EFFECTS OF CORRUPTION AWARENESS, GOVERNMENT POLICIES AND FINANCIAL LITERACY ON PERFORMANCE OF COUNTIES IN KENYA

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DECLARATION

This research project is my original work and has not been presented for academic award in any other University for the purpose of examination.

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APPROVALS

This research project has been submitted for examination with our approval as university supervisor.

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DEDICATION

I dedicate this project to my wife Edith, my sons Ephraim and Nathan, my daughters Naomi and Angel, my father Rerimoi and my late mother Toyoi. Thank you so much for always being with me. Last and not least to Almighty God for the gift of health during the research project time.

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LIST OF ABBREVIATIONS AND ACRONYMS

DCI Director of Criminal Investigation

NYS National Youth Service

ROA Return on Assets

ROE Return on Equity

ABSTRACT

County Governments have been facing a lot of challenges and accusation on loss of funds. Low awareness by communities and fund managers of their roles and responsibilities in the management of the funds has contributed to poor performance, and total failure in some cases. No mechanisms exist to deal with projects such as roads, water systems, agricultural projects and schools that may cut across constituencies entailing shared benefits. No clear mechanisms exist to avert duplication of functions and committees to vet how funds from the county government have been used. The study sought to establish the determinants of performance of Counties in Kenya. Specifically, the study looked at corruption, government regulations and financial literacy and their influence on performance of counties. The study adopted a descriptive design and the population comprised of three counties where 190 respondents were targeted. Census was used and the study gathered both primary and secondary data. The collected data was analyzed and the findings presented using tables and figures. The study established that corruption, government regulations and financial literacy all have significant effect on performance of counties. The study concludes that corruption, government regulations and financial literacy are key determinants of performance of counties. The study recommends that policy makers and agencies like the Ethics and Anti-Corruption Commission (EACC) should enhance its active role in fighting corruption among counties in Kenya. The judicial system in Kenya has an important role in fighting corruption as far as hearing and determination of the reported cases of corruption is concerned. All public servants including employees working in County governments should be sponsored to attend refresher sources in personal financial management so as to enhance their financial literacy.

CHAPTER ONE

INTRODUCTION

1.1 Background

Across the globe, there are signs that many communities are receiving services and products from the government finances that initially they were not getting (Demery, 2009). But a lot of questions are raised about how the finances are used up, especially with how important such a resource is. And while adopting a devolution approach where in-depth analysis is conducted on the institution, the strategic design, execution on how the funds are used up in an efficient manner.

The study was guided by stakeholders' theory, systems theory, agency theory, resource dependency theory and institutional theory. According to the stakeholder theory, corruption awareness requires concentrated efforts from every individual (stakeholder) of an organization as this cannot be achieved by a single individual (Freeman, 2016). Under the system concept, various units in counties are regarded as systems that are required to collectively work together so as to achieve the expected results of preventing loss of funds (Oso & Owen, 2009).

The agency theory considers the leaders in county governments as people who should work on behalf of the tax payers and thus should ensure that they carry out operations in line with the interests of the country as a whole hence no corruption (Berle & Means, 1932). The resource dependence theory tries to link how prevention of loss of funds can be well realized by leveraging on resources at disposal (Pfeffer, 1972). On the other hand, the institutional theory will try to link how existing formal rules and regulations including the

government policies available in counties should play a role in curtailing corruption and thus preventing the loss of funds (Scott, 2004).

In Kenya, the concept of devaluation emerged after the promulgation of the new constitution in 2010. This resulted into creation of 47 counties that are operational to date. Each of these Counties is represented by elected Governors and the Senators besides the Members of County Assembly (MCAs). The essence of devolution was to deploy resource to the grass root so that people in marginalized areas also get access to government resources. However, for over 5 years that the devolved system has been in operation in Kenya, little has been achieved on the basis of what was planned and anticipated. This has been largely explained by corruption, where significant share of tax payers' money has continually been used up for individual and personal gain. With this background, then this research study will seek to determine the link between corruption awareness, government policies and financial knowledge and capabilities on loss of funds in counties in Kenya.

1.1.1 Corruption Awareness

The slow growth of most economies around the world has been due to corruption and misuse of resource among the elected leaders. This is coupled by poor state of governance that has adversely affected how resources are utilized. A number of corruption scandals have been brought out by the Auditor General especially in the devolved units and other public sector institutions. Some good examples of corruption scandals that have been reported in Kenya include the National Youth Service (NYS) where over Kshs. 10 million were lost through scrupulous award of tenders (Director of Criminal Investigation DCI, 2019).

Corruption practices imply that funds that could have otherwise been used for the growth of the economy end up being misused. Corruption makes it hard for an economy to prioritize the projects in line with the available funds (Chinyio & Olomolaiye 2010). Corruption practices ensure that the tax payers money are utilized for individual gain and benefits instead of growth of the general economy of the country. Thus, efforts should be put in place to create awareness on corruption so that the country does not continuously loose the taxpayers' money. Having in place awareness on corruption would mean that tax payers money is utilized on sustainable projects that would improve the economy. This will also be important in preventing future fund loss in the Kenya's public sector institutions (Henry, 2012).

1.1.2 Government Policies

The Kenyan state is shifting towards good governance, from its past bad habits including widespread corruption cases, heightened insecurity in some regions, ethnic conflicts as a result of politics and community differences and poverty and these practices led to a lot of loss of public funds (Cohenel, 2002). Bad governing traits have led to negative outcomes including marginalization of some people, communities and part of the country from receiving adequate support from the government and the economy. The squander of public resources and monies meant for public utilities, service provision and facilities have increased the poor developmental record seen, animosity noted among different ethnicities, intolerance, cut-throat political competition, opportunities meant for the general public are shared among a small select group or a few communities and perceived historical injustices. This is why there is a struggle to reform the constitution so as correct the

experienced deficits in the country on the structure and framework of governance. One of the key aim of this reforms is to restore the power and place it in the hands of the local communities to handle their affairs and especially the case of community development (Cohenel, 2002).

Spread of power and economic resources from the central location to the grassroots, as such from Nairobi to local communities across the country is a process referred to as devolution which has helped in controlling loss of funds in the County governments (Marcus, 2013). The review of the old constitution was done so as include the people in the governance of the country and that led to creation of devolution units of power. The concept of devolution has also led to regional diversity, respecting and observing communal right and respecting peoples' ethnic and cultural practices including the right to host and hold cultural activities. The review was also to place the local communities at the center of the local governing unit and devolve some measure of power and resources to the local communities for their developmental agenda.

Marginalization of some communities, deprivation and neglected feelings by some section of Kenyans are among the reasons for push in creation of devolved units. Devolution was a call by some people who felt victimized for the political stand and ethnic affiliations. But in truth, these new counties have to create wealth and improve the welfare of its citizens, and creation of wealth is dependent on their ability to leverage on the available natural resources, the endowments within its reach so as to control the loss of funds at the national and local areas. And in essence, attracting and keeping jobs that will improve the welfare of citizens cannot be achieved single-handedly but it is a collective effort (Kenneth, (2013).

