

**FINANCIAL MANAGEMENT PRACTICES AND COUNTY GOVERNMENTS'
FINANCIAL PERFORMANCE OF MAKUENI COUNTY, KENYA**

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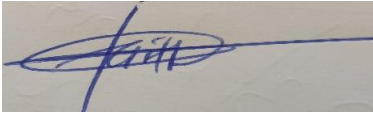
**A RESEARCH PROJECT PRESENTED TO SCHOOL OF BUSINESS, ECONOMICS
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DECLARATION

CANDIDATE DECLARATION

I hereby declare this to be my original work that has not been presented for a degree award.

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DEDICATION

I give all glory, honor, and praise to God, the Creator of the earth and the universe, for His divine guidance, and abundant grace that have sustained me throughout this journey. I am profoundly grateful to my family and close associates for their steadfast encouragement, prayers, and emotional support. Your belief in me, constant cheering, kind words, and willingness to walk with me through every phase of this journey made all the difference. To my supervisor, your guidance embodied the true meaning of success and encouragement.

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OPERATIONAL DEFINITION OF TERMS

Control activities	Methods, regulations, and practices put in place to improve financial accountability and responsibility
Comparability	Standardization that allows financial statements of different organizations to be compared.
Financial accountability	Being responsible for effective performance of financial activity.
Financial management practices	Standard operating guidelines that are created by government to aid in carrying out financial operations such as budgeting, financial reporting, and accounting.
Financial performance	The measure of fulfillment of predetermined goals and objectives that are assessed against predetermined criteria like costs and completeness.
Financial planning	It's a designed step by step approach to meet the financial goals.
Financial reporting	Standard accounting practice that is used to disclose the financial status of a company, institution or organization.
Operating deficit/ surplus	Refers to the difference between revenue and expenditure.

Understandability

Presenting financial information in a way that the reader can internalize.

ABBREVIATIONS AND ACRONYMS

AG	Auditor General
ANOVA	Analysis of Variance
CG	County Government
COB	Controller of Budget
CRA	Commission of Revenue Allocation
FP	Financial Performance
GIFT	Global Initiative for Fiscal Transparency
ICT	Information Communication Technology
KIPPRA	Kenya Institute for Public Policy and Research Analysis
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
NACOSTI	National Commission for Science, Technology and Innovation
NT	National Treasury
PFM	Public Finance Management
PFMPs	The Public Financial Management Practices
SME	Small and Medium Enterprises
SPSS	Statistical Packages for Social Sciences

ABSTRACT

County governments in Kenya were formed in 2013 in line with the 2010 constitution to facilitate devolved service delivery, governance and community development. The County Governments financial roles navigate around planning, budget formulation, procurement, payments, reporting and audit. The National government laid the foundation for the devolved units to operate by providing the guiding operational frameworks and offering continuous support. However, there continue to exist challenges in the Kenyan County Governments' financial performance despite the efforts put in place by the Ministry of National Treasury and Economic Planning to improve the County Governments' financial performance. The County Treasuries have been submitting financial reports late to the Controller of Budget, they have underperformed in own source revenue, have high pending bills, have recorded low absorption of development budget and have not been submitting financial and non-financial reports for the established county funds. The study targeted to ascertain how Financial Management Practices impact on the County Governments' financial performance with the objectives being to ascertain how financial management practices affect Makueni County's financial performance as well as how financial reporting, financial planning, and control activities affect the County Government's financial performance. The following theories were explored; positive accounting theory, agency, stewardship and fraud theories. Descriptive research design was applied on all One hundred Makueni County Treasury staff members. The research employed purposive sampling. First hand data on the independent variables was gathered through administering an online questionnaire using Google Forms while secondary data on the dependent variable gathered from the Makueni County Governments' financial statements. Data analysis was done using the Statistical Packages for Social Sciences version 25 and Microsoft Excel 2016. The Multiple regression model was used to show the interrelationship between the variables. Normality, homogeneity of variance and multi-collinearity tests were done to validate the assumptions made. Data was presented using charts and tables. The adjusted R-squared 45.7% of financial performance is explained by financial reporting, financial planning and control activities. Statistical analysis confirmed the significance of the three variables, with p-values less than 0.05, affirming a strong relationship between financial reporting, financial planning and control activities and financial performance in Makueni county. The study concluded that robust financial planning, accurate and timely reporting, and strong control mechanisms are essential for enhancing the financial performance of County Governments. It recommends that all county staff strictly adhere to financial management practices to ensure prudent resource utilization and the successful achievement of government objectives.

CHAPTER ONE

INTRODUCTION

1.1 Background of study

Globally, subnational governments including counties, provinces, and municipalities play a fundamental role in public service delivery, governance, and socio-economic development. Their performance is often measured by their ability to provide essential services efficiently, manage public finances prudently, and uphold transparency and accountability (OECD, 2022).

In high-income countries such as Sweden, Canada, Germany, and Australia, local governments are well-structured, adequately funded, and empowered to make independent fiscal decisions. Strong fiscal autonomy, citizen engagement, and data-driven decision-making have enhanced the effectiveness of subnational governments (OECD, 2022). However, global challenges persist. A report by the World Bank (2019) notes that local governments, even in developed nations, are under increasing pressure to address complex issues like urbanization, climate change, digital governance, and aging populations. Moreover, post-COVID-19 fiscal pressures have highlighted weaknesses in crisis preparedness and exposed inequalities in service delivery at the local level (UN-Habitat, 2021). Despite widespread decentralization efforts, many local governments remain heavily reliant on central transfers and lack the capability to generate local revenues effectively (World Bank, 2021).

In Africa, decentralization has been embraced as a governance strategy aimed at enhancing accountability, improving service delivery, and fostering local development. According to the African Development Bank (AFDB, 2020), many African countries have made notable strides in institutionalizing decentralized governance. However, performance at the county or district level remains inconsistent, primarily due to poor planning, insufficient local capacity,

corruption, and unreliable intergovernmental fiscal transfers. For instance, South Africa's municipalities, though constitutionally empowered, have faced widespread financial mismanagement and service delivery protests, with the Auditor-General reporting irregular expenditures in over 70% of municipalities in 2022 (Auditor-General South Africa, 2022).

In Kenya, the formation of the devolved Government units in 2013 as per the 2010 Kenyan constitution gave them the full mandate to operate as County governments. All parties involved in the implementation of devolution must have access to an enabling environment and a framework in order to accomplish these goals (Mogaka, 2016). Decentralization allowed Counties to develop policies and plans, raise revenue, implement approved budgets, ensure accountability of funds, carry out auditing, involve citizens in decision making through public participation as well as to carry out monitoring and evaluation procedures (Nyanjom, 2011).

Financial performance in County Governments (CG) is achieved by ensuring that prudent financial management systems are implemented (Dooren et al., 2015). Muriu (2012) stated that County Governments Performance is measured by their financial responsibilities and public service delivery. This is determined by measuring the efficiency allocation of resources, accountability, equity and equality in service delivery. County Governments are said to be doing well in their financial performance if they are independent and depend less on the share from the exchequer. This means the County Governments are collecting enough own source revenue. Another measure is effectiveness in achieving its set targets and the efficiency of utilizing the allocated resources for the indented purpose (Anderson, 2011).

Efficient public financial management (PFM) systems are a top priority in Kenya to achieve overall financial discipline, prudent resource allocation and effective resource utilization for service delivery. Chapter 12 of the Kenyan constitution clearly stipulates guidelines and

framework for financial management (KIPPRA, 2018). County Governments have legal obligations to handle the funds provided to them by the National government in line with the provisions in the PFM Act and other finance governing rules. It creates county treasuries to enable the devolution of control over public finances. The act outlines that County Government ought to adhere to the principles outlined in the Kenyan constitution. PFM act stipulates that the County Executive Committee Members ought to adhere to the principle of collective responsibility. Makueni County Government, through the County Treasury, gives financial management priority by ensuring that there is efficient utilization of resources to enhance service delivery. The County Treasury has the Financial Accounting services directorate which is responsible for financial reporting; the socio-economic planning and budgeting directorates which are responsible for planning and budgeting on the county strategic objectives and advising on expenditure and revenue generation strategies; the revenue directorate which is responsible for revenue collection; the audit directorate which is responsible for control activities and financial audits. All these functions ensure sound financial management practices are implemented and that the County adheres to the legal requirements in accordance to the PFM act 2012 and the Kenyan Constitution 2010 (Makueni County Organizational structure, 2018).

1.1.1. Financial management practices

FMPs refer to standards an organization sets to help achieve financial goals (Wolmarans, 2015). By creating accountability and supplying the information required to fulfill duties, all areas of financial procedures are intended to complement the organization's principles and mandate (Khande 2015). The year 2009 saw the establishment of the Public Financial Management Practices (PFMPs) (Raheman, 2007). Financial management practices including financial reporting, financial planning, control activities influence financial performance and consequently the performance of the County Government. (Cheruiyot, 2018) stated that the

basis to good decision-making is public financial management. Financial performance proofs to be a challenge in nearly all countries.

According to Bianchi (2010), financial reporting is the process of creating a financial statement for organizations within the framework of financial accounting principles and guidelines. The County governments financial reporting requirements are guided the PFM Act where Section 164 provides for preparation of annual financial statements and submission to the relevant authorities, that is, AG, NT, CRA, COB by 30th September every year. Section 163 provides for consolidation of the financial statements for all entities by 31st October every year and subsequent submission to the same bodies highlighted in section 164.

Three aspects of financial reporting explored were; understandability, timeliness and comparability. Understandability is defined as the ability of users to comprehend the meaning of information presented to them. Understandability of financial reports increases when the information is classified, characterized and presented in a clear and concise manner (IASB, 2018). Comparability means that the users of the reports are able to see the similarities and differences in two or more sets of reports. Similar reports should be presented in a similar manner and different reports presented differently without losing the consistency (IASB, 2018). Timeliness means that the information should reach the decision making body or people in good time to influence decisions.

Financial planning involves development of a plan and regulatory parameters to ensure development of the requisite financial resources to improve the financial and economic performance (Mogaka, 2016). Financial planning makes it possible for governments and organizations to implement strategic plans through developing of specific action plans. This allows the organization to determine the efficiency of the available resources and the financial and economic results.

Financial planning practices enables governments to access their financial situations and their financial sources and enables the government to set goals to deliver services and provide public goods to the citizens. The financial planning in government enables it to understand its revenue and expenditure. The specific objective of the process is to utilize government resources effectively and efficiently to achieve its financial goals (Madura, 2007). Financial planning practices include budgetary practices and budget, financial forecasting and financial decision making practices. This study will use the adherence to budget estimates and linkage of plans to budget and expenditure as indicators of financial planning. The adherence to budget ensures that governments do not spend beyond their allocated budgets leading to pending bills and audit queries. This keeps the expenditure in check. Linkage of plans to budget and expenditure ensures that the allocated resources are used for the purposes they are intended (Warue &Wanjira, 2013). According to Brennan (2008), control activities are strategies laid down by an entity to guarantee that its goals, objectives, and strategies are carried out in a guided manner. They are systems created to safeguard the company's assets, create trustworthy financial records, guarantee legal and regulatory compliance, and accomplish effective and efficient operations. Both internally and internationally, these techniques are pertinent to the management processes within the businesses. They include, among others the procedures for handling organizational resources and conducting financial processes' audits according to international accounting standards. According to Bianchi (2010), control activities plays a critical role in supporting implementation of system and accountability in decision making. Studies show that increased control activities monitoring and reports results to improvement on quality of financial reporting (Beatty, 2016); Hariani, 2020; Kewo, 2017). Control activities allow an organization to manage its operations effectively and efficiently and enable the organization improve its reliability in financial accountability and ensures compliance to existing laws and regulations (Amade, 2017).

