from monitoring of fund are done, there is recording of all transactions and expenditures are monitored so such that they comply to the county government funds budget. The findings are similar to what Marwa and Wanjare (2018) found when investigating on financial monitoring and performance of programs by PBOs such that the test financial monitoring techniques had a positive influence on performance of the PBOs. At the same time, Mathenge and Muturi (2017) found out that financial monitoring facilitates financial performance of the institutions.

The mean of 4.4 as agreed by the respondents on the fact that the county has employed staff to monitor the entire county's finances, the county budget committee deliberates and makes reports

on budget and it does its oversight role. The respondents also agreed with a mean of 4.3 that in the county the managers make reliable and timely financial reports and statements and the county treasury is charged with timely preparation of quarterly financial reports which are then submitted to the controller of budgets. These findings are also shared by Kamwana and Muturi (2014) who realized that financial monitoring improved the financial performance of World Bank funded projects operating in Kenya. Similarly, Theletsane (2014) shared that financial monitoring involves monitoring of actual revenue together with cost data by specifically comparing the two budgeted performance with the actual performance. The managers have to keep all records and closely monitor all the financial reports for sound decision making.

4.4.5 Financial Performance

The dependent variable covered in the study was financial performance, and it was represented by surplus/deficit. For standardization purpose, the values of natural logarithm of surplus/deficit were determined and the trend analysis generated as indicated in Figure 4.1.

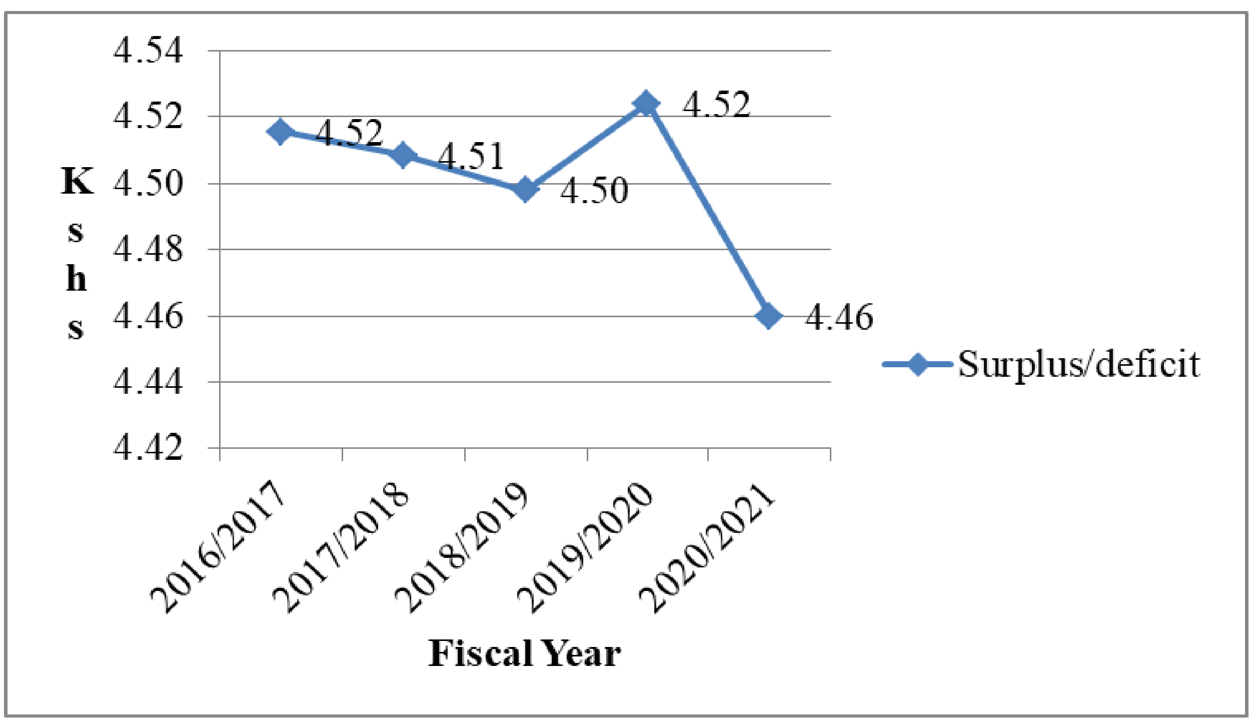

Figure 4.6: Natural Logarithm of Surplus/Deficit as a Proxy of Financial performance