1.1.3 Financial Literacy

Financial literacy is the ability of the investors to clearly understand the key money concepts and products as well as the opportunities and risks (OECD, 2005). According to Zick, Smith and Mayer (2016), financial literacy is the ability of an individual to make informed decisions and judgment as it regards the use and management of funds. Lusardi and Mitchell (2013) define financial literacy as the ability of an individual to process economic information that would be used for financial planning as well as making informed decisions with regard to debt, wealth and pension. Wachira and Kihiu (2012) note that individuals should have wise spending behavior while tracking all the expense and ensuring that bills are paid on time. Financial literacy enables an individual to plan for future by making savings and investments with a long term horizon.

According to Kenneth (2013), management of financials covers aspects that deal with procurement, financial resource allocation and control of it. The whole point of financial management is to prevent loss of funds, ensure the resources are adequate and supplied when and where needed, enhance returns to shareholders as per market earning capacity and market prices of shares, optimize utilization of funds and be able to manage the expectations of shareholders and investors. At the point where the funds are procured, they should be used maximally and at a low cost of operations to gain as much as possible. For investors, safe investments are better ventures in realizing constant and adequate rate of returns and at the same time have a solid capital structure. The composition of the capital should be balanced such that the debt and equity of capital is balanced, sound and fair.

For a sound corporate decision making process, the finance function must be linked to the business strategy so as to provide insight from the financial analysis and be able to meet the legal and regulatory requirements stated. Ghija (2005) argues that for any organization seeking to become the leaders in the finance sector, they must select the best staff from the highly professional global network of finance management. This staff must have the right skill set, be connected to the right places and be availed to the organization at the right time to create excellent work flow in the finance function. Any finance management function that is deemed efficient must be one than can identify and deliver specific areas of improvement, unlock value of money as a resource such that it frees up time and other resources to achieve the ultimate goals of the organization. It must also be able to improve the decision making support services and control loss of funds. The finance management platform should combine the operational and transactional activities of the finance function.

1.1.4 Performance

Performance is the general term that is used to determine how the firm meets its goals and objectives. Performance can generally be measured using financial as well as non-financial constructs. Financial measures of performance include the returns that the firm generates from its assets (ROA), equities (ROE) and the investments (ROI). In Africa, according to Ghija (2005) financial resources are viewed as one of the main strategies that can push for socio-economic and regional development. As such the Nigerian government devolves resources to the constituencies so as to meet their socio-economic objective, which was left as a national government function. The main purpose of devolving resources, especially

funds is for financing local projects which impact the social and economic lives of the locals, with the aim of improving their livelihoods, erasing poverty and increasing the development of general projects in the area (IEA, 2006).

The Kenyan government holds a tattered image and view in terms of empowering the communities and general development, but what helps it save face is the adoption of devolution for many of these projects which are under execution phase and the whole agenda of empowering the local communities. And for the first time in Kenyan history, any delays and failures in project implementation is not solely blamed on the government and its abdication of its resources, but the failure is shared partly by the general public. The project implementation failing is also seen as part of public inability to be the watchdog of the government (Demery, 2009). Corrupt leaders have affected the distribution of funds in Kenyan government. Most locals and government services have been stopped in most cases due to the corrupt dealings of people in government.

1.1.5 Counties in Kenya

The devolved units have their sources of funds mainly through transfer of funds from the national revenues and borrowing. The borrowing is subject to the finance being used for development projects while any short-term borrowing cannot be 5% in excess of the latest audited accounts and receipts, and these money is used specifically for cash flow management. These counties have their own revenue sources which come from the local county taxes, levies and fees on the services offered to county residents (Brown, 2011). These funds are utilized in the main expenditure areas for county governments and it includes devolved sectors like agricultural activities, early childhood education,

environmental management, water and sanitation, health service delivery, trade and tourism and rural development units among all other devolved county functions and ministries. One of the main expenses come from the general classified expenditure areas as per the ministries that is the Medium Term Expenditure Framework (MTEF).

In Counties, the budget implementation period or the financial years run from 1stJuly to 31st June. This is to try and bring to table how many has been used or allocation of money to prevent loss of funds. At such a time the already formulated mid-term expenditure framework of the budget cycle will be used in formulating and execution stage of the national budget (Freeman, 2016). All the government ministries, departments and agents will develop the ministerial expenditure review which analyzes the past expenditures of each individual ministry and department and sets the priorities for future expenses and these outline must in accordance with Kenya Vision 2030 flagship program or any other medium term plan. This analysis of the expenditure review will clearly outline the benchmarks for the coming budget year and the next two corresponding years activities based by the required and available resources for the outlined activities.

1.2 Research Problem

Developing countries are gradually choosing advanced, modern and highly improved public financial management systems, since the finances are important for economic growth of these countries (Kishor, et al., 2013). In the global scene, many governing units are working very hard to improve and make public financial management systems more efficient. These governments are also investing in new modern management systems so as to increase accessibility, enhance efficient, cut and save costs for the government, while

improving integrity and transparency in financial management (Baily, 2008). The implementation of devolution goes on and the debate rages on whether funding from National Exchequer is adequate or not. Public Finance Management system at the county level is to ensure successful management of the public sector funds and to improve the economy.

County Governments have been facing a lot of challenges and accusation on loss of funds. The management of funds has received a poor score and in some instances a complete failure due to the fact that the local communities and the fund managers do not know and understand their responsibilities and roles in financial management. Participation which is mandatory is badly attended to and especially in the diverged and marginalized communities, which leads to poor project prioritization and at times some projects that are needed are excluded. At times there is no mechanism and system set in place to deal with communal projects like construction and maintenance of roads, schools, water piping and systems and agricultural projects, as such the costs may become too high and very little benefits are realized and shared out to all community members. And also there is no system in place that can deter the duplication of functions or committee members made up of locals who can to vet how funds from the county government have been used.

Despite the perceived development anticipated with devolution, little can be seen in terms of successfully completed project by most counties in the country. Uasin Gishu County specifically was reported to have only spent 11% against its 52% estimated development budget in 2014/2015 financial year (auditor’s report 2014/2015). This raised concerns by stakeholders including residents who complained on little development agenda by the

county government. Some of the county funded project consequently stalled and some have taken longer to complete with contractors blaming slow disbursement of funds. The concept of financial accountability at the county level relating to such project was questioned as funds released for project have been a big challenge despite the money seemingly being budgeted was a times unavailable.

In the past the public sector had experienced a lot of corruption cases and fraud of public funds, many corrupt people end-up with funds that they cannot account for (Adari, 2007). And in most of these instances the funds are never recouped, neither do the perpetrators face any charges nor punished for their actions. Many of the public institutions in Kenya have poor internal control systems that weak and creates ways for fraudulent activities to take place in such institutions (Njoroge, 2003). These weak internal control mechanisms lead to financial losses, the only way for avert such problems is to note, label and mitigate such risks (Wagacha & Ngugi, 2009). Voskanyan (2000) studied the influence of corruption on the growth and development of an economy using a case of America. It was shown that corruption brings about a decrease in efficiency of public spending in an economy. However, this study was carried out in America and not in Kenya hence creating a contextual gap. Musundi (2014) did a study on financial literacy and its influence on personal investment decisions using a case of Kenyan real estate firms. It was shown that financial literacy improves financial management ability and skills of individuals to make sound investment decisions. Bryan (2013) studied the influence of government policy on the growth of Kenyan economy. It was shown that government policy plays an important role as far as the growth of the economy is concerned.