This study will look at the following indicators of control activities; adherence to payment procedure which ensures all the steps are followed and that the necessary approvals are sought. This makes the process immune to fraud. The second indicator is the protection of accounting documents and information from unauthorized persons, this ensure that no information that is supposed to be confidential is leaked out or any documentation tampered with. The third indicator is approval of payment by the relevant authority, this ensures that the payments are done to the right person or entity. The fourth indicator is ensuring the financial reports are accurate and reported as they are without manipulation. This ensures that there is no room for fraud and that the responsible person is able to take responsibility for any query (Maritim, 2013).

1.1.2. Financial performance

According to Zeer (2012), Perfomance involves evaluation of how well predetermined objectives and goals have been attained in comparison to established benchmarks, costs, and completeness. Financial performance places a focus on measuring the organization's current financial situation and comparing it to other companies (Bernardin & Russel, 2009. Chilya (2015) highlighted the importance of including non-financial aspects like efficiency in the operation of the organization, flexibility of services offered and dependability of the organization in measuring financial performance. This ensures that there is comprehensive measurement of the financial performance for the given period of time.

The efficiency of collecting money from own sources, operating performance, and the expenditure of the allocation on development and recurrent budget are used to gauge the financial success of County Governments (Zakaria, 2014). The exchequer allocation refers to the monies disbursed to the Counties by the National Government through the commission of revenue allocation which is 15% of the total national government budget. Own source revenue is the amount the County Governments are required to collect as revenue from various revenue

streams as provided in their specific finance bills. Expenditure is referred to as the monies that the county has spent either in development or recurrent from the allocated budget (Brennan, 2008).

The County Government Financial Performance indicators include achieving at least 90% absorption of the allocated and collected funds in a financial year. This study will use the operating performance to measure financial performance being the period surplus/ (deficit) measured by revenue realized minus the expenditure incurred in the period. A recurring operating deficit shows that the county administration is straining to balance its budget between revenues and expenses. It could be that there are too many expenses or not enough revenues.

1.1.3. County Government of Makueni

Makueni County is established in line with the Kenyan constitution of 2010 among other 46 County Governments. It geographically borders Kajiado County to the West, Taita Taveta County to the South, Kitui County to the East and Machakos County to the North. The County Government Act 2012 govern the County operations while the PFM Act 2012 gives guidelines on financial performance and financial management. Over the years, the County has consistently demonstrated exemplary performance in the delivery of public services across various sectors, including health, education, infrastructure, and social welfare earning it recognition both regionally and nationally as a benchmark for effective and responsive governance (COB 2022). The County had an unmodified audit report for the Financial Year 2017/2018 (OAG 2018) boosting the curiosity about the financial management practices, resource allocation mechanisms, and fiscal accountability frameworks that support such high standards of service provision.

Financial planning in the Makueni County Government is performed by the directorate of socio-economic planning and budget together with the sector working groups drawn from the 7 sectors in the county. There is long term plan duped Vision 2025 which is a blue print highlighting the county development plan since 2015 to 2025. From this plan, the sectors have drawn their ten year sectoral plans, the county integrated development plan, and subsequently county annual development plans. The county plans help the county plan its development priorities and allocate the county resources effectively and efficiently. The county budget is allocated through participatory planning and budgeting. The model used in allocation of the budget in the County Government is programme based budgeting. The county budget directorate ensures that the plans are linked to budgets and that the financial resources required are sourced for through own source revenue collection and external resource mobilizations (Makueni county vision 2025).

Financial reporting is domiciled in the directorate of Financial accounting services and it is done according to the statutory requirement stated in PFM Act, section 163 to 165. The Act provides for consolidation of the annual financial statements(Section163) by the County Treasury; Accounting officers shall prepare annual financial statements (Section 164), Receiver of Revenue shall prepare annual financial statements (Section 165); in formats to be prescribed by the Accounting Standards Board. Departments prepare their monthly, quarterly and annual financial reports and submit to the finance department for preparation of the quarterly and Annual county financial statements for submission to County Assembly, National Treasury and other offices as provided in the PFM act 2012.

Control activities in Makueni county is done through the directorate of internal audit in partnership with the internal audit committee which is an independent agency. The county has developed an enterprise risk management policy. This policy highlights the procedures to undertake control activities under public finance management. The control activities

implemented in the Makueni county include; development of cabinet paper for approval by the governor highlighting programs and the implementation matrix and the risks associated with the program both financial, institutional, economic or political. The cabinet paper is for the programmes with a budget of over 500,000 Kenyan shillings functions (Makueni ERM Policy, 2021).

A ministerial paper is developed to be approved by the departmental county executive committee member representative for programs with a budget of less than Ksh. 500,000. Requisitions are supposed to be approved by the accountant, budget officer and the departmental chief officer and the accounting officer in charge of finance. The payment documents are scrutinized by the examination officers in finance and approved by the director financial services to ensure the payment procedures are adhered to. The movement of the financial documents is monitored by the responsible accountant to ensure that documents are not lost or do not land in unauthorized persons. The audit function in the county is done by the internal audit department which ensures that the allocated resources are used prudently and that resources meet functions (Makueni ERM Policy, 2021).

1.2 Statement of problem

Due to the important role that counties bring in the growth of the nation, the County Government must function financially well (Ochara, 2010). Despite the efforts made by the National Treasury towards improvement of Counties financial performance, County Governments are yet to hit the expected performance and are still facing challenges. In the first year of implementation of the County budgets in the financial year 2013/14, the counties expenditure performance was lower than the budgeted amounts despite them implementing the budgets according to the approved estimates. During the first half of the Financial Year 2021/22 Controller of budget reports, the Counties had absorbed 37.1% of the monies allocated for development and 62.9% of the

recurrent budget (COB 2022). County Governments achieved Kshs. 14.06 billion or 24.3% collection of own source revenue against an annual target of Kshs 57.80 billion. Own-source revenue analysis against the annual revenue target per County indicated that only Homa Bay at 56.3% and Migori (50.8%) counties achieved performance above 50 per cent (COB, 2022). There has been a high level of pending bills which amounting to Kshs.162.56 million as at the beginning of the FY (COB, 2022).

Makueni County Government absorbed 66% of the allocated funds in the first year of devolution with the highest absorption rate for the County Government being 86% in FY 2021/22 (Makueni County Performance Management report 2021). The County Government of Makueni has for the last nine years not achieved 90% absorption rate of the funds allocated from the exchequer as required (PSASB County reporting templates 2021). The County Government of Makueni has been recording revenue shortfalls in every financial year with the current revenue shortfall for the 2020/21 financial year 1,130,103,725, for the 2019/20 financial year the revenue shortfall was 1,629,758,936 and for the 2018/19 the revenue shortfall was 1,130,103,725(Makueni County Financial Statements 2021). The County Government of Makueni has recorded pending bills for the last three years as follows; the pending bills for 2018/2019 was 8,500,000, the pending bills for the 2019/2020 financial year was 274, 800,000, the pending bills for 2020/2021 was 174,669,339 (Makueni County Financial Statements 2021). The County Government of Makueni has been recording an operating surplus for three consecutive years despite the revenue shortfalls which are budgeted for. The surplus is as follows; 2018/19 financial year a surplus of 16.3% of the total budget, 2019/20 financial year a surplus of 11.23% of the total budget and in 2020/21 a surplus of 6.98% of the total budget (Makueni County Financial Statements 2021). This indicates that the County Government has been spending less than the budgeted amount (OAG, 2021).

A study by Lamba (2018) on the effect of IFMIS on the public finance management system established that has been notable low implementation of IFMIS and the non- integration with some ICT related PFM packages. This has affected the timely preparation of budget implementation reports and oversight on implementation of budgets. Descriptive statistics were adopted for the research design and the sample gathered using the probabilistic random sampling method and focused on IFMIs as a component of public finance management system and did not seek to establish how this affects financial performance. This gap is what this study strived to close.

This study established how effective implementation of solid financial management techniques can assist improve County Government's financial performance while leveraging on above insights and gaps highlighted in the considered texts.

1.3 Objectives of the study

This study seeks to determine the influence of financial management practices on the financial performance of county governments in Kenya, with a specific focus on Makueni County. The study will assess the effect of financial planning, financial reporting, and control activities on county financial performance. Report by the Auditor general shows that counties continue to face challenges such as low development budget absorption, delayed reporting, and poor revenue performance (OAG 2022)

1.3.1. General objective

The purpose of the study was to determine the influence of financial management practices on the County Governments' financial performance of Makueni County, Kenya.

1.3.2. Specific Objectives

- i. To examine the influence of financial reporting on Makueni County Governments' financial performance
- ii. To determine the influence of financial planning on Makueni County Governments' financial performance
- iii. To analyze the influence of control activities on Makueni County Governments' financial performance

1.4 Research Hypothesis

H₀₁: Makueni County financial performance is not influenced significantly by its financial reporting

H₀₂: Makueni County financial performance is not impacted by its financial planning significantly.

H₀₃: Control activities do not significantly influence Makueni County's financial performance

1.5 Significance of study

The findings of this study are expected to offer significant value to County Governments by providing clear insights into effective financial management practices (FMPs) that can be adopted to enhance financial performance. Through a comprehensive analysis of planning, reporting, and control mechanisms, the study will identify best practices that can be replicated across counties, as well as highlight existing gaps that require strategic interventions. This evidence-based approach will empower counties to adopt more structured, transparent, and accountable financial management systems, ultimately leading to improved service delivery and fiscal sustainability.

Furthermore, the study will be instrumental for national oversight and regulatory institutions such as the Commission on Revenue Allocation (CRA), the Kenya Revenue Authority (KRA),

and the Office of the Auditor-General. These institutions will benefit from a clearer understanding of the systemic challenges counties face in areas such as revenue mobilization, expenditure management, and financial reporting. The insights gained will enable these bodies to formulate targeted policy interventions and strengthen regulatory frameworks aimed at enhancing county-level financial governance.

At the operational level, the research will support accountants and finance officers in making informed decisions during the planning, budgeting, and resource allocation processes. By aligning expenditure with projected revenues and prioritizing fiscal discipline, counties can minimize operating deficits and reduce the incidence of unutilized budget surpluses. For revenue officers, the study will offer practical recommendations on how to enhance own-source revenue generation through improved systems, enforcement strategies, and stakeholder engagement, thereby reducing dependency on national transfers and avoiding budget shortfalls.

Beyond immediate policy and operational impact, the study will contribute to the growing body of academic and professional knowledge on public financial management in devolved systems. It will serve as a foundational reference for future research on similar topics and inform training, curriculum development, and continuous learning for public finance practitioners and scholars.