Figure 4.6 indicates instabilities in financial performance of the Counties in Kenya, represent ted by the value of surplus/deficit generated. This instability could be attributed to challenges in public financial management systems in these counties. These results are consistent with the OAG report for 2017 that showed that most counties in Kenya have issues when it comes to their financial management practices. For instance, Trans Nzoia county government has poor public financial management practices that have led to poor financial performance due to haphazard budget formulation, lack of budgetary controls for the funds received from the national government and lack of financial controls on how finances are used throughout the financial year.

4.5 Inferential Statistics

4.5.1 Correlation Analysis

This analysis was done to establish the link that public financial management had on performance with the findings as shown in Table 4.6.

Table 4.5: Correlation Analysis

		Financial Performance	Budget Controls	Financial Accountability	Financial Controls	Financial Monitoring
Financial Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	43				
Budget Controls	Pearson Correlation	.465	1			
	Sig. (2-tailed)	.000				
	N	43	43			
Financial Accountability	Pearson Correlation	.403	.328*	1		
	Sig. (2-tailed)	.000	.000			
	N	43	43	43		
Financial Controls	Pearson Correlation	.584	.291	.093	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	43	43	43	43	
Financial Monitoring	Pearson Correlation	.557**	.250	. 305	.199	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	43	43	43	43	43

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The results from the conducted correlation analysis in table 4.6 show that budget control is positively and moderately linked to financial performance with the r values at .465 and p-values of 0.000 and financial accountability had r values of .403 and p-values of 0.000 thus positively and moderately correlated to financial performance. Financial controls was positively and significantly correlated to financial performance with r values .584 of and p-values of 0.000 and the r values of .557 and p-values of 0.000 show that financial monitoring was also positively and significantly correlated to financial performance

In accordance to the categorization and interpretations made by Huber (2004) on linear relations, such that values that are weak range from 0.1-0.29, moderate values range of 0.3-0.49 and strong r values are those that range from 0.5 -0.9. Therefore, financial controls show the strongest correlation to financial performance, followed by financial monitoring, then budget controls and lastly financial accountability. Two of elements of public financial management -financial controls and financial monitoring are strongly and positively correlated and the other two elements of budget controls and financial accountability are moderately correlated based on their r values.

4.5.2 Regression Analysis

The analysis was done in an effort of determining how public financial management affects financial performance and these three sections present the results.

Model Summary

The results in table 4.7 are based on the conducted tests of coefficient of correlation and coefficient of determination.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817[a]	.667	.632	.08014

a. Predictors: (Constant), Budget Controls, Financial Controls, Financial Monitoring, Financial Accountability

Table 4.7 shows that the coefficient of correlation is 0.817, meaning that link of the variables is both moderate and positive. The adjusted R (coefficient of determination) is .632 and it means financial performance of the counties can be traced to independent study variables of public financial management elements. As such 63.2% of the financial performance is based on elements of public financial management (budget controls, financial accountability, financial controls and financial monitoring). The residual effect of 36.8% can be explained by other elements that are excluded by the scope of this current study. Thus, public financial management accounted for 63.2% of financial performance in the counties.

Analysis of Variance

Analysis of Variance test was conducted at a significance level of 0.05 so as to compare $F_{Calculated}$ and $F_{Critical}$ and the results are as shown in Table 4.8

Table 4.6: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.490	4	.122	19.052	.000[b]
Residual	.244	38	.006		
Total	**.734**	**42**			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Budget Controls, Financial Controls, Financial Monitoring, Financial Accountability

Table 4.8 shows the results of ANOVA statistics processed at a 0.05 significance level such that $F_{Calculated}$ is at 19.052 and $F_{Critical}$ is at 2.612. Since the $F_{Calculated} > F_{Critical}$ (19.052 >2.612) the model is a good fit. The p-values are at 0.000, which is less than the standard level of 0.05 meaning that one of these variables had a significant effect on financial performance.