From the above mentioned studies, some of these studies were carried out in other countries like America and not in Kenya hence creating a contextual gap. Other studies covered the concepts of corruption, government policy and financial management in isolation and they related these with economic growth in most cases and not the loss funds. This created a gap which the current study shall seek to fill. Thus, the study sought to answer the following research question: What is the effect of corruption awareness, government policies and financial literacy on performance of Counties in Kenya?

1.3 Objectives of the study

1.3.1 Main objective

The main objective of this research was to analyze the determinants of performance of Counties in Kenya.

1.3.2 Specific Objectives

This study was guided by the following specific objectives:

i. To assess how corruption determines performance of Counties in Kenya.

ii. To investigate how Government regulations determines performance of Counties in Kenya.

iii. To assess how financial literacy determines performance of Counties in Kenya.

1.4 Value of the study

High quality public financial management is necessary in many countries and it makes of the instruments of government financials to be attractive in the international financial markets. And again, many of the African countries experience many crises dealing with

government debt, as such there is need for close supervision and monitoring of the government finances, which leads to adoption of PFM so as to increase on the credibility of the financial statements. The severity in corruption within government agencies, departments and institutions in many of these developing countries which pushes for integrity and transparency as key within the county government accounting systems.

The financial statements which are normally annually generated need to be timely, precise and clear and have high quality of information so as increase the level of accountability within the government system and make informed decisions that become beneficial to the citizens by the elected leadership. It is expected that this study will inform those in the budgeting committee members and charged with vetting projects within the county governments and the fiancé departments on determinants of loss of funds. Many scholars, researchers and authors can find valuable information from which they can create reference points.

In practice, this study will be of value to county governments as the recommendations will be used during the process of strategy formulation and guide the execution of these strategies so as to prevent activities that would lead to loss of funds. With the government intervention towards engaging bringing to book those found to engage in loss of funds, cases of funds theft will be reduced. It is expected that the staffs of County governments will respond positively and so there will be high level of participation. Scholars will also benefit from this study by putting theoretical work learnt in class into practical.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The whole point of devolving systems of government is such that the local people can be participate in it through the decision making process and accountability of the projects, this part has worked out well but the efficient and effective participation of the people in managing the decentralized funds still faces a lot of changes. This is many due to several factors including low amount of information on the funds, poor coordination and reporting systems, a habit of political and ethnical patronage of those in leadership positions, exclusivity of the decision making process by the local citizenry and ignorance and lack of interest by the local communities' leaders and members.

Other challenges that financial management faces cover aspects where both the national and county government are unresponsive to the highlighted issues, a culture of not accounting for the resources by the leadership and nothing happens in terms of punishment, a weak legislative process and regime, apathy by some of the citizenry and especially those who defend the political class of leaders from their area or community or ethnicity and corruption. To increase empowerment of the communities, the government needs to increase public participation and create avenues where the voice, views and opinions of the smallest member of the community is listened to, heard and the views are integrated into the final decision making and into the public policy documentation that will be formed (IMF, 2010).

Devolution aims at reducing the influence and responsibilities of the national government and shift it downwards to the local government (Brown, 2011). It also reduces the federal taxation and expenses, as such the federal aid is reduced as many responsibilities are given to the local government, meaning the national government has little resources to handle their programs and projects. Some programs are also shared with the local government such as the Children's Health Insurance Program (CHIP). According to Khadiagala (2006), proper use of the devolved funds requires that sound monitoring and evaluation (M&E) mechanisms are put in place. The role of M&E is to ensure that the members of the community are given a chance to actively participate in project implementation and seeking for accountability from the leadership as well as the individuals charged with the responsibility of managing funds.

The Republic of Kenya Report (2000) indicates that the government has put in place some amount of money to ensure that all the marginalized individuals are fully supported and sponsored. This is widely considered as the best way of empowering the less fortunate and marginalized individuals in the society. The ability to decentralize resources play an important role as far as breaching of the gap between the fortunate and the less fortunate members of the society is concerned. According to Nexus (2002), well conceptualized projects are associated with better outcomes.

2.2 Theoretical Review

The following theories will provide anchorage to the study: stakeholders' theory, systems theory, agency theory, resource dependency theory and institutional theory.

2.2.1 Stakeholders' Theory

It is Freeman (1984) who developed this Stakeholder theory. On the basis of this theory, a stakeholder is considered as any group that is either affected or affects the realization of the goals by the firm. It is any individual with vested interest in the affairs and operations of the firm and this determines how the goals are realized. In project management school of thought, stakeholders can be considered as people or entities that are actively involved in project activities. Furthermore, it is believed that the interests of the stakeholders will be affected when the project is successfully completed or executed (Project Management Institute, PMI, 2004). According to Chinyio and Olomolaiye (2010), the functioning and operation of the firm may have an effect on stakeholders.

Besides the operations of the organization, the objectives and goals of the firm may also have an influence on its stakeholders. For instance, when the firm is performing poorly, it becomes an issue of concern among its various stakeholders. To some extent, stakeholders will only be useful to an organization when they actively support the goals of the firm. At the same time, stakeholders may be so antagonistic such that they limit and restrict the ability of the firm, to attain its goals. In general, stakeholders play an important role as far as realization of the goals of the projects is concerned. This is because they help in supporting the goal, vision and mission of the various projects in the firm which determine whether the project fails or remain successful.

2.2.2 Systems Theory

The system concept takes an organization and relates with its forces of environment that it operates in. In the context of this study, business organizations including the Counties are

taken as open systems which are involved in a number of transactions and exchange with their surrounding (Katz & Kahn, 2016). The key focus of the system theory is on the relationship arising in structures and continuous features of the objects (Katz & Kahn, 2016). The most important component of the system is how the various components interact with each other (Oso & Owen, 2009).

The important role of stakeholder theory is its recognition of the fact that it is not only the individuals with ownership rights who are able to fully control how the business operates. The overall implication of this stakeholder's theory on corporate governance is that it shapes structures that align those interests of the principal, the agent and all other parties in the firm. All these parties are seen to have interest and stake in the operations of the business. The stakeholder theory has been subjected to a number of criticisms. For instance, Smallman (2004) argues that it majorly focuses on coming up with challenges and problems regarding who may make up a genuine stakeholder. The other challenge is that realization of the interests of stakeholders results into corruption since it ensures that agents are offered an opportunity of deviating the wealth from the owners of funds in the firm.

2.2.3 Agency Theory

It is Meckling and Jensen (1976) who came up with this agency theory and it has featured in most literature focusing on corporate governance. In order to reduce the conflicts and issues between the principal and agents, this theory argues that accountability is critical. The agency theory is used to model the link and interaction between the principal and the agents. In this context, the principal is the government and the agents include the managers in the public sector domain. An agent is supposed to carry out duties and operations on

behalf of the principal. There is however a challenges where the principal may not be able to fully define all actions that should be undertaken by the agent in any situation. Therefore, because of rationality, it is impossible to have an ideal; contract between these two parties (the principal and the agent). The key issues emerging from the relationship between the principal and the agent can be characterized by the following factors: opportunisms, sunk costs and hidden information (Fama & Jensen 1983b).