1.6 Scope of the study

This study focused on the County Government of Makueni, situated in the lower eastern region of Kenya. The choice of Makueni County was informed by its reputation for early adoption of public participation in budgeting, relatively structured planning frameworks, and consistent engagement with fiscal transparency measures (Transparency International Kenya, 2019). Despite these efforts, the county has continued to face various financial management challenges such as under-absorption of budgets, delayed reporting, and inconsistent revenue performance.

The target population comprised all 100 staff members working in the Finance and Socio-Economic Planning Department of Makueni County. This group was selected based on their direct involvement in the county's financial planning, reporting, and internal control processes, making them a credible source of primary data for assessing the effectiveness of financial management practices (FMPs). The study concentrated on three core components of financial management: financial planning, financial reporting, and control activities, and their influence on the financial performance of Makueni County Government. Studies on county financial performance in Kenya have often examined budgeting or revenue generation in isolation, with limited attention to the interdependence of key financial management practices. The period under review spans from Financial Year 2013/14 to 2020/21. This time scope covers the period from inception of the county government of Makueni to the period of undertaking this research. This will ensure that key performance trends are well illustrated.

1.7 Limitation of study

The questionnaire was filled online and this posed a challenge of non-response since it was hard to trace who responded and who did not. The study targeted respondents from the County Treasury, which posed a challenge of biasness as the respondent could choose to cover up malpractices. To solve the non-response challenge, the questionnaire was shared to the directorates in phases to allow for tracking of the number of responses. In order to combat bias, the researcher discussed the research significance, clearly stating its influence on the County's Financial Performance with the target respondents.

1.8 Study Organization

The paper is presented in various components with the first one covering the context and a brief description of the issue to be solved. The considered study objectives, hypothesis, the importance and extends covered under the work as well as the challenges faced were discussed under

component one. The second component provided the theories discussed in an effort to support the two main variables, Empirical literature review on all variables, the gaps identified from the studies and a summary conceptual framework. The research design is covered in the 3rd component alongside target population, operationalization of variables, methods for gathering data, validity and reliability testing, methods for analyzing and presenting the data, and diagnostic tests. Findings drawn and their analysis are given in the fourth component while the fifth one depicts the summary, conclusion as well topics that can be explored in future. The relevant appendices to support the research have been attached.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

With the dynamic changes experienced overtime, knowledge gaps keep emerging. Advancement of the familiarity of the influence that FMPs have on County Government financial performance's as carried out by scholars is brought out. Various literature on the three FMPs considered in this study that is, financial reporting, financial planning and control activities and the financial performance of County Governments is summarized under this chapter. Other sections discussed include conceptual framework, gaps arising from previous scholar researches in summary form.

2.2. Theoretical framework

Four theories to explain FMPs and financial performance and how they link to the study variables were considered and discussed here.

2.2.1. Fraud Triangle Theory

Donald Cressey (1953) developed a triangle known as the fraud triangle in his research which focused on people who embezzle resources. One side of the triangle explains the perceived non-shareable financial need. The first leg is caused by pressure of non-sharable financial problem which makes a trusted person commit crime when they believe that they have the problem at hand. The second side represents perceived opportunity. In this case when an employee has the non-sharable financial problem and he perceives that there is an opportunity for him to commit a crime without anyone finding out about it. According to Cressey there are two components of perceived opportunity which include the general know how and the technical capacity. The third side represents rationalization. This is the factor that enables one to complete the act of fraud. It enables him to understand his behaviors as illegal and helps him maintain his trusted position.

All the three legs of triangle must work for the fraud to be done. The pressure from the financial need makes one want to commit crime to meet the need. The general knowledge enables the fraudster understand that his/her action could mess his trust. The technical knowledge makes him know how to maneuver being caught. As part of the crime's motivation, rationalization is a crucial element. The criminal defends his activities before carrying them out and does not see himself as an embezzler. The theorist found out that the embezzlers rationalize their actions and terms them as non-criminal actions which can be justified as irresponsible behaviors which one is not responsible for. He also found out that the rationalization used by violators of trust are linked their positions and the manner of committing the crimes. Cressey's fraud triangle explains characterizes that tend to increase the chances of fraud occurrence. The fraud triangle makes an attempt to explain the characteristics of occupational offenders, although it does not do so explicitly for all of them. Many academicians have tested the fraud triangle theory but however it still has not found its way in practice in terms of development of fraud prevention measures.

The fraud triangle theory is relevant in explaining how financial management practices are violated and what motivates their violation. This theory explains why county officials would not adhere to set control activities, why they alter financial statement figures while reporting or why planning and budgeting may not be objective as it should. There have been radical changes in the occupations and how people view and treat trust and violation of trust and the committing of fraud. This theory needs to be revised and updated.

2.2.2. The positive accounting theory

This theory was advanced by Watts and Zimmerman (1986). It was founded as a result of the dissatisfaction from the normative theory. The theory presupposes that the goal of accounting theory is to forecast and clarify accounting processes. The idea aims to explain a process utilizing aptitude, comprehension, and accounting knowledge. The idea makes use of accounting

principles that can be applied under certain circumstances in the future. Three opportunistic hypotheses form the foundation of the positive accounting theory.

The bonus plan hypothesis is the first theory. According to this, managers that have bonus plans choose for accounting techniques that change how reported earnings are reported from one period to the next when all other variables remain the same. Since all managers want high returns, they are likely to increase their bonuses by reporting higher net income as possible if their compensation depends on the bonuses reported on such income. This can be achieved by for example, choosing an accounting policy that will result to the highest declared profits at a particular time.

The second hypothesis is known as the debt contract hypothesis. This hypothesis states that all other factors constant, the company manager chooses an accounting policy that changes the reporting earnings from the future to the present. This happens when the company is getting close to violating accounting based on management of debt. The reason behind this decision is that the profits reported will reduce as a result of technical negligence. The political cost hypothesis is the third theory. According to this theory, if all other variables remained the same, the corporation was more likely to opt for an accounting approach that forgoes reporting earnings from the present to the future. The companies are able to convince the state that their profits are declining and that they need to protect their businesses if they cannot use political influence to do so.

This theory and was used to explain why County officials made decisions on which control activities measures to adopt, what to consider during planning and some aspects of financial reporting.

2.2.3. Agency Theory

This theory was developed by Jensen and Meckling in 1976. The primary agent problem or the governance mechanisms serve as the foundation for the theory. This theory is premised on economic idea of risk sharing between two parties who could employ various techniques to problem-solving. The principal in this context desires high profits which make him pass responsibilities to the agent to achieve their goals. This behavior makes the agency yield to the results specified by the principal. The problem with the agency is that selfish agent interests may influence them not to act in the best principal's interests (Burnham, 1941). This may cause a problem and change the cost of the agent. At the start of the agreement, the costs of the agent are clear to the principal but when the agent acts against the principal it is assumed that they have assumed more risks. Agency theory presumes that the agent is likely to take the actions the principal desires as their own (Fama & Jensen, 1983). If the agent behaves otherwise there ensues another problem of asymmetric information which makes it hard for the principal to keep on check the agent's behavior.

The principal and agency relationship exists in the aspects under investigation between the County Government and citizens, the County Government and tax payers (revenue producers), and the national government and County Government (recipients of public service). Through reports, county residents can monitor both branches of government and ask questions about any violations of procedure that could indicate money misuse and deprive them of essential services (Adams, 1994). According to this notion, the governor and deputy governor are chosen by the county's citizens to lead. The county executive members are among the officials that the governor appoints to lead various departments within their respective functions.

A County Governments' ability to manage expenses in carrying out its mandates and effectively use the resources and assets at their disposal will be gauged through financial performance

management. The county's citizens can therefore evaluate the financial performance of their Counties.

2.2.4. Stewardship Theory

According to Davis, Schoorman and Donaldson (1989) a steward is obliged to protect and maximize the wealth of the shareholder through ensuring the firm performs well in its financial obligations. This theory encourages the top government officials as stewards to integrate their goals as part of the holistic government plan (Donaldson & Davis, 1991). This aims at reducing the idea of operating as a silo and encourages one government approach in execution of the government mandate.

As stewards, the county treasury officials who are in charge of financial management are satisfied when the organization performs in financial matters. The theory takes cognizance of the importance of empowering the stewards to offer autonomy which is built on trust Argyris (1973). In the acting in autonomy, the stewards are able to maximize the returns on financial performance. This in return reduces the cost of the organization in controlling and supervising the employees. The executives in return are encouraged to make decisions to maximize the financial performance of firms.

This stewardship theory is used to explain how financial officers, who serve as stewards, assume accountability, own their roles, and strive diligently to produce the best results. Such efforts lead to better delivery of everyone's mandate and consequently a higher financial performance rating for the County Government. Stewardship theory leads to increased trust and enables that the executive is keen on safeguarding the interests of the citizens and the ultimate goal of the government improving financial performance.

2.3. Empirical Literature review

Quantitative and qualitative studies done previously on the subject matter are discussed in this section. Methodology of the studies and the theories used in the study are analyzed and methodological and theoretical gaps pointed out.

2.3.1. Financial reporting and financial performance

Nnadi (2013) considered high-quality financial reporting and the financial performance of emerging economies in China and Hong Kong. Cross-sectional research methodology was applied in the study. Ten years' worth of financial performance are examined. He concluded on a conflicting relationship for the financial performance and the accuracy of financial reporting and demonstrated that the reported financial reports across various regions differ significantly. The study's primary focus was only on the financial reports quality dismissing other qualities. This prompted a need to undertake this research in Makueni to determine how other aspects of financial reporting such as understandability, timeliness and comparability affect financial performance.

Kaseri et.al, (2014) studied how quality financial reporting affect banking quality information in Nigeria. The study used longitudinal research design which studied 20 banks across a duration of six years. It was reported that timely reporting of losses, fraud, the valuation approach and management of earnings have a positive correlation with quality of banking information. This study ignored other aspects of financial reporting. The current study seeks to determine how understandability, timeliness and comparability of financial reports affect financial performance in a government setting.

Azevedo et al, (2015) reviewed financial performance and financial reporting linkage. The study adopted meta-analysis and found out that quality financial reporting enhances the financial

performance and reduces on asymmetric information risk. Ombati (2014) carried out a research study to investigate issues and challenges facing financial reporting quality in Kenya. The study findings indicated that skills and competence levels were hindrances to adopting the right financial reporting tools. Different levels of compliance policies, different organizational cultures and structural and ownership differences were noted to be the major factors affecting quality reporting. The challenge facing Kenyan financial reporting quality were the main subject of this study. Exploring other aspects of financial reporting would seal the voids identified.

Kwasira et al. (2015) investigated factors influencing quality of financial statements on a sample of Nakuru-area commercial banks. The positive accounting theory and agency theory were adopted. Descriptive design was employed on 164 respondents sampled from all Nakuru banks. It was concluded that computerized accounting, internal talent development, and professional development within the banking industry all positively and significantly correlate with the caliber of financial reports. This study focused on one aspect of financial reporting specifically in banks and did not establish how this quality affects financial performance of the banks and left out other characteristics of financial reporting. Various aspects of financial reporting were explored to seal the loop holes identified.