Regression Coefficient

The test of regression was conducted to highlight how each study variable under public financial management affected the financial performance of the County Governments in Kenya. The results are in Table 4.9

Table 4. 7: Regression Coefficient

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	3.155	.262		12.041	.000
Financial Accountability	.039	.016	.732	2.437	.016
Financial Controls	.011	.002	.016	5.500	.001
Financial Monitoring	.032	.016	.201	2.000	.041
Budget Controls	.013	.004	.395	3.250	.002

a. Dependent Variable: Financial Performance

The Resultant Equation is:

$$Y = 3.155+.039X_1+.011X_2+.032X_3+.013X_4$$

Where Y=Financial Performance, X_1= Budget Controls, X_2= Financial Accountability, X_3= Financial Controls and X_4= Financial Monitoring.

The first hypothesis was H_{01} budgetary controls have no significant effect on financial performance of County Governments in Kenya. From the results, budgetary controls have p-value ($p=0.016<0.05$), thus it was a significant predictor variable. Hence, the study reject hypothesis H_{01} and infers that budgetary control is a significant factor influencing financial performance. The results are consistent with Pimpong and Laryea (2016) who established that budget coordination has statistical significance relationship on organizational performance. Otieno (2019) revealed that elements of budgetary control including budget planning, budget coordination and budget control significantly affected the financial performance in the Kenyan public universities. Adongo and Jagongo (2013) affirmed that budgetary controls led financial performance.

The second hypothesis was H_{02} financial accountability has no significant effect on financial performance of County Governments in Kenya. The study established the p-value of financial accountability as 0.001 ($p<0.05$), thus it was significant. Hence, the study reject hypothesis H_{02}. These findings are echoed by Arinaitwe, *et al.* (2021) found out that financial accountability including service delivery, financial reporting, expenditure control and budgeting measures have been employed in then local governments in Uganda. Financial accountability mechanisms improved performances of the local governments. Ndikwe and Owino (2016) indicated that accountability measures and practise led to high financial performance of the schools under study. Similarly, Muttaqin and Mulyasari (2018) noted that financial accountability with link to culture control and contracts led to improved performance of government agencies in Banten province.

The third hypothesis of the study was H_{03} financial controls have no significant effect on financial performance of County Governments in Kenya. From the results, financial control had its p-value as 0.041 ($p<0.05$) and hence it was significant. Therefore, the study reject hypothesis H_{03}. These findings are consistent with Abbas and Abu (2019) who revealed that adopted financial control measures improved the profits and performance of the firms. Said (2019) revealed that financial controls led to improved financial performance at the devolved government units in Kenya and specifically at Mombasa County Government.

The last hypothesis of the study was H_{04} financial monitoring has no significant effect on financial performance of the counties in Kenya. Findings revealed that financial monitoring had p-values of $0.002 > 0.05$ thus causing a rejection of the null hypothesis H_{04} and adopting the alternative hypothesis. The findings are supported by Marwa and Wanjare (2018) who found out that all the financial monitoring techniques tested had a positive influence on the firm performances. Kamwana and Muturi (2014) noted that financial monitoring improved project performance. Mathenge and Muturi (2017) indicated that financial monitoring poses a positive influence on financial performance thus concluded that financial monitoring facilitates financial performance of the institutions under study.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter present summaries of the findings of the current study which is shown in sections that include the summary, the conclusions, recommendations and it gives suggestions to future researchers on the areas that they can conduct their studies.

5.2 Summary

The focus of this study was on investigation on the relationship that public financial management has on financial performance in the County governments in Kenya. The elements of public financial management included budgetary controls, financial accountability, financial controls and financial monitoring. Descriptive, explanatory cross sectional survey design was used and data was collected from county staff and specifically from the finance managers from the various counties. The study covered the challenges facing financial performance in the counties with reports of misappropriation of funds, wastage, under-utilization of funds, corruption, embezzlement and fraud. Thus, the need for adoption of public financial management approaches to resolve the stated issues and also deliver high financial performance in the counties.

The first objective was on budget controls and its effect on financial performance. The study hypothesized that budget control had no effect on financial performance in the county governments in Kenya. The study however established a positive and moderate significance relationship to financial performance of the counties; this was realized from the obtained p-values of 0.000 and R values of 0.465. The R values indicate that budget controls have a moderate strength in influencing financial performance in the county, with elements like timely submission of financial records to the controller of budgets, budget allocations agreed upon,

close monitoring of the budget allocations, approvals and justification for any expenses that are outside the county budget and support from departmental heads in controlling the budget and following the budget plans. Budget controls is also based on the policies, and laws set to guide budget preparation and its implementation.