According to Jensen and Meckling (1976), firms are characterized by separation of control from the management which brings about the agency problem. Separating ownership from the management of the firm involves putting in place the management team besides the shareholders. The role of shareholders is to avail the required resources and funds that are required for day to day running of the business entity. On the other hand, the management of the organization is responsible for the day to day running of the business. In this regard, the shareholders act as the principal while the management is regarded as the agents.

However, the agents (the managers) may not always carry out the activities and operations in line with the needs of the shareholders (principal). This may come up as a result of conflicting interests between the parties. It may also be because of the fact that these interests may not be aligned with each other. The resultant effect of their agency problems in the organization is an increase in agency costs (the costs that arise when ownership is separated from the management). The agency problems emerge due to the fact that managers will not only be motivated to maximize the wealth of the shareholders but may also be driven to satisfy their own personal interests as they make decisions. Whenever the

interests of the shareholders diverge from those of the managers of the firm, the resultant effect will be the agency costs.

2.2.3 Resource Dependency Theory

The theory was formulated by Pfeffer and Salancki (1978) as a result an examination of board composition and how the managers of the firm leverage on their influence and power the ensure that inter-organizational reliance and relation is well managed. The theory is used to offer an explanation of how the resource exchange between firms results into relationship and mutual dependency. Hence, competitive firms are those with an ability to secure crucial resources from the environment. It however does not imply that the interrelationship between firms is free but an agreement is always reached in terms of Transactional Costs.

In the organizations, boards play an important role as far as ensuring that external dependency is managed is concerned (Pfeffer & Salancki, 1978), reduce uncertainties in the environment (Pfeffer, 1972) and the transactional cost emanating from interdependency in the environment (Williamson, 1984). In formulation and implementation of strategies in an organization, the role played by resources in attainment of this should not be overlooked. Organizations that possess and own unique resources have power and influence in the industry. This is the basis of monopoly power in most economic systems and markets. With dealing with third parties including suppliers, proper strategies should be formulated within an organization. This helps in reduction of the possible exploitation and the level of dependency.

2.2.4 Institutional Theory

The institutional theory views an organization as a social cultural system with clearly established structures. The structures within an organization are shaped and created by the routines, rules and norms and the channels of authority and all these results into social behavior (Scott, 2004). The creation as well as adaptation of all these elements results into an institution hence institutional theory. The regulatory dimension is key in explaining this Institutional theory, as existance of better legal and regulatory environment results into adoption of sound corporate governance mechanisms in the organization (Stulz et al., 2004).

The key issue of the institutional theory is that organizations interact with the external forces of their surroundings. Thus, the role of corporate governance is to ensure that there exists a connection between the management of the firm and the forces of the external environment. Furthermore, the management of the firm should effectively influence and involve in formalization and identification of the goals of the firm. According to Cohen et al. (2007), the management of the firm should clearly understand the traditions and norms so as to come up with an important policy for compensating employees. However, in most cases, these policies are characterized by resistance to change as far as the challenges in technology complexities and job content is concerned. An organization should therefore examine the political, social and historical issues so as to determine whether to adapt or reject the changes in the organization.

There are two key mechanisms that form the basis of corporate governance: internal as well as external mechanisms. All these concepts are connected to the concept of the

institutional theory. The institutional theory offers an explanation of the deep routines, norms, rules and schemes besides the processes that have emerged as the basis of guiding how people behave in the organization. Furthermore, the theory considers how these elements are established and created over a given period of time. The overall implication of the institutional theory is the fact that firm procedures and structures are adopted as key external institutions like and prefer them.

2.3 Conceptual Framework

Conceptual framework is a tool that helps in understanding and having knowledge on situations under consideration by the study. It is through the conceptual framework that the interaction between the variables of interest is detailed. The variables in this context could be dependent as well as the dependent ones.

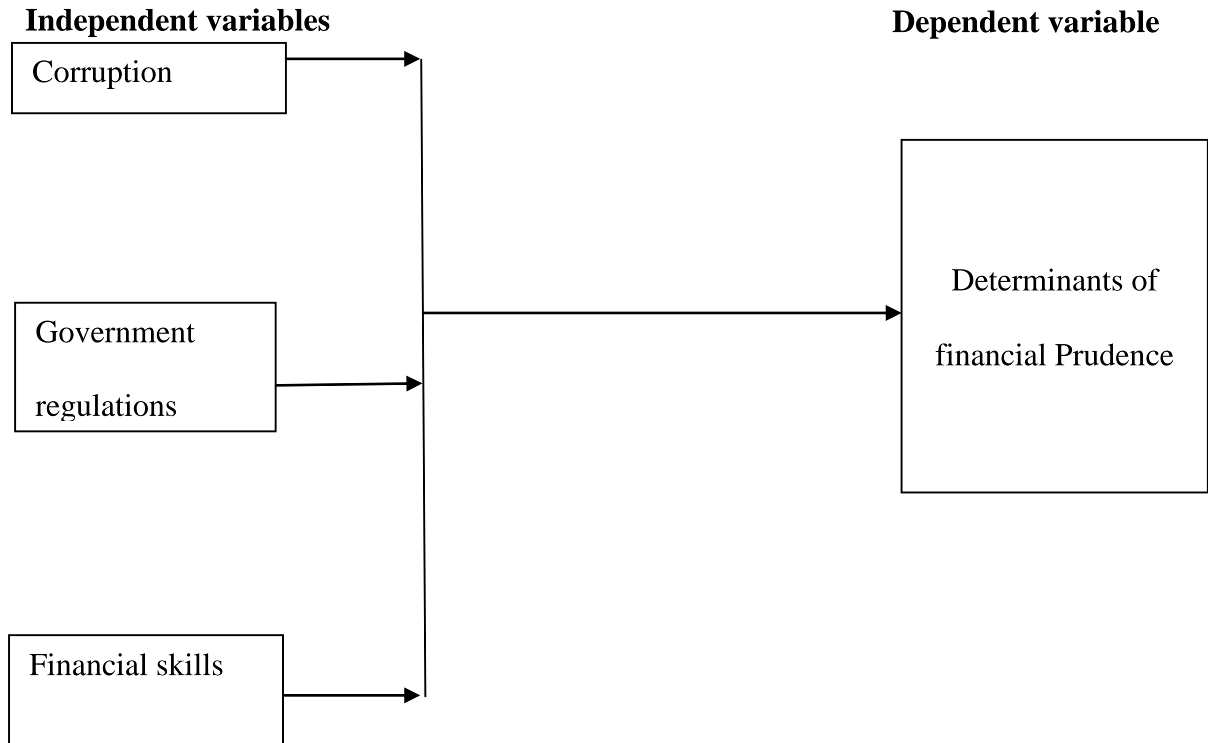

Figure 2.1: Conceptual framework

2.4 Review of Literature on Variables

2.4.1 Corruption and Financial Prudence

Prowle (2010) brings out distinctly the essence of prudent financial management in running the financial affairs of public sector organizations since they deal with huge chunks of public funds and mainly operate in a political environment. The author further asserts that there is dire need for a high degree of confidence in matters relating to financial decisions in such public sector organizations.