2.3.2. Financial planning and financial performance

Obwaya (2014) carried out research to see how the Nairobi city council's performance was affected by the participatory budgeting procedure. Descriptive study design was used and had 44 respondents sampled from the city council employees. A close link was identified between the effectiveness of the municipal council and participatory budgeting. This study dealt with participatory budgeting, a single aspect of financial planning and its influence on general performance and left out other indicators of financial planning. This current research carried out seeks to close this gap by looking on two aspects of financial planning which are adherence to

budget estimates and linkage of plans to budget and their expenditure and their effect on financial performance.

Anahene (2011) conducted research to ascertain how the budgeting process affected Ghanaian local governments' financial management procedures. Descriptive research design was employed and purposive samplings to get 50 respondents out of the budget committees. Questionnaires administered to collect data showed that, ninety 90% of respondents acknowledged the existence of budget control procedures while 92% indicated that budget variations influenced financial performance. The study established that the budgeted revenue was less than the actual budget and this variation influenced financial performance. This study used purposive sampling which is bound to give bias information and considered only a single facet of the financial planning. A focus on two other areas of financial planning will be explored and information from all finance officers in the government considered to reduce bias.

Oktavia (2017) conducted a study to look into how performance-based budgeting affected Nigerian local governments' financial standing. She employed descriptive research design in the study. Secondary data derived from financial reports and papers were used. Accordingly, it was noted that implementation of performance-based budgeting impacted considerably on financial performance. Challenges of budgeting identified to influence financial performance included; corruption, mismanagement of resources, embezzlement of resources and challenges of revenue collection. While secondary data was used with a focus on one programme based budgeting and how it affects financial performance, primary data will be used and focus done on adherence to budget and linkage between budget and expenditure and how their effect on government financial performance.

Mbugua (2013) conducted research to ascertain how Kenyan water sector organizations' performance was impacted by the budgeting process. The research studied the water service provider's financial performance in the financial year 2010/11. Emphasis was laid on budgeting approaches, budget planning, participatory budgeting and budget controls. The study findings concluded that budget planning and participatory budgeting were crucial components that ought to be encouraged to enhance performance of water service providers. The research focused on organizations in the water sector alone and only the approach to budget and budget planning. The current research seeks to focus on all sectors of the County Government and will seek to establish how adherence to budget estimates and linkage of plans to budget and expenditure affect financial performance in County Government. The study also focused on one financial year compared to the current one that will consider performance over a duration of eight years.

2.3.3. Control activities and financial performance

Masui (2013) considered internal controls and financial performance of the Morogoro municipal council in Tanzania. Data collected by means of interviews and questionnaires were used alongside information from secondary sources such as reports. Weaknesses of the control activities identified were that there was unauthorized access to the cash office, access to the payment vouchers by unauthorized personnel, the payment process skipped some crucial procedures and the files containing financial information moved around without tracking. Challenges of the internal controls formed the main area of focus while this study seeks to establish how control activities such as adherence to payment procedures, protection of accounting documents and information and approval by relevant authorities influence financial performance.

Chacha (2013) conducted research to identify the various internal control techniques used by Tanzanian local governments. The study used frequency distribution and came to a conclusion

that many respondents, 59%, felt that the financial control mechanisms were weak with only 7% indicating that the internal control mechanisms are strong. 93% of the residents agreed that the expenditure was authorized by the designated officers and fifty-four percent disagreed on the expenditures been properly analyzed and vouched for. Chacha's study found out that some expenditures had missing supporting documents and other expenditure had completely no supporting documents. This study used the frequency distribution only to explain the findings and focused on the internal control mechanisms which are applied and did not establish how these mechanisms influence financial performance. The gaps noted were closed by doing descriptive study design and use of linear regression methods to analyses the findings.

Arikpo (2010) conducted a case study in order to analyze the internal control systems in the financial administration of the local governments in Nigeria". Qualitative research methodology was considered while review of documents and interview of finance staff adopted to get the required information. Content analysis was adopted and found out that some of the challenges in the internal control include; unauthorized variation in contract payment non-payment of mobilization fee for job done, non- collection of revenue, failure to raise audit queries and inadequate documentation for payments. The study used qualitative research methodology, review of documents and interviews. Challenges of control activities on financial performance were given ultimate concern. This current study seeks to use both quantitative and quantitative research methodology and will use a google form questionnaires in gathering the data. Targeted respondents will be sampled from all staff in all departments in Makueni County. The study will seek to establish how control activities influence financial performance.

Internal control components on financial accountability of elementary schools done by Aristanti (2015) focused on the control environment, control activities and monitoring. Cross-sectional research design and semi- structured questionnaires were used by the researcher. The findings

indicated that these components have a strong positive correlation with financial accountability. This study focused on internal controls in schools' financial accountability and did not establish how the internal controls influence financial performance that this study will seek to address.

2.4. Summary of research gaps

This sections highlights the gaps as noted and discussed in the empirical review of literature. The table below gives a highlight of the studies considered under empirical literature, the findings of the studies, the gaps identified and the interventions that this study will bring in to close them.

Table 2.1: Research gaps analysis

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
Oktavia (2017)	To examine the role of performance based budgeting on financial performance of local governments in Nigeria.	Descriptive research design.	The study found out that there is a positive significant influence of the introduction of performance based budgeting on financial performance and that some of the challenges of budgeting that	This study utilized secondary data and focused on one area of financial planning.	The current study used primary data collected through use of questionnaire and focused on the adherence to budget estimates and linkage between plans, budget and expenditure

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
			influence financial performance include; corruption, mismanagement of resources, embezzlement of resources and challenges of revenue collection.		influence financial performance in Makueni County
Kwasira et al, (2015)	Investigation on determinants of quality financial statements in selected commercial banks in Nakuru	Descriptive research design	That there is a positive significant relationship between quality of financial reports and computerized accounting, professional development and internal skill development within the banking sector .	This study focused on the determinants of quality financial reports in banks and did not establish how they influence	The current study aimed to investigate the influence of financial reporting on financial performance in Makueni County

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
				financial performance	
Obwaya (2014)	Study to find out the role of participatory budgeting process on the performance of the Nairobi city council	Descriptive research design	The study findings concluded that there is a positive significant correlation between participatory budgeting and performance of the city council	This study focused on one aspect of financial planning and its influence on general performance and did not establish how it affects financial performance	This current study sought to close this gap by focusing on the following aspects of financial planning (understandability , timeliness and comparability) and their effect on financial performance

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
Kasari et.al, (2014)	Determine the effect of quality financial reporting on banking quality information in Nigeria.	longitudinal research design	Study findings indicated that timely reporting of losses, fraud, the valuation approach and management of earnings positively contribute to the quality of banking information.	Focus was directed to financial reporting effect on banking sector information quality and left out the other aspects of financial performance	This current research aimed at investigating financial reporting contribution on financial performance of Makueni County
Nnadi (2013)	Effect of quality financial reporting on the financial performance of emerging	Cross-sectional research methodology	There are significant differences on the reported financial reports across different region	This study focused on one aspect of financial reporting which is quality.	The study was done in Makueni to determine how other aspects of financial reporting such as understandability

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
	economies in China and Hong Kong				, timeliness and comparability affect financial performance.
Masui (2013)	Effect of internal controls on the Morogoro municipal council in Tanzania financial performance	Descriptive research design	Some of the weaknesses of the internal control system was that there were unauthorized access to the cash office, access to the payment vouchers by unauthorized personnel, the payment process skipped some crucial procedures and the files containing financial information moved	The study focused on the challenges of the internal controls and did not establish how they affect financial performance	The current study sought to establish how control activities such as adherence to payment procedure, protection of documents and approval by relevant authorities influence financial performance

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
			around without tracking.		
Chacha (2013)	To establish the different internal control mechanisms within local governments in Tanzania.	frequency distribution	The study concluded that 59% of the respondents felt that the financial control mechanisms were weak with only 7% indicating that the internal control mechanisms are strong. 93% of the residents agreed that the expenditure was authorized by the designated officers. 54% of the respondents disagreed that the	This study used the frequency distribution only to explain the findings and did not explain how the control activities influence financial performance	The current study closed this gap by doing descriptive study design using linear correlation and regression methods to analyze the findings. The study established how control activities influenced financial performance

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
			expenditures are analyzed properly and vouched for		
Anahene (2011)	To determine the role of budgeting process on the financial management process of the local governments in Ghana	descriptive research design	Ninety percent of the respondents cited the existence of budget control mechanisms. 92% indicated that budget variations influenced financial performance. The study established that the budgeted revenue were less than the actual budget and this variation influenced financial performance.	This study used purposive sampling which is bound to give bias information. The study focused on one aspect of the financial management practices.	Use of simple random sampling from all department to reduce biasness was used. The study focused on how adherence to budget estimates and linkage between plans, budget and expenditure influence financial performance in Makueni County

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
Arikpo (2010)	Case study to examine the internal control system in the financial management in the local governments in Nigeria.	content analysis	some of the challenges in the internal control include; unauthorized variation in contract payment non-payment of mobilization fee for job done, non-collection of revenue, failure to raise audit queries and inadequate documentation for payments	The study used qualitative research methodology, review of documents and interviews and only focused on the challenges in internal control and did not explain how these influence financial	This study used both quantitative and quantitative research methodology and a structured questionnaire to collect data. The study also established how control activities influenced financial performance

Author and year	Topic and where	Methodology of study	Findings of the study	Research gap	Gap filled
				performan ce	

Source: (Author, 2023)

2.5. Conceptual framework

A summary presentation of the variables, their indicators and the interrelationship to facilitate their measurement and drawing of the research conclusions is shown. The independent variable in this research include; financial reporting, financial planning and control activities. The dependent variable is financial performance in Makeni County (Brennan, 2008).