The second objective was on financial accountability and its effect on financial performance in the counties. The study hypothesized that financial accountability had no significant effect to financial performance in the county governments in Kenya. But the study established that it positively but moderately influenced the financial performance in the counties in Kenya. The p-values of 0.000 and R values of 0.403 showing a moderate strength in the relationship it has on financial performance. The elements of financial accountability cover transparency and equitability in financial decision making, setting of accounting and financial standards that adhere to the constitution and securing knowledgeable staff who take responsibility for compiling accurate financial statements and records. Accountability also means that any misappropriation of funds leads to punishment for those who are found guilty.

The third objective was on financial controls and effect it has on financial performance. It was hypothesized that financial controls had no significant effect to financial performance in the county governments in Kenya. However the study found that financial controls had significant and positive effect to financial performance of the County governments in Kenya. The obtained R values of 0.584 and p-values of 0.000 indicate a strong link between these two variables. Financial controls is a measure of limits in expenditures as set by the budget, communication and rectification of variances in the budgets, instituted financial controls by the county and use of IT skilled staffers to handle regular audits in the county.

The fourth objective was on financial monitoring and effect it has on financial performance and it was hypothesized that financial monitoring had no significant effect on financial performance in the county governments in Kenya. The study however found out that financial monitoring had a significant and positive influence of the variable to financial performance in the County governments in Kenya. The p-values of 0.000 and R values of 0.557 obtained show the relationship is strong between these two variables. Financial monitoring is based on elements

like timely preparation of quarterly reports, the county doing oversight of all financial activities, close monitoring to adhere to financial standards, recording and communication of all financial monitoring reports.

5.3 Conclusion

Based on the findings, several conclusions were made; the study concluded that budgetary controls had a positive and moderate effect to financial performance of County governments in Kenya. The study respondents agreed that budget control measures like timely submission of financial reports and statements to controller of budgets, approving and justifying any extra expenditures outside what was budgeted for, county officials agreeing to the budgets and closely monitoring to control the budget and its plans and setting and adhering to laws and policies led to higher financial performance in the county.

The study also concluded that financial accountability positively affected county performances. The respondents agreed that elements of financial accountability had a moderate effect on financial performance. Some of these elements included transparent and equal financial decision making, setting financial standards in the county, accurately recording financial statements and putting to book all people who misappropriate county funds.

The study further concluded that financial controls led to significant influence on financial performance of the County governments in Kenya. The respondents agreed that setting limits to county expenditures, communicating any varying figures in the budget, using experienced staff to regularly audit the county revenues and expenses and instituting financial control measures improved the financial performance of the county.

The study concluded that financial monitoring significantly and positively influenced the county’s financial performance. Respondents agreed that preparing quarterly financial reports in a timely manner, conducting an effective oversight role, monitoring, recording and reporting on county’s finances and communicating on all financial monitoring reports; improved the financial performance of the County governments in Kenya.

5.4 Recommendations

Based on the conclusions, this study made recommendations regarding policy, practice and further research as shown in these coming sections.

5.4.1 Policy Recommendations

The study also recommends that the counties governments to employ public financial management practices that will help them in improving their financial performance. This is through formulation of policies and laws and implementing them with elements like budgetary controls, financial control measures, financial accountability and monitoring. The counties should use highly trained personnel that can monitor, control and coordinate audit exercises that will ensure prudent use of county funds and improve the net income streams and revenues.

5.4.2 Recommendations for Practice

The study results show that public financial management affects financial performance in the County governments in Kenya, and as such, the study recommends that the counties adopt public financial management aspects as a method to enhance its financial performance. The county governments should employ all the elements of public financial management including budgetary controls, financial accountability, financial controls and financial monitoring

5.4.3 Study Limitations and Recommendations for Further Research

The major limitations faced included first, since the study intends to adopt structured questionnaire, some of the respondents might be limited in expressing themselves fully and perhaps some of the views in the respondents' mind might not be captured. To address this challenge, the researcher ensured that the research questionnaire encompasses a few open-ended questions at the end of each Likert scale. This targeted to capture some of the important issues that may not be captured in the main Likert scale.