Ahmed (2016) indicates that most government agencies have opened multiple bank accounts with commercial banks and the cash deposited in them is regarded as an opportunity costs. This is because such deposits are left to idle at the bank account instead of being utilized for meaningful activities like funding for the projects that improve the living standards of people in the country. Furthermore, most countries with low level of income and those that are still developing are largely characterized by fragmented arrangements of banking cash and this inhibits proper and prudent management of cash. The core objective of a Treasury Single Account (TSA) is to ensure their proper control on cash as it optimizes the process of cash management.

There are several other benefits that are associated with a TSA account. It ensures that there is limited borrowing and repayment of interests for financing some of the expense of the government agencies while other cash balances are kept in bank accounts. Furthermore, TSA results into proper and effective cash control which are key components of the budgetary and monetary management. Additionally, TSA is aimed at reduction of the transaction costs, ensuring that remittance of the revenues of the government from taxes

are effectively monitored, effective reconciliation of the account balances, proper monitoring as well as control of the funds as well as increasing the degree of control in implementation of the monetary policies. There are two attributes that are common to any TSA: being a unified arrangement and the need to be comprehensive. Being unified implies that no individual is allowed to execute the operations of TSA without the oversight role of the National Treasury. The comprehensive attribute imply that TSA incorporates all cash of the government including budgetary as well as other extra activities outside the budget.

Rono (2017) looked at the contribution of internal control systems towards sustainable financial prudence in public universities in Kenya found that strengthening internal control systems in public universities was likely to result in enhanced sustainable financial prudence ($r= 0.609$; $p< 0.05$). Moreover, 37.0% of sustainable financial prudence in local public universities could have been attributed to internal control systems. The principles of financial prudence in the public sector are enshrined under Chapter Twelve of the Constitution of Kenya, 2010. They include the fact that public resources should be used prudently and responsibly. Furthermore, financial managers in the public sector context are required to be more responsible in the way they manage the resources. It is also important that the collected revenues are equally shared among the national and devolved governments.

2.4.2 Government Regulations and Financial Prudence

Ekpo (2016) analyzed the influence financial regulations on management of fiscal receipts in the context of Nigeria. It was established that individuals holding public offices should observe all the regulations that govern their duties and activities. However, in most cases,

the appropriation of government funds is carried out with a lot of impunity. In as much as there is an internal audit function, the reports from this unit are not acted upon. Immaculate (2016) used a case of the devolved units in Kenyan context to establish the factors that have an influence on how finances are managed. Specifically, the study focused on Kwale County. It was shown that it has been widely acknowledged and documented that some of the counties do not have well developed systems of managing finances. It was shown that management of finances resources is so critical and sensitive to public members since it has direct influence on the living conditions and standards of people in the country.

Budget process is motivated on appropriation by the levels of revenues collected for use. Baurer (2015) in a World Bank Study about the administration of taxes and small businesses in developing countries notes that the corrupt staff may add onto the high information asymmetry and sources of poor relations with the relevant enterprise communities. In addition, there is lack of goodwill to establish a self-assessment and a model to compliance of the relevant laws. Subsequently, the lack of specialization in the tax department administration it has proven with difficulty to ensure comprehensive filing of the returns from the public enterprises. He concludes noting that, a fairly tax compliant institution does encourage taxpayers' responsiveness and limits evaders of the same benefiting mutually the small and medium enterprises and collecting authorities.

Panday (2004) note that the key and underlying issue of any policy governing the use of finances is how wisely spend the collected amount of funds. The process involved in realization of this is to merge different sources of funds so that the overall financial goal of the firm is realized. This means that the management of the firm play an important role as

far as effective resource and fund allocation is concerned. The financial management function of the firm plays an equally significant role in achievement of the formulated goals of the firm is concerned.

Ngobolya (2008) argues that managers of institutions of learning institutions are expected to be accountable to donors, parents as well as the students and the government as far as the use of the resources and funds in the institution is concerned. According to GOK (2015), the public sector in Kenya has sound regulatory framework that guide how procurement and use of public resources is concerned. These regulations in the public sections help in guiding the public to avoid misuse of public funds. The essence of implementing financial guidelines is to enhance maximization of the economy, ensure that there is financial prudence, enhancing the level of integrity as well as responsibility and creating confidence among citizens in the public administration.

2.4.3 Financial Literacy and Financial Prudence

Firms require investment decisions in order to survive and remain sustainable. Thus, it becomes paramount that for managers to make sound and informed decisions, they should be skilled with knowledge of how to appraise and select viable investment opportunities. Lack of found investment skills would mean that managers will not be in position to track how funds are being utilized as well as the amount of allocated ones. There are a number of decisions made by small firms that engage in the manufacturing process and one of these decisions include the best way of allocating funds between competing alternatives or projects. Techniques of capital budgeting have traditionally been used in evaluation and justification of how best to appraise the investments. There are several reasons that make

capital budgeting to be critical as far as appraisal of the investment and projects before selection is concerned. This is because of the fact that capital budgeting decisions require the firm to invest a large amount of funds. At the same time, firms need to estimate sound way of raising and repaying the funds. Furthermore, investment decisions require that a firm remains committed. At the same time, investment decisions require an organization to effectively time the operations which is challenge for the organization (Chan, 2004).

Gachango (2014) looked at financial literary and its influence on management of financial resources in the firm. The focus of the study was on banking as well as financial entities in Kenyan context. It was shown that financial management at a personal level is largely influence by how individuals are knowledgeable and literate on financial processes and activities. It was shown that despite the fact that some employees work in banks, most of them do not have sufficient knowledge of personal financial management. It was also shown that having high level of education do not necessarily make someone to be financially literate. Additionally, financial literacy has a great influence on management of finances at a personal level.

Proper and sound financial management requires that people are equipped with relevant financial literacy. The degree to which an individual is able to comprehend financial options and selections means that an individual should be in position to carry out a comparison of post and pre-offers. Insufficient understanding and knowledge of financial issues and concept is connected with some aspects like inability to plan for retirement, non-participation on security exchange markets and poor behavior of borrowing (Basu, 2005). Purnell and Levy (2011) argue that it is important for managers to collect information,

having a clear understanding of the needs of the client and be able to understand the financial laws as well as the features of financial products. In the USA context, Goetz et al (2005, 2011) has raised the need for professional courses and training programs in some areas like career planning, effective communication at the business level, how to effectively write resumes, management of clients as well as networking and negotiation skills. There is also need to have certification programs at the certificate level and this is key in enhancing the employable skills of the students. All these are considered as generic skills which should be promoted.

2.4.4 Political Interference and Financial Prudence

At the government level, change initiative covers how well the culture of the agency is aligned with the new changes of how the operations of the business should be carried out. It may be hard to handle the culture of the firm hence the need to align it with the activities in the firm. However, Benafi Wilkinson and Orth (1986) writing about power and politics, indicate that as critical installments for strategic leaders, power and politics serve as a fulcrum for organizational behavior, enacting, reacting, and managing change. In its simplest meaning, the term organizational culture simply refers to shared expectations, values and belief systems by employees in the firm. The culture of the organization is made up the history of the organization, the current behavior of employees as well as the dynamics in the political horizon (Benafi, Wilkinson & Orth, 1986). The term history in this context does not necessarily refer to how an organization came into existence but it also covers the accomplishments of the firm and its evolution over a given time. Firms that may have struggled with some financial management activities during their past years may

create some resistance to newly advanced mechanisms and approaches of financial management.