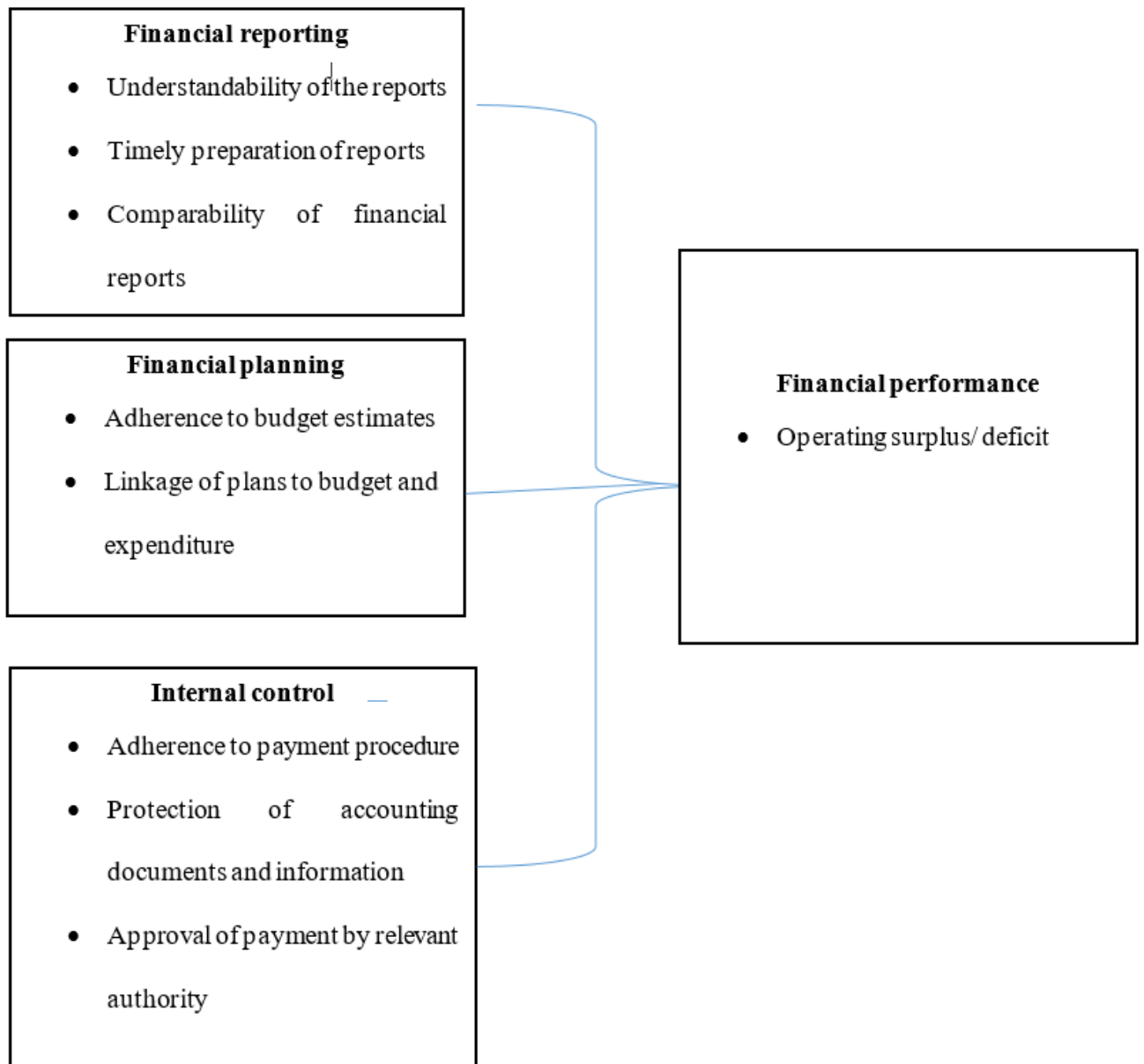


Figure 2.1 Conceptual framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

Procedures employed throughout the study including the general method to integrate the various research components, the group of items under study, the method of selecting a representative unit of the total, data gathering procedure, pilot study, methods to analyze the data and its presentation and how the variables were measured and operationalized are shown here.

3.2. Research design

Ary (2010) defines it as the method adopted by a researcher to comprehend the phenomenon being studied. It serves as a guiding framework that directs the gathering, analyzing, and interpretation of data. Zimkud (2015) likens it to a road map, ensuring the study proceeds in a structured and coherent manner. This study used descriptive design which systematically captures the current status and characteristics of the phenomenon without manipulating any variables. For the quantitative data the inferential statistics which include correlation and regression analysis were used.

3.3. Empirical model

Empirical models are mathematical representations of systems based on observed data and statistical relationships. The study adopted the multiple linear regression model to allow for measurement of combined and individual influence of multiple variables and control the influence of each variable while holding others constant. The model is presented below:

$$Y_0 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where;

Y_0 is financial performance

β_0 is constant, $\beta_1, \beta_2, \beta_3$, study variables coefficients

X_1 is financial reporting

X_2 is financial planning

X_3 is control activities

e referring to the residual term

2.2.4. Operationalization and measurement of Variables

Abstract concepts are to be turned into observations which are measurable translating to operationalization. It clearly shows how the indicators and the measurement scale for the independent and dependent variables (Aduwi, 2019).

Table 3.1 Study variables Measures

Variable	Nature of variable	Indicators	Scale
Financial reporting	Independent	<ul style="list-style-type: none"> • Comparability • Timeliness • Understandability 	Likert scale
Financial planning	Independent	<ul style="list-style-type: none"> • Adherence to budget estimates • Linkage of plans to budget and expenditure 	Likert scale

Variable	Nature of variable	Indicators	Scale
Control activities	Independent	<ul style="list-style-type: none"> • Adherence to payment procedure • Protection of accounting documents and information • Approval of payment by relevant authority • Accuracy of financial reporting 	Likert scale
Financial performance	Dependent	<ul style="list-style-type: none"> • Operating Surplus/Deficit 	Ratio

Source: Author, 2023

3.4. Target population

Chaudhury (2010) defined it as an entire composition of objects, items, or things that the researcher desires to obtain or ascertain information. The elements in the population under consideration should share at least one characteristic that the researcher is interested (Bartlett et al., 2001; Creswell, 2003). The study population was the 100 staff of Makueni County Treasury.

Table 3.2: Study Population

Unit	Total number
Financial Accounting	25
Revenue	12
Procurement	25
Budget	6
Planning	13
Administration	19
Total	100

Source: Makueni County Human Resource Office (2022)

3.5. Sampling design

According to Kothari and Garg (2014), sampling ensures that features of the entire population based on observations or studies can be generalized. The extent to which the sample, the available population, and the target population are similar on important characteristics will impact how successfully study findings may be generalized, according to Mugenda & Mugenda (2012). Purposive sampling was employed by deliberately selecting County Treasury staff members who are directly involved in day-to-day financial management to complete the questionnaires. This targeted approach ensured that the respondents possessed the specific knowledge and experience necessary to address the research questions effectively. All the 100 staff who work in the County Treasury department were included in the research maximizing the relevance and depth of insights gathered.

3.6. Data collection instruments

Njahi (2017) defined it as the procedure of collecting, collating, measuring and analyzing data. Primary data to inform the independent variables; Financial Reporting, Financial Planning and Control activities was collected through administering questionnaires with five sections. Section one provided the respondents demographic information, section two to the fourth section addressed issues on the independent variables while the fifth section had questions on the dependent variable. The questionnaire allowed all the respondents to be reached within a short period and with limited resources while allowing easy analysis using SPSS and Excel. County financial statements since 2013/2014 financial year to 2020/2021 financial year were analyzed to provide the secondary data which was guided by a document review guide. The data collected included the all receipts realized in every Financial Year, the corresponding expenditures and the surplus/deficit reported thereof.

3.7. Data collection procedure

Data collection begun after receiving the university's and NACOSSTI's consent. The researcher sent a letter to the county secretary Makueni asking for authorization to interview respondents for data. Google forms were used to collect the information online. Through WhatsApp and SMS, the link was forwarded to the sampled workers. The researcher collected the data within two weeks after distribution of the questionnaire.

A pretest was done on ten respondents representing 10% of the sample size geared towards determining reasonability and dependability of the data gathering instrument. Kathori (2013) indicated that 10% of the considered sample size is enough for a pretest to be conducted. Finance officers in the County semi-autonomous agencies not factored in the population under study to avert duplication were considered for the pretest study.

3.7.1. Validity test

Messick (1989) stated that validity referred to the extent to which the test results are adequate to explain a phenomenon. In this study, validity was determined through drawing meaningful and appropriate interpretation of information gathered by carrying out data analysis and through construct validity which measured the extent of adherence to existing theory and knowledge of the concept being measured through expert opinion (Christensen, 2017).

3.7.2. Reliability test

When an instrument is used repeatedly and delivers the same results overtime its considered to be reliable. Reliability can be determined by the results of the measuring instruments showing a strong positive correlation (Gibbs, et.al, 2015). In this research, reliability was considered throughout the process of data collection. The researcher ensured that results are precise, stable and reproducible. The conditions for the research were standardized and the method for data collection was consistently applied. Cronbach's alpha was considered to ascertain the reliability level where a value of at least 0.7 is acceptable (Muchira, 2018).

3.8. Data analysis and presentation

Google form responses received were downloaded into an excel spreadsheet and the information exported confirmed to be complete and in line with received ones. SPSS software was used in performing all computations, create tables and charts, and generate output for the study's interpretation and setting of statistical parameters. Descriptive statistics were employed for analysis with the use of charts and tables alongside prose explanations. Normality, homoscedasticity and Multi-collinearity tests were adopted as diagnostic tests for the model (Nunnaly, 1994).

3.8.1. Normality test

The general assumption is that error terms (residuals) are normally distributed for a linear regression. Two tests carried out here to help ascertain normality in data distribution were Kolmogorov-Sminorv and the shapiro-wilk. Assumption for normality is upheld with a value that exceeds 0.05.

3.8.2. Multi-collinearity test

Independent variables in parametric tests shouldn't have a high correlation. This aspect was checked using the Variance Inflation Factor (VIF) where a value less than 0.5 denotes nonexistence of multi- collinearity where as a value greater than 5 signifies existence of the high correlation (Isabella,2019).

3.8.3. Heteroscedasticity test

This aspect happens where the residual variance is not the same across data and its existence is undesirable. Whereas homoscedasticity is upheld where the variance is found to be constant. To determine whether homoscedasticity assumption was violated, Breusch Pagan test was used. The negative statement checked out for a constant residual variance vs the alternative which considered the non-constant variance. Residual test variance exceeding 0.05 is desirable as it upholds homoscedasticity

3.9. Ethical considerations

Mugenda (2003) highlights the various ethical considerations to be followed while undertaking a research to include the right to privacy, anonymity, confidentiality, informed consent and voluntary participation. To ensure that the responses received were objective, ethical principles were followed. No one was coerced to disclose information unwillingly and their names did not appear anywhere. The data was not used for any other purpose and was confined to this analysis

only. Through the introduction letter, the purpose of the data collection was clear and all who gave their responses voluntarily participated. Approval from the university and NACCOSTI to collect data was granted.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1. Introduction

Detailed results presentation and explanation using tables, prose, charts are provided here. It is organized into; response rate, the population characteristics, then an analysis of the variables' descriptive statistics and finally a presentation of the multiple regression analysis.

4.2. Response rate

It presents respondents who filled in the questionnaire against the sample size. All a Hundred finance unit staff in the County Treasury were targeted to respond to the questionnaires. An ideal response rate is 100% of the study population sample. The google forms were shared to the 100 employees of the Makueni County Treasury. In total, 77 respondents filled the forms representing 77% response rate. This is above the 60% required response rate according to Mugenda & Mugenda (2013). The phased issuance of the questionnaires to the various units in the County Treasury contributed to the good return rate.

4.3. Demographic characteristics of the respondents

Understanding of the population attributes as pointed in the tool is paramount. The gender in the sampled staff was majorly classified in to two main categories, namely, male or female. The questionnaire attracted 77 respondents with 67% being male and 33% being female indicating that the gender gap in financial services is yet to be closed. Reports by IMF that in venture and private equity firms show that women in finance account for less than 10% in the management while in finance faculty schools, women account for 16%. The female talent in finance is yet to be tapped with a report showing that globally, only 46% of the employees in finance are women (Morsy, 2020). Makueni county falls short of this global proportion by having 33% of the finance employees as female widening the gender gap.