Secondly, the study aimed to research on very confidential matters on financial performance.

The targeted respondents might be unwilling to participate in the study or even decline participating in filling the questionnaire due to the nature of the information they are supposed to give. The researcher is aware that not every employee is willing to declare that their organization is or has been doing poorly. To counter this limitation, the researcher ensured that the respondents' identities remained anonymous, their names were not captured anywhere on the questionnaire and the information sought from them was treated with anonymity and subjected to scholarly use only. Further, before beginning to conduct the research, the researcher drafted consent and approval documents and presented to the management of the Counties, so that the process of data collection was allowed to happen without any hindrance.

The study recommends to researchers to conduct further studies on public financial management to overall organization performance, since this study focus was on financial performance. The study concentrated on financial performance in the forty seven county governments in Kenya, and further research can be done on other government ministries, departments and institutions. Future researches can be expanded to cover even private organizations, corporate and business entities.

The findings from regression analysis showed that changes in the county governments financial performance was at 63.2% or .632 as linked to practices of public financial management. There is a residual effect of 36.8% for practices that are outside the scope of the study and affect the financial performance in the county. Thus, future researchers should focus on this other elements that account for financial performance in the counties and that were not explained in the study.

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APPENDICES

Appendix I: Questionnaire

PART I: SELF-INTRODUCTION LETTER

PART I: SELF-INTRODUCTION LETTER

Dear Respondent,

RE: TAKING PART IN THE RESEARCH QUESTIONNAIRE

I am a Kenyatta University Masters of Business Administration student, specializing in Finance. Am currently undertaking research titled "**Public Financial Management and Financial Performance at County Governments of Kenya".** I hereby humbly request assistance to provide honest responses to the questions in the below sections. I assure you that every bit of information you offer will be confined to scholarly purposes only and will instrumentally benefit the County Governments in Kenya. All the responses to the questions you give will be treated with 100% confidentiality. For anonymity purposes, kindly do not indicate your name anywhere on this questionnaire. I highly appreciate your cooperation and willingness to help me complete this study.

Yours Faithfully,

Researcher's Name: Valerie Nandutu Kisaka

Sign ______________ Date_____________

PART II: Respondent's Demographic Information

1. What is your gender? (Tick One)

Male [ ]

Female [ ]

2. Mention your age bracket in years. (Tick One)

21-30 [ ]

31-40 [ ]

41-50 [ ]

Above 50 [ ]

3. What is your highest academic qualification? (Tick One).

Certificate level [ ]

Diploma level [ ]

Undergraduate level [ ]

Postgraduate level [ ]

4. For how many years have you been working in this county? (Tick one).

< 2 years [ ]

2 to 5 years [ ]

6 to 10 years [ ]

>10 years [ ]

5. Which department do you serve in, in this county?

………………………………………………………………………………..

PART III: MEASUREMENT OF STUDY VARIABLES

Section A: BUDGETARY CONTROLS

6. On the below Likert scale, pick a suitable indicator that best describes and contributes to how budgetary controls affect financial performance in County Governments in Kenya.

Use: 1- For strongly disagree;

2- For disagree;

3- Neutral;

4-Agree;

5- Strongly agree.

Budgetary controls	1	2	3	4	5
We do timely and precise financial records which we submit to the controller of budgets					
We regularly compare the actual and planned budgets to determine the need for taking a corrective action					
We normally agree on budget allocations before the budget is rolled out					
We closely monitor the budget allocations					
Our County has an effective system that helps to track and control the budget					
Any budget set at the County can be amended during its implementation					
Whenever expenditure is done outside the budget, responsible county officials have to approve and justify					
Departmental heads are responsible for controlling how the budget is implemented					
The Budget Committee and/or departmental heads regularly follow up on budget plans					
The County Government has put in place budget policies to check on spending					
The budgeting process is followed as per the constitutional requirements					

The budget implementation is made in line with the budget and within requirements of law					

Section B: FINANCIAL ACCOUNTABILITY

7. On the below Likert scale, pick a suitable indicator that best describes and contributes to how financial accountability affects financial performance in County Governments in Kenya.

Use: 1- For strongly disagree;

2- For disagree;

3- Neutral;

4-Agree;

5- Strongly agree.