Jacobs (2000) note that there are a number of interpersonal and conceptual skills that leaders should have so as to manage conflicts at organizational level. Of all these skills, the ability to properly scan the environment that firms operate in is the most important skill that managers can have. Holmquist (2002) argues that the business environment in Kenyan context is largely influenced by the political horizon. The influence of politics in appointment of heads of financial institutions and other government agencies in most cases result into ineffectiveness in operations of most firms. The award of tenders is often done based on how well an individual is connected politically. Mbabu (2012) indicates the political interference e is particularly evident in projects and this determines whether the projects remain successful or they fail. Murray (2011) note that the way CDF funds are utilized has emerged as an important concern among most parliamentarians in their defined constituencies. This assertion is justified by the need to ensure that they are reelected back in the event of a general election.

2.4.4 Financial Prudence

Literature indicates that there has been a change in the behavior and trend of the adults across the world. This change has been characterized by a shift from production to consumption (Cauffman & Steinberg, 1995). According to Roberts and Jones (2001), the rate of consumer culture is increasing at a higher pace. Droge and Mackoy (1995) argue that there is some universality among individuals desiring to join the consumer culture. Therefore, according to Roberts and Sepulveda (1999), forceful spending is emerging as

an important force that shape the modern society. In financing the consumption pattern and lifestyles of consumers, availability of credit is an important factor (Lea, Webley, & Walker, 1995; Zuckerman 2000).

2.5 Empirical Review

Corruption is a multifaceted concept lacking a universally accepted definition and meaning around the world (Colier, 2002; Seligson, 2006; Andersson & Heywood, 2008). One reason that attributes to lack of a generally accepted meaning of corruption according to Langseth (2006) is the fact that legal and criminological issues have affected the attempts to define the term corruption. However, corruption may be regarded as any action that results into damage in public or private institutions. Corruption aims at promoting group of personal interests at various level of management in the firm. Corruption may also be defined as how the powers that an individual is entrusted with are abused for one's gain (Mbaku, 2007).

Corruption is not an ethical practice in the society (Graaf, 2007) and is based on a given context. There exist variations in the term corruption on the basis of different cultural beliefs (Luo, 2005; Andersson & Heywood, 2008). At the same time, different cultural systems and settings are characterized by different forms of corruption (Collier, 2002). There exist no clearly defined differences between private and public life in some of the cultures (Graaf, 2007). An individual who engages in corruption must be empowered by the imperfections existing in the markets. It is these imperfections that result into some power and authority to some individuals hence placing individuals in positions that they

can misuse these authorities for personal gain (Vian, 2008; Luo, 2005). A study conducted by Gibelman and Gelman (2004) indicated that corruption is evidenced among some of the donor agencies and particularly involving staff at the top management level.

Two forms of corruption were identified by Pinto et al. (2008) to include at organizational as well as at individual level. Accordion to Pinto et al. (2008), corruption at organizational level is manifested basically at the senior level of management or by an individual who generally act in a manner that is corrupt for organizational gain. At individual level, staff and other members of the organization are characterized by corrupt practices. This is done primarily for personal gain and benefit (Ashforth et al., 2008). The common thing among these two forms of corruption is that the firm is the start point and self-interests are the motivating factor that informs people to engage in corrupt deeds (Beugré, 2010).

In Kenyan context, financial performance at the county level is featured by poor design of the systems and inadequate functionalities, poor systems of internal control and lack of audit trails. Besides, there are limited checks of the data in place and inability to respond to needs. This has resulted into misuse of resources and embezzlement of fubnds through collusion and fraud. It has also resulted into poor spending behavior (Wakiriba, Ngahu & Wagoki, 2014). The audit reports in Kenyan context indicate that there exist discrepancies in the amount of funds allocated at the county level and the projects initiated for the benefits of the local citizens (McWilliams & Siegel, 2014). It is the money generated from taxes which are used to fund the operations of the public institutions (Wakiriba, Ngahu & Wagoki, 2014). Hence, it is the responsibility of every tax payer to ensure that all the money collected should be used in the most prudent manner (Macharia, 2012). It is against

this background that financial management in the public sector context is in most cases subjected to a number of questions. Wanyama (2010) indicates that some Regulations and Acts have provisions that are weak and subjected to abuse and misuse and do not reflect the realities in different markets. Kenyanya et al (2010) indicate that in particular, the regulatory framework governing procurement in the public sector context is so weak and prone to abuse and personal interest. PPOA (2007) noted that decisions dealing with procurement of activities are in most cases delegated and this has been a key achievement.

2.6 Summary of Reviewed Literature

The legislation process is usually affected by personal interests as far as the need to spend public funds is concerned. Majority of the members of the management team are appointed on recommendations of the councilor or Member of Parliament. Also most of the management team are chosen due to the ability to persuade or political affiliation to the local political leaders. It was also agreed among the respondents with a mean of 3.674 that local politics on the project influenced actual road construction to a great extent.

The business climate in the Kenyan context is largely influence by internal politics. Some of the appointees at the public level are influenced by political forces. The award of tenders is usually conducted on the basis of the political connections. Furthermore, appointment of senior executives is influenced by politicians who may dictate the entire appointment and selection process. This is done majorly to support their dreams of being reelected in the event of the general election. Furthermore, the decisions that legislators make are usually informed by the own personal interests and goals.

2.7 Research Gaps

Wanyama (2010) argues that the Regulations and Act that are established to guide and govern the operations in the public sector context are prone to some weakness and challenges. It is against these challenges and weaknesses in the Regulatory framework that government officials are tempted to misuse the funds and other resources including over expenditure and abused of powers (Wakiriba, Ngahu & Wagoki, 2014). At the same time, it is the money generated from the taxes of people that are used to fund the operations and activities in the public sector. As such, it is the responsibility of the taxpayers to ensure that they demand for effective and proper use of resources in meeting their needs (Macharia, 2012). According to Murray (2011), most legislators are guided by selfish and personal interests as they formulate the regulations and laws. This is also reflected in the way they manage the CDF funds allocated to their respective constituencies. This is done to ensure that the legislators are reelected in case of a general election. Gachango (2014) did a study on financial literacy and how it influences the ability to manage financial resources using a case of financial institutions in the Kenyan context. It was shown that the level of financial literacy at the personal level has a great influence on financial management at the individual level.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The type of design that was adopted in the study was well discussed in this chapter. The targeted number of respondents for the study was also detailed. The techniques that were used to determine the sample size was also be covered in detail. The methods that were used in collecting as well as analyzing of data was also be covered.

3.1 Research design

The term research design is used to describe how the formulated objectives in the study will be realized. It is used to ensure that various components of the study are integrated into a proper and coherent flow. The type of design that shall be used in this study will be descriptive. Through this design, the study will be able to determine the key factors that determine loss funds in Kenyan context. Through a descriptive design, one is able to determine, describe as well as report the exact state of things. It also ensures that the study has collected the required information in realization of the formulated objectives (Mugenda & Mugenda, 2014). The use of descriptive design will be justified by the fact that the study will be seeking to gather the required data for statistical analysis. Through this design, the study will be better place to gather the required information, perform the analysis and come up with relevant conclusion as far as the determinants of loss of funds is concerned.