The respondent ages were grouped into four categories of below 35 years, followed by those of 36 to 45, 46-55 and those with 55 years and above. Out of the 77 respondents, 42.9% are aged below 35 years, 37.7% are between 36 and 45 years, 16.9% range at 46 to 55 years where as 2.6% account for more than 55 years in age. In Kenya approximately 75% of the young people are unemployed. The high unemployment rate is associated with a slow growing economy and the failure of old employees to retire (Oluoch, 2018). Makueni County has prioritized young people employment as shown in the 42.9% of employees in finance. The older people above 50 years are few as indicated by the 2.6% in the figure above.

4.3.1. Education Background and Experience

A distribution of the respondents into finance related and non-finance related categories was considered as a way to know the extent of understanding the finance aspects. Majority of the employees (87%) in the department of Finance in Makueni county have done finance related courses. Only 13% of the employees have not done finance related courses. These 13% are employed as office administrative assistants, clerks and human resource personnel. Respondents working experience were broadly classified in to 3 categories of Zero to Five (0-5) years, five to

Ten (5-10) years and above Ten (10) years and the results are as distributed below.

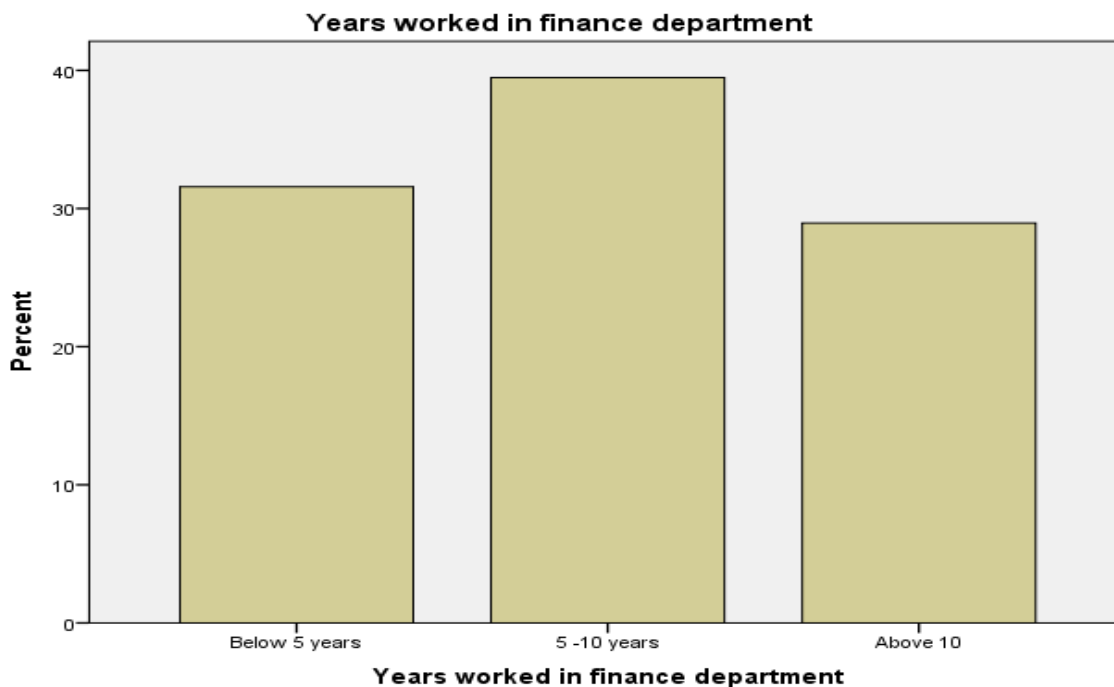


Figure 4.1: Years worked.

Source: (Author, 2022)

Out of the 77 respondents, majority (39%) have been in the County for a period of 5 and 10 years, that is since its inception. Thirty-two point five percent (32.5%) have been in the County for less than Five years while 28.6% have worked in Makueni county for more than 10 years representing the defunct county council’s employees who were devolved from the National Government.

4.4. Diagnostic test results

The diagnostic tests done to validate the assumptions made in the study were; normality, homogeneity of variance and multi-collinearity.

4.4.1. Tests for Normality

Normal distribution will be present when the normality test Sig. value exceeds 0.05. In cases where the value is less than 0.05, the concept of normality is dismissed.

Table 4.1: Normality test

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Standardized Residual	.102	235	.085	.889	235	.120

Source: Author (2023)

The linear regression's error terms (residuals) are presumed to be regularly distributed. The Sig value for the two tests carried out was higher than 0.05 hence the premise of normality was upheld. The assumption of a regularly distributed residual is the null hypothesis. The alternative theory is that a normal distribution is not followed by the residuals.

4.4.2. Multi-collinearity test

In parametric testing, it is considered that independent variables shouldn't have a high correlation, which means that multi-collinearity shouldn't exist. The degree of correlation was checked by calculating the Variance Inflation Factor (VIF) where a value of less than 0.5 shows the absence of multi-collinearity, while if its greater than Five (5) multi-collinearity is assumed to be present.

Table 4.2: Test for Multi-collinearity

Variable	Collinearity Statistics	
	Tolerance	VIF
Financial Reporting	.745	1.423
Financial Planning	.667	1.389
Control activities	.769	1.320

Source: Author (2023).

The table shows absence of multi-collinearity as the VIF for the all the various aspects considered is less than 5.

4.4.3. Heteroscedasticity test

It was checked using the Breusch-Pagan test (Warner, 2008). A non-constant error term variance assumes the presence of heteroscedasticity. Whereas when the error term is constant heteroscedasticity is not present. If the test value is higher than 0.05, it shows heteroscedasticity.

Result for the test carried out is presented below.

Table 4.3: Breusch Pagan test for Heteroscedasticity

Chi-square test	P value
.71	0.415

Source: Author (2023)

The alternative hypothesis was the variance was not constant while the contrast is that the residuals variance was constant. The assumption was not broken because the test's p value was higher than 0.05.

4.5. Descriptive statistics of the variables

An analysis of each independent variable in terms of the frequency and mean distribution of each construct that was used to measure each independent variable is presented.

4.5.1. Financial reporting

Various questions on financial reporting aspects of Makueni County were administered as highlighted below;

Table 4.4: Financial reporting statistics

Statement	SD	D	N	A	SA
The financial reports follow the financial reporting standards	3.9%	0%	3.9%	31.2%	61%
The financial reports are done in a timely manner	2.6%	5.2%	10.4%	31.2%	46.8%
The financial reports are accurate	0	5.2%	20.8%	45.5%	28.6%
The financial reports can be understood by non- finance people	0	7.8%	35.1%	40.3%	16.9%
The Financial reports are neutral/not biased	1.3%	0	24.7%	37.7%	36.4%
It is possible to compare the financial reports of different financial years	1.3%	0	9.1%	35.1%	54.5%
The financial reports are reconciled with other source documents	1.3%	1.3%	11.7%	40.3%	45.5%
Concerns raised by external audit are well addressed in the reports	1.3%	11.3%	3.3%	44.2%	40.3%

Statement	SD	D	N	A	SA
Financial reporting influences the financial performance of the County	5.2%	6.5%	6.5%	21.6%	59.7%

Source: (Author, 2022)

Ninety-two point two percent, 92.2% believed that financial reports are done in accordance to the financial reporting standards in Makueni county, 3.9% took a neutral position while 3.9% expressed a strong disagreement. While 78% confirmed that financial reports are done in a timely manner, 10.4% were neutral and 7.8% did not agree on timely preparation of the reports. The study findings further indicated that 74.1% concurred on the accuracy of financial reports with 20.8% being neutral and 5.2% disagreeing that financial reports are done accurately. Out of the 77 respondents, 16.9% strongly agreed, 40.3% agreed, 35.1% were neutral and 7.8% disagreed that the financial reports can be understood by non-finance people.

Financial reports were indicated to be neutral by 74.1% of the respondents. While 24.7% were neutral, 1.3% did not agree that the financial reports are neutral. While 89.6% of the respondents indicated that it was possible to compare reports of different financial years, 9.1% were neutral and 1.3% disagreed. Eight Five point eight percent (85.8%) indicated that financial reports are reconciled with other source documents with 11.7% being unopinionated and 2.6% expressing a disagreement. Concerns raised by external audit are well addressed in reports to an extent of 84.5%. The study findings indicated that financial reporting influences the financial performance of County Government to an extent of 81.3%.

4.5.2. Financial planning

Various aspects on financial planning in Makueni County Government were considered.

Higher responses were inclined to strongly agree and agree and a few responses inclined to the strongly disagree and disagree as tabulated;

Table 4.5: Financial planning statistics

Statement	SD	D	N	A	SA
The financial plans cover the entire planning period, expenditure and revenue projections	1.3%	0	11.7%	31.2%	55.8%
The financial plans prepared are feasible	1.3%	3.9%	22.1%	36.4%	36.4%
The financial plans are prepared in good time	1.3%	3.9%	9.9%	44.2%	40.8%
The financial plans prepared are in tandem with the County Government development plans	1.3%	5.2%	11.7%	31.2%	50.6%
Financial planning is done in consultation with all relevant stakeholders	2.6%	10.4%	15.6%	31.2%	40.3%
The financial plans are done according to the agreed standards and regulations	1.3%	3.9%	10.4%	40.3%	44.2%
There is a linkage between financial plans, budgets and expenditures	2.6%	6.9%	11.7%	32.5%	46.8%
Financial planning affects financial performance of the county	2.6%	1.3%	9.1%	28.6%	58.4%

Source: (Author, 2022)

The study found out that 87% of the respondents expressed that financial plans prepared cover the entire planning period expenditure and revenue projections. Out of the 77 respondents,

72.8% agreed that the financial reports are feasible while 27.3% were either neutral or disagreed on the financial reports being feasible. Preparation of financial plan in good time was concurred to by 85% of the respondents with 3.9% being neutral and 5.2% expressing a disagreement. Eighty-one point eight percent (81.8%) affirmed on the financial plans prepared being in tandem with the County Government development plans with 11.7% being neutral and 6.5% expressing a disagreement to the statement.

Additionally, 71.5% of the respondents felt that financial planning was done in consultation with all relevant stakeholders with 15.6% being impartial and 13% expressing a disagreement. The study findings indicated linkage between financial plans, budgets and expenditures to an extend of 84.5% while financial plans were done according to the agreed standards and regulations to an extend of 79.3%. To a great extent of 87% respondents expressed that financial planning affects financial performance of the county.