Financial Accountability	1	2	3	4	5
The senior finance personnel take responsibility for timely delivery of accurate financial statements					
To ensure transparency, all the reports made public /accessible by the public					
All the reports adhere to constitutional requirements and/or financial standards					
To control misappropriation of funds, any officer suspected to be involved is supposed to be brought to book, provided there is available and sufficient evidence					
The County Government has set accounting standards					
The county has recruited knowledgeable staff who are responsible for the implementation of the accounting standards					
The senior finance personnel take responsibility for timely delivery of operating metrics					
The county government has instituted equitability when making financial decisions					
There is transparency when making the financial decision-making					

Section C: FINANCIAL CONTROLS

8. On the below Likert scale, pick a suitable indicator that best describes and contributes to how financial controls affect financial performance in County Governments in Kenya.

Use: 1- For strongly disagree;

2- For disagree;

3- Neutral;

4-Agree;

5- Strongly agree.

Financial controls	1	2	3	4	5
The county government ensures that all the budgeted items have limits of expenditure					
Whenever there are variances on budgets, the responsible personnel have to rectify the same					
Variances on budgets are communicated to the concerned personnel so that they take action					
The controls put on expenditures are in accordance with the expected budget regulations					
There are timely and periodic financial controls instituted at the County					
The recommendations made by the concerned financial committees are normally followed up by top management					
The County has employed IT specialist(s) who do(es) regular system audit					

Section D: FINANCIAL MONITORING

9. On the below Likert scale, pick a suitable indicator that best describes and contributes to how financial monitoring affects financial performance in County Governments in Kenya.

Use: 1- For strongly disagree;

2- For disagree;

3- Neutral;

4-Agree;

5- Strongly agree.

Financial Monitoring	1	2	3	4	5
The County Treasury is responsible for timely preparation of quarterly reports and submission to the controller of budget					
The reports are forwarded to the County assembly budget committee for further					

deliberation and report writing					
I confirm that the County Assembly does oversight role where the members involved recommend to the budget committee on various reports					
All county expenditures are continually monitored to ensure compliance to the budgeted county funds					
The results obtained from monitoring funds are appropriately documented					
The results obtained from monitoring funds are appropriately communicated to the relevant stakeholders					
All financial transactions are recorded immediately they happen					
Management reports and financial statements are always reliable and timely					
The county has employees who are mandated with monitoring the finances of the county					

Appendix II: Data Collection Sheet

Financial Year	Total Receipts	Total Payments
16/17		
17/18		
18/19		
19/20		
20/21		

Appendix III: Counties in Kenya

1	Mombasa (County)
2	Kwale
3	Kilifi
4	Tana River
5	Lamu
6	Taita–Taveta
7	Garissa
8	Wajir
9	Mandera
10	Marsabit
11	Isiolo
12	Meru
13	Tharaka-Nithi
14	Embu
15	Kitui
16	Machakos
17	Makueni
18	Nyandarua
19	Nyeri
20	Kirinyaga
21	Murang'a
22	Kiambu
23	Turkana
24	West Pokot
25	Samburu
26	Trans-Nzoia
27	Uasin Gishu
28	Elgeyo-Marakwet
29	Nandi
30	Baringo

31	Laikipia
32	Nakuru
33	Narok
34	Kajiado
35	Kericho
36	Bomet
37	Kakamega
38	Vihiga
39	Bungoma
40	Busia
41	Siaya
42	Kisumu
43	Homa Bay
44	Migori
45	Kisii
46	Nyamira
47	Nairobi (County)

Appendix IV:Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 382442

Date of Issue: 24/March/2021

RESEARCH LICENSE

This is to Certify that Ms.. VALARIE NANDUTU KISAKA of Kenyatta University, has been licensed to conduct research in Transnzoia on the topic: public financial managment and finacial perfomance at trans nzoia county. for the period ending : 24/March/2022.

License No: NACOSTI/P/21/9640

382442

Applicant Identification Number

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CONDITIONS

1. The License is valid for the proposed research, location and specified period
2. The License any rights thereunder are non-transferable
3. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research
4. Excavation, filming and collection of specimens are subject to further necessary clearence from relevant Government Agencies
5. The License does not give authority to tranfer research materials
6. NACOSTI may monitor and evaluate the licensed research project
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