3.2 Target population

According to Borg and Gall (1989), target population is described as all members from whom a researcher wishes to generalize research study. The target population of the study was three counties (Baringo, Elgeyo Marakwet and Laikipia County Governments). Since the population was small, a census was used and thus no sampling was conducted.

3.4 Data collection tools reliability and validity

3.4.1 Questionnaires

The main research instruments to be used in the study will be designed questionnaires. This enabled the researcher to get needed information on the set objective mentioned in the study. In addition, document analysis will also be used in obtaining information from journals, reports and other resourceful material presented by other researchers which focus on this study. The collection of primary data will be conducted with the aid of questionnaires. The design of questionnaires will incorporate open as well as close ended items. This will be meant to complement the responses that will be sought from the study respondents.

Before the start of collecting information from the respondents, the researcher will briefly introduce the study and the objectives to respondents. Assurance will be provided to respondents by the fact that information that shall be collected will only be used for the academic reasons.

The respondents of the study included 190 respondents covering 56 staff from Accounting and Treasury Services, 33 from Economic Planning and Budget, 38 from Supply Chain Management, 37 from Revenue and Resource Mobilization and 26 from Audit and Risk Assurance departments respectively of the 3 counties. A brief introduction was made to the respondents before administering the questionnaires with the aim of explaining the questionnaires. Confidentiality was assured to the respondents through the letters of transmittal that was attached to the questionnaires.

3.4.2 Secondary Data

Besides primary data, the study also collected secondary data from the published financial statements of the respective counties and the Auditor General reports. Secondary data was collected over a period of 5-years (2014-2018). The study collected secondary data on receipts, expenditure as well as the surplus. This information was used to measure performance of counties.

3.5 Validity and Reliability of Instruments

Mugenda and Mugenda (2003) consider reliability as how consistent the tools and instruments used in the study give results that are consistent. On the other hand, the term validity is used to refer to how the instrument of the study measures what they are designed to indicate. As random errors affect reliability all the relevant factors in the study was addressed to minimize the inconsistencies that the instruments may bring about. Pilot study was conducted in Baringo County in order to compare the results.

3.6 Data Processing and Analysis

It is through data analysis process that all the collected data is broken down into meaningful answers. There are some activities that go hand in hand as far as analysis of the findings is concerned. These include cleaning up the information, arranging as well as organizing the data. Once these have been done, the data is them keyed into an appropriate tool for analysis like SPSS. The collected views from respondents underwent all these stages before being processed with the help of descriptive statistics. To present the findings, pie charts and graphs will be important tools.

The data collected was later analyzed with aid of the statistical package for social science (SPSS) Computer software from windows. Both qualitative and quantitative data were analyzed. Descriptive statistics (frequencies and percentages) were computed for all the three objectives.

3.6.1 Model Specification

The following model was used

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu it:}$$

Where Y is = Performance

X_1 = Corruption Awareness

X_2= Government Policy

X_3= Financial Literacy

β_0= Constant and μit is the error term

3.6.2 Diagnostic Tests

Before carrying out regression analysis, the researcher conducted normality tests, multicollinearity test and heteroskedasticity tests. Normality test was done to ensure that the data set is normally distributed. It was carried out using normal PP plots. Multicollinearity test was done using Variance of Inflation Factor (VIF) while Scatter plots were used to determine the presence of heteroskedasticity. If each of the tests failed, some of the variables would be removed from the model to treat the problem.

3.6.3 Test of Significance

F-statistics was used to determine the overall significance of the regression model. The coefficient of determination R squared of the regression analysis was used to determine the proportionate change in the study variables. The significance of individual variable was determined by the use of p-values with an alpha being 0.05. The $p<0.05$ indicate significant relationship.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The chapter is set out to present the findings on the analysis of the primary and secondary data that was gathered in this study. Once data had been collected, cleaning and editing of inconsistencies was conducted before being entered into SPSS tool. The analysis of the findings was done systematically as informed by the study variables.

4.1.1 Response Rate

190 questionnaires were given to the study selected respondents who were from the Accounting and Treasury Services, from Economic Planning and Budget, Supply Chain Management, Revenue and Resource Mobilization and Audit and Risk Assurance departments of 3 Counties. 149 of the questionnaires were filled and returned for analysis. This is to say that the response rate stood at 78.4%. This response was consistent with Mugenda and Mugenda (2003) who considered response rates of over 70% as adequate for presentation of the findings.

4.1.2 Reliability Results

The study piloted the research instruments to ensure that they are as reliable as possible. Values were obtained from the pilot study and used to create the Coefficients of Cronbach Alpha. The results are summarized in Table 4.1.

Table 4.1: Reliability Results

Specific Objective Variable	Number of Items	Cronbach Alpha Coefficient
Corruption	5	0.808
Government Regulation	6	0.746
Financial Literacy	5	0.792

Source; Research Data (2019)

As shown in Table 4.1, all the specific study variables had Cronbach Alpha Coefficients above 0.7. Thus, it can be inferred from the findings that the instruments of the study were reliable.

4.2 General Information

The study sought to collect the general information of the respondents who were involved in the collection of the information as indicated in subsequent sections.

4.2.1 Gender Distribution

The findings on the distribution of male and female respondents who took part in the study are shown in Table 4.2.

Table 4.2: Gender Distribution

	Frequency	Percent
Male	93	62.4
Female	56	37.6
Total	**149**	**100.0**

Source; Research Data (2019)

Table 4.2 indicate that majority of the respondents (62.4%) were male while the rest (37.6%) were female. The implication of this finding is that there was gender diversity in the study as both categories of gender were involved hence representative findings on corruption awareness, government policies and financial literacy and performance of their institutions was sought.

4.2.2 Years of Experience

The years of experience of the respondents of the study are shown in Table 4.3.

Table 4.3. Years of Experience

	Frequency	Percent
5 – 10 years	26	17.4
11 -15 years	99	66.4
Over 15 years	24	16.1
Total	**149**	**100.0**

Source; Research Data (2019)

From the results in Table 4.3, majority of the respondents (66.4%) had worked for a period of 11-15 years, 17.4% for 5-10 years and 16.1% for over 15 years. This shows that generally, respondents of the study had accumulated significant level of experience which

enhanced their knowledge on corruption awareness, government policies and financial literacy and performance as sought by the study.

4.5 Performance of Counties

The study's dependent variable is performance and the information about it was from secondary data sources.

4.5.1 Descriptive Statistics

The study determined the value of surplus which was the difference between receipts and payments by the three counties that were covered. The descriptive statistics on these proxies of performance are shown in Table 4.4.

Table 4.4 Performance of Counties

	Minimum	Maximum	Mean	Std. Dev	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Receipts	5.60	6.78	6.00	.522	.796	.580	-1.564	1.121
Payments	5.53	6.72	5.97	.522	.783	.580	-1.582	1.121
Surplus	.47	5.96	3.97	1.793	-1.121	.580	.030	1.121

Source; Research Data (2019)

Table 4.4 indicate that on average, Counties in Kenya gets receipts of Kshs. 6 billion out of which Kshs. 5.97 billion is spend on development and other forms of expenditures. Counties on average have a surplus of Kshs. 3.97 billion once the receipts have been utilized on various forms of expenditures. There was no significant variation in receipts and payments among the studied counties as supported by low value of standard deviations

below 1. The standard deviation of surplus was above 1; meaning the it varied across the studied counties.