4.5.3. Control activities

The responses on the different aspects of control activities considered to influence financial performance are hereby presented;

Table 4.6: Control activities statistics

Statement	SD	D	N	A	SA
There exists a functional internal audit unit	2.6%	2.6%	11.7%	26%	57.1%
The internal audit unit does its work effectively	1.3%	9.1%	23.4%	37.7%	23.6%
The internal audit process is efficient	1.3%	6.5%	36.4%	31.2%	24.7%
The recommendations from internal audit reports are implemented by relevant actors	5.2%	13%	31.2%	32.5%	18.2%

Statement	SD	D	N	A	SA
The internal audit has helped streamline financial management processes	6.5%	5.2%	31.2%	31.2%	26%
Financial documents are well stored and cannot be accessed by unauthorized people	3.9%	7.8%	22.1%	32.5%	33.8%
There are clear guidelines on the payment process	3.9%	5.2%	10.4%	39%	41.6%
The guidelines on payment process are effectively followed	11.7%	7.8%	20.6%	27.3%	32.5%
Control activities influence the financial performance of the county	2.6%	6.5%	14.3%	32.5%	44.2%

Source: (Author, 2022)

The results showed that 83.1% supported the existence of a functional internal audit unit while 16.9% felt that the internal audit unit was not fully functional. Out of the 77 respondents, 61.3% supported the analogy that the internal audit unit does its work effectively while 33.8% were either neutral or completely disagreed that the internal audit division was effective. Study findings indicate that 55.9% agreed on the efficiency of the internal audit process and 44.1% were not in support. Additionally, 50.70 % of the units' recommendations are implemented by relevant actors and that internal audit has helped streamline financial management processes by 57.2%. While 66.3% agreed that financial documents are well stored and cannot be accessed by unauthorized people, 33.8% were of a contrary opinion.

Out of the 77 respondents, 81% acknowledged that there are clear guidelines on the payment process and that the payment process is effectively followed to an extend of 59.8%. Seventy-

six point seven percent (76.7%) concurred that control activities influence the financial performance of the county with the rest recording a different opinion.

4.5.4. Financial performance

Secondary data obtained by reviewing the financial reports of the Makueni County Government between the FY 2014/2015- 2020/2021 was used to gauge the behavior of the dependent variable. The data obtained was presented through the bar chart below;

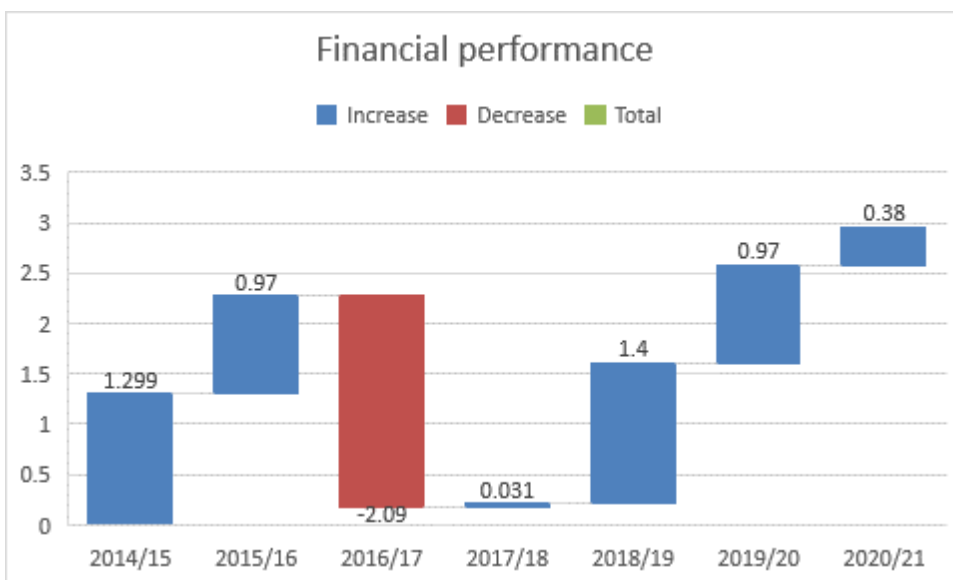


Figure 4.2 Financial performance. Source: Makueni County Government 2022

The increase indicates a surplus while the decrease denotes a deficit. Makueni County Government has been having a surplus in the financial years 2014/15, 2015/16, 2017/18, 2018/19, 2019/20 and 2020/21. It only had a deficit during the 2016/17 financial period which was occasioned by a decline in collection of the own source revenue due to the political climate experienced towards the 2017 general elections.

4.6. Inferential statistics

This permits one to make conclusions regarding a population based on a sample variable (Isaac & Chikweru, 2018). The study made inference on the variables identified on Makueni County using sample respondents from finance. The correlation coefficient was performed using the Pearson correlation coefficient. Further, a multiple linear regression model adopted to explain the relationship of the variables under consideration (Isaac & Chikweru, 2018).

4.6.1. Correlation Analysis

Two tailed Pearson correlation coefficients, applied in determining the variables' linearity aspect, lie between negative one (-1) to positive one (+1) denoting perfectly negative correlation or perfectly positive correlation. Zero on the other hand shows no correlation for the variables investigated. Preferably, is a value inclining towards +1.

Table 4.7: Correlation coefficients

Correlation Coefficients					
		X1	X2	X3	Y
X1	Pearson Correlation	1	.816**	.634**	.896**
	Sig. (2-tailed)		.000	.000	.000
	N	76	76	76	76
X2	Pearson Correlation	.816**	1	.663**	.915**
	Sig. (2-tailed)	.000		.000	.000
	N	76	76	76	76
X3	Pearson Correlation	.634**	.663**	1	.876**
	Sig. (2-tailed)	.000	.000		.000
	N	76	76	76	76

Y	Pearson Correlation	.896**	.915**	.876**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	76	76	76	76
**. Correlation is significant at the 0.01 level (2-tailed).					

Source: (Author, 2022)

The table indicates that the Pearson correlation coefficients are significant at 1% significance level as shown by the p value which is 0.00 as put in Mugenda (2003). The table above shows a significant positive correlation at 0.816, 0.63 and 0.896 between financial reporting and financial planning, Control activities and Financial performance respectively. Muinde (2013) concluded on a strong positive correlation when identifying financial reporting influence on SMEs financial performance. The findings show a positive correlation of 0.663 for financial planning and control activities and 0.915 for financial performance agreeing with a report by Kingi & Ibrahim (2019) and Mwaura (2011) that financial planning is strongly correlated to financial performance.

The control activities indicate a strong positive correlation (0.876) on the independent variable.

4.6.2. Multiple linear regression model

Variables interrelate with each other and do not operate independently. The behavior between the variables was predicted as presented here.

Table 4.8: Table of Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.975	.000		.000	1.000
	Financial reporting	.333	.000	.328	136484116.119	.000

	Financial planning	.567	.000	.365	147240599.544	.000
	Control activities	.478	.000	.426	230196926.666	.000
a. Dependent Variable: Y						

Source: (Author, 2023).

The independent variables which include the financial reporting, financial planning and control activities are significant in explaining financial performance in Makueni county. The results can be shown as;

$$Y_0 = 8.975 + 0.333 X_1 + 0.567 X_2 + 0.478 X_3$$

Where;

Y_0 =Financial Performance

8.975= Constant

X_1 - Financial Reporting

0.333= X_1 Coefficient

X_2 - Financial Planning

0.567= X_2 Coefficient

X_3 - Control Activities

0.478= X_3 Coefficient

While holding the predictor variables constant, Makueni County financial performance is 8.975. The predictor variables considered significantly explain the financial performance in Makueni county. The analysis presents that, if financial reporting, financial planning and control activities changed by a unit it would result to a change of 0.333, 0.567 and 0.478 respectively in the financial performance of Makueni County.

This suggests the more effective the Control activities, financial reporting and planning are, the better the financial performance of the County. A conclusion that is in tandem with Asegdew (2016) that proper financial reporting influences financial performance of manufacturing companies.

4.6.3. Coefficient of determination (R^2)

It was employed to explain how well the statistical model predicts the dependent variable.

Table 4.9: Overall Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.615a	.379	.457	.48379
a. Predictors: (Constant), X3, X1, X2				
Source: Author (2023).				

R squared is 0.457, an implication that 45.7% of financial performance is defined by financial reporting, financial planning and control activities.

4.6.4. Analysis of Variance

This was performed to confirm that at least two groups were distinct by evaluating the difference in the means by which the model it termed to be significant.

Table 4.10: Overall ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.826	4	8.206	37.062	.000b
	Residual	53.832	230	.234		
	Total	86.658	234			
a. Dependent Variable: Y, b. Predictors: (Constant), X3, X1, X2						

Source: Author (2023).

Financial Planning, Financial reporting and Control activities are considered to be jointly good predictors of financial performance, ($F = 37.062$ and p value <0.05).

4.6.5. Hypothesis Testing

This part discusses the test hypothesis conclusions. The coefficients presented in table 4.9 shows all the predictor variable coefficients as positive and strongly significant. The value of Beta (β) was also positive for all the predictor variables an indication of a relationship among the variables. Assuming that all the predictor aspects do not change, the financial performance value was 8.975 rejecting the null hypothesis. Conclusively, the three independent variables (Financial reporting, planning and control activities) significantly explain the Makueni Count Governments' financial performance as analyzed below.

Financial reporting does not significantly influence Makueni County financial performance

Holding other variables constant, a change in financial reporting influences financial performance by 0.333. The results therefore ($p=0.333$, $\beta= 0.328$) confirm the significant contribution of financial reporting to the dependent performance aspect of Makueni County. This concurs with results by Kaseri et.al, (2014) that timely reporting had a positive contribution to the Nigeria banks' financial performance.

The model summary in 4.11 demonstrates the coefficient of determination as indicated by Adjusted R square to be 0.367 implying that 36.7% of financial performance is explained by Financial reporting.

Table 4.11: Model summary for Financial reporting (X1) and financial performance (Y)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.591a	.350	.367	.49176
a. Predictors: (Constant), X1				
Source: Author (2023).				

Financial planning does not significantly affect Makueni County financial performance

An independent increase in aspects of financial planning results to 0.567 change in the financial performance of Makueni County. The results ($p=0.567$, $\beta= 0.365$) rejects the proposition; Makueni County Financial performance is not significantly influenced by financial planning practices. Another study by Anahene (2011) indicated that the budgeting process affects the Ghana's local governments financial performance. This is in agreement with Oktavia (2017) performance based budgeting and financial performance of the local governments in Nigeria that implementation of performance-based budgeting impacted their financial performance favorably and considerably.

The model summary in 4.12 demonstrates the coefficient of determination as indicated by Adjusted R square to be 0.546 implying that 54.6% of financial performance is explained by Financial planning.

Table 4.1: Model summary for Financial reporting (X2) and financial performance (Y)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.165a	.035	.030	.60345
a. Predictors: (Constant), X2				
Source: Author (2023).				

In Table 4. 13 the ANOVA was used to show the overall model significance. Since the p-value is less than 0.05, then X2 had a significant explanatory power on Y (F=5.783 and p-value <0.05).

Table 4.2: ANOVA for Financial planning (X2) and financial performance (Y)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.066	1	2.068	5.783	.017b
	Residual	83.671	234	.373		
	Total	85.737	235			
a. Dependent Variable: Y, b. Predictors: (Constant), X2						
Source: Author (2023).						

H₀₃: Control activities do not significantly influence the financial performance of Makueni county.

The control activities coefficient was 0.478 as per the model demonstrated, an indication that a financial performance change of 0.478 is influenced by a change in control activities. This therefore fails to accept that statement that control activities do not influence the financial performance of Makueni County (p=0.478, β = 0.426). This agrees with Aristanti (2015) findings that control activities have a strong positive correlation with financial accountability and Masui (2013) findings that, weaknesses of the internal control system affected the financial performance of the Morogoro municipal council.

The model summary in Table 4.14 demonstrates the coefficient of determination as indicated by Adjusted R square to be 0.080 implying that 8% of financial performance is explained by control activities.

Table 4.34 Model Summary of control activities on financial performance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.279a	.086	.080	.57682
a. Predictors: (Constant), X3				

Source: Author (2023).

In Table 4.15 the ANOVA was used to show the overall model significance. Since the p-value is less than 0.05, then control activities had a significant explanatory power on financial performance. (F=21.243 and p-value <0.05).

Table 4.15: ANOVA Table for relationship between control activities (X3) and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.241	1	7.241	21.243	.000b
	Residual	79.417	233	.341		
	Total	86.658	234			
a. Dependent Variable: Y b. Predictors: (Constant), X3						
Source: Author (2023).						

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

The results in summary form are provided here. The conclusions deduced are discussed in addition to the suggested recommendations for both policy and future areas that can be explored for investigation.

5.2. Summary of findings

According to the multiple regressing model, financial reporting was the least influential variable on financial performance at 0.333. It represents the second most influential variable with a coefficient of correlation of 0.896. Respondents rate of 59.7% being the highest among the variables strongly agreed that financial reporting influenced financial performance while 5.2% strongly disagreed. The Variance Inflation factor in relation to financial reporting was 1.423 which was acceptable since it was less than 5. The Makueni County financial reporting aspects therefore indicate that it is influential in explaining its performance in finance matters. The null hypothesis was not accepted. These findings align with those of Kwasira et al. (2015) which indicated that financial reporting significantly influence financial performance of banks.

The linear regression model presented a 0.567 significance of influence of financial planning to financial performance being the highest out of the three variables. Fifty Eight point four percent (58.4%) of the received responses supported strongly that financial planning influenced financial performance while 2.6% of the respondents strongly disagrees on the influence of financial planning to financial performance. The correlation coefficient was highest for financial planning at 0.915 indicating a very strong relationship between financial planning and financial performance. The Variance Inflation factor in relation to financial planning was 1.389 which was acceptable since it was less than 5. The null supposition was not accepted. This finding agreed with the results by Obwaya 2015 on how financial planning aspects such as participatory

planning and budgeting affect the financial performance of Nairobi city council. The findings indicated that planning and budgeting influence the financial performance.

Control activities are significant in explaining the financial performance of makueni county with a standard error of less than 0.05. The linear regression model coefficients showed that control activities have an influence of 0.478 on financial performance being the second most influential variable. Respondents strongly agreed that control activities influenced financial performance by recording a 44.2% rate with 2.6% disagreeing on the same. The analysis of the coefficient of correlation recorded control activities coefficient of 0.876 showing that financial performance is influenced to an extent of 87.6% by control activities. The coefficient was the least out of the other variable coefficients studied. The Variance Inflation factor in relation to control activities was 1.320 which was acceptable since it was less than 5. The negative hypothesis was not accepted. This finding concur with the ones of Aristanti (2015) that control environment, control activities and monitoring present a strong positive correlation with financial accountability while considering internal control components and financial accountability of elementary schools.

5.3. Conclusion

Financial reporting is essential in ensuring that there is good financial performance in County Governments. Efforts employed to achieve timeliness in preparation of financial reports as well as ensuring that they are neutral were key. The financial reports for Makueni County Government were done in accordance to the specified standards and could be used by all intended recipients with ease. All these aspects contributed to the enhanced financial performance of the County.

Financial planning on the other hand enables the government to use its financial allocations effectively and efficiently to serve the citizen. Importantly, the County Government prepares

plans that cover the entire planning period expenditure and revenue projections. Proper financial planning done in consultation with all stakeholders is feasible and ensures linkage between financial plans, budget and expenditure. As a result, financial planning determines the financial performance of the CG of Makueni.

Finally, it is evident that Control activities are significant in explaining the financial performance in makueni county. A functional internal audit unit, an efficient audit process and implementation of the recommendations of the audit reports improves the financial performance of the government. The internal audit has helped streamline financial management processes.

5.4. Recommendations

5.4.1 Policy Recommendations

To strengthen financial performance at the county level, national oversight institutions such as the Commission on Revenue Allocation, Kenya Revenue Authority, and the Office of the Auditor General should take the lead in formulating policies that enhance control activities within counties. These policies should focus on ensuring that counties establish robust internal control systems and adhere to best practices in public financial management. Additionally, policies should mandate the timely, accurate, and complete preparation of financial reports, while requiring the integration of all financial data and relevant stakeholders in the reporting process. This will help standardize financial reporting across counties, improve the quality of financial data, and support more informed decision-making.

Moreover, a policy framework should be established to ensure that audit committee recommendations are not only acknowledged but also implemented systematically. Counties should be required to prepare and submit periodic implementation reports for discussion and

formal adoption by the county executive. Such policies will institutionalize accountability and promote a culture of continuous improvement in financial governance.

5.4.2 Recommendation for practice

At the operational level, county governments should take deliberate steps to enhance financial planning by ensuring that development plans are closely aligned with budget allocations and actual expenditures. Financial planning was found to have the strongest positive correlation with financial performance, indicating that greater adherence to budgeting and planning processes directly influences positive outcomes. Counties should therefore adopt a holistic approach to financial planning, ensuring that limited financial resources are allocated effectively to meet county objectives.

Furthermore, counties should increase stakeholder awareness on the interconnections between plans, budgets, and expenditures. This can be achieved through internal workshops, public forums, and accessible reporting formats, which would foster transparency and ownership among citizens and staff.

Control activities, which accounted for a 47.8% influence on financial performance, must be consistently followed by county departments. Staff should be trained and held accountable for adherence to internal control systems, and county leadership should prioritize the implementation of audit committee recommendations. Regular progress reports should be prepared to monitor compliance and ensure that corrective actions are being taken.

Lastly, finance and revenue officers should intensify efforts in revenue collection and ensure that expenditure aligns with the approved budget. These officers must work proactively to meet county development targets within the stipulated timelines, thereby maintaining the financial

health of the county, as demonstrated by the general surplus recorded over the years—with the exception of the deficit in FY 2016/2017.

5.5. Areas for further research

Studies covering other different aspects of financial management practices in Makueni County and other counties can be explored. Further studies can be done to evaluate the effectiveness of the FMPs in the County. The influence of IPSAS Cash reporting on the quality of the County Governments financial statements as well as the Effect of IPSAS accrual adoption by counties can be explored.

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APPENDICES

Appendix One: Letter of Introduction

Dear Participant,

REF: ACADEMIC DATA COLLECTION

Faith Matheka is currently pursuing a degree towards the award of a “master’s degree in Business Administration”. It is a requirement that the student should carry out research work before completion of the degree. I am therefore doing a study themed, “**Financial Management Practices and County Governments’ Financial Performance of Makeni County, Kenya**”. It’s my plea that you create time to fill the questionnaire to enable me complete my research project. Confidentiality will be upheld throughout the process and the information solely used to serve the purpose of this research. All participants will be held anonymous.

Thank you for your time and feedback.

Sincerely,

Faith Matheka.

Appendix Two: Questionnaire

SECTION ONE: DEMOGRAPHIC INFORMATION

Gender

Male ()

Female ()

Age in Years

35 and below ()

36 to 45 ()

46 to 55 ()

56 and above ()

Education background

Finance related (Accounting, Finance, procurement) ()

Non- finance related ()

Years worked in County Treasury

Below 5 years

5- 10 years ()

Above 10 years ()

Directorate

Financial services ()

Revenue ()

Budget and Socio- Economic planning ()

Procurement ()

Administration ()

SECTION TWO: FINANCIAL REPORTING

In a scale of 1 to 5, Please give a rating to these statements. (strongly disagree, disagree, neutral, agree, strongly agree for 1 to 5 respectively)

Statement	1	2	3	4	5
Financial reports follow prescribed financial reporting standards					
The financial reports are timely done					
The financial reports are accurate					
The financial reports can be understood by non-finance people					
The Financial reports are neutral					
It is possible to compare the financial reports of different financial years					
The financial reports are reconciled with other source documents					
Financial reporting influences the County's financial performance					

SECTION THREE: FINANCIAL PLANNING

In a scale of 1-5 please rate the following statements. (1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree)

Statement	1	2	3	4	5
The financial plans prepared cover the entire planning period expenditure and revenue projections					
The financial plans prepared are feasible					
The financial plans are prepared in good time					
The financial plans prepared are in tandem with the County Government development plans					
Financial planning is done in consultation with all relevant stakeholders					
The financial plans are done according to the agreed standards and regulations					
There is a linkage between financial plans, budgets and expenditures					
Financial planning affects financial performance of the county					

SECTION FOUR: CONTROL ACTIVITIES

In a scale of 1-5 please rate the following statements. (1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree)

Statement	1	2	3	4	5
There exists a functional internal audit unit					
The internal audit unit does its work effectively					
The internal audit process is efficient					
The recommendations from internal audit reports are implemented by relevant actors					
The internal audit has helped streamline financial management processes					
Financial documents are well stored and cannot be accessed by unauthorized people					
There are clear guidelines on the payment process					
The guidelines on payment process are effectively followed					
The control activities influence the financial performance of the county					

SECTION FIVE: FINANCIAL PERFORMANCE

F/Y	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19	2019/ 20	2020 /21
DEFICIT OR SURPLUS								
Operating performance (%)								

Appendix Three: Document review Guide

Review of the County Government of Makueni Financial Performance

Financial Year	Receipts	Payments	Surplus
2014/15	5,700,070,531.00	4,400,642,484.00	1,299,428,047.00
2015/16	6,389,261,001.00	5,415,039,401.00	974,221,600.00
2016/17	6,980,460,132.00	9,075,012,556.00	- 2,094,552,424.00
2017/18	7,642,545,592.00	7,611,543,463.00	31,002,129.00
2018/19	10,013,582,061.00	8,608,848,017.00	1,404,734,044.00
2019/20	9,556,519,636.00	8,591,014,554.00	965,505,082.00
2020/21	9,631,704,918.00	9,250,923,257.00	380,781,661.00

Source: OCOB County reports (2022)

Appendix Four: Research Authorization Letter



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Executive Dean, Graduate School

DATE: 27th February, 2023

TO: Matheka Mbinya Faith
C/o Accounting and Finance Dept.

REF: D53/OL/CTY/32139/2017

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL


This is to inform you that Graduate School Board at its meeting of 15th February, 2023 approved your Research Project Proposal for the M.B.A Degree Entitled, "**Financial Management Practices and County Governments' Financial Performance of Makueni County, Kenya.**"

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.


ANNBELL MWANIKI
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL


c.c. Chairman, Accounting and Finance.


Supervisors:

1. Dr. Margaret Kosgei
C/o Department of Accounting and Finance
Kenyatta University

AM/mo


Appendix Five: Research Permit


REPUBLIC OF KENYA


**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: **461012** Date of Issue: **17/June/2023**


RESEARCH LICENSE




This is to Certify that Ms. Faith Matheka of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Makueni on the topic: FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE IN MAKUENI COUNTY, KENYA for the period ending : 17/June/2024.

License No: **NACOSTI/P/23/26722**

461012
Applicant Identification Number


Director General
**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
INNOVATION**

Verification QR Code



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Scan the QR Code using QR scanner application.**

See overleaf for conditions