4.5.2 Trend Analysis of Performance of Counties

The study used graphs to illustrate the trend in performance of Counties in Kenya. Figure 4.1 gives the trend analysis of the receipts of the studied counties across the 5-year period of consideration.

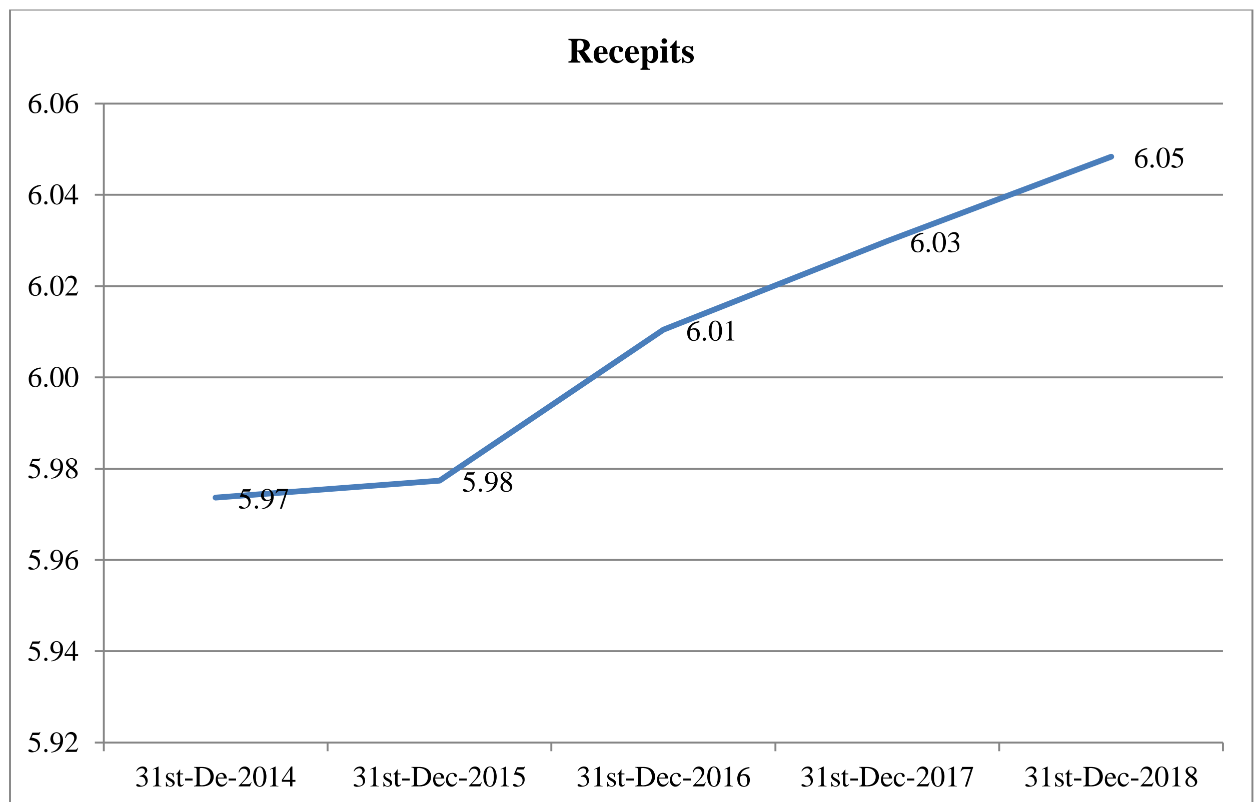

Figure 4.1: Trend Analysis on Receipts

As shown in Figure 4.1, there was generally an increase in receipts of the Counties in Kenya. This trend in movement of receipts could be attributed to a number of factors including the increase in allocation by the national government. The finding is consistent with Brown (2011) who noted that the devolved units have their sources of funds mainly through transfer of funds from the national revenues and borrowing. The borrowing is subject to the finance being used for development projects while any short-term borrowing cannot be 5% in excess of the latest audited accounts and receipts, and these money is used specifically for cash flow management.

The findings of trend analysis on payments among the studied counties are indicated in Figure 4.2.

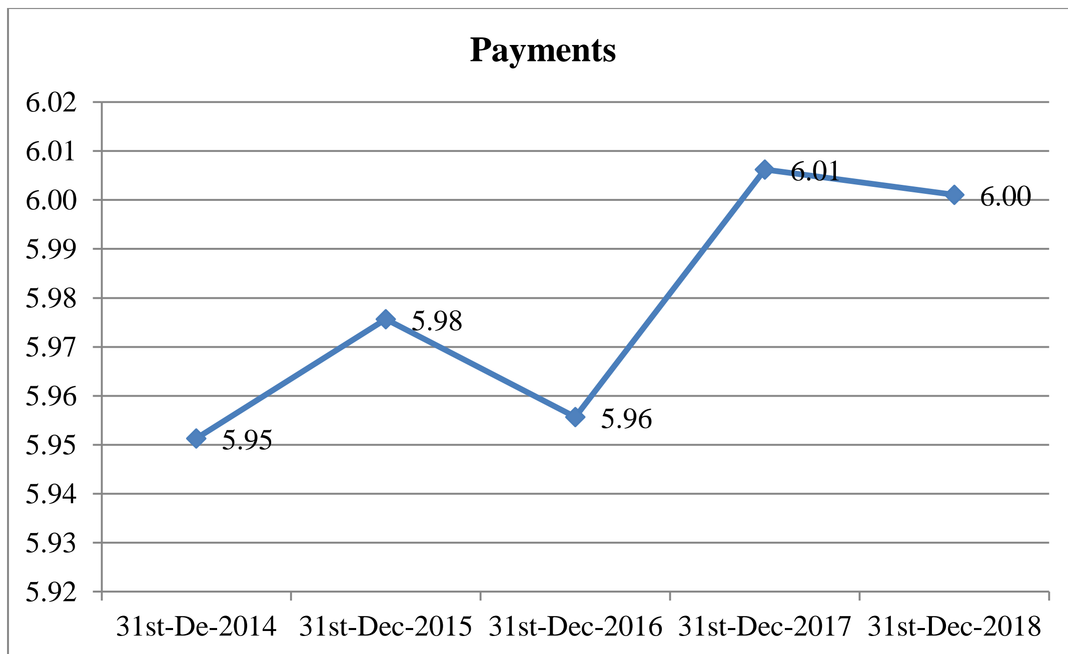

Figure 4.2: Trend Analysis on Payments

Figure 4.2 indicate that there were fluctuations in payments among the counties in Kenya over the 5-year time period. This fluctuation in payments could be attributed to unauthorized payments and corrupt dealings that affect performance of counties. For instance, the Auditor's Report (2014/2015) indicate that Uasin Gishu County specifically was reported to have only spent 11% against its 52% estimated development budget in 2014/2015 financial year.

Surplus was determined by netting the receipts against the payments among the studied counties. The findings of trend analysis are as shown in Figure 4.3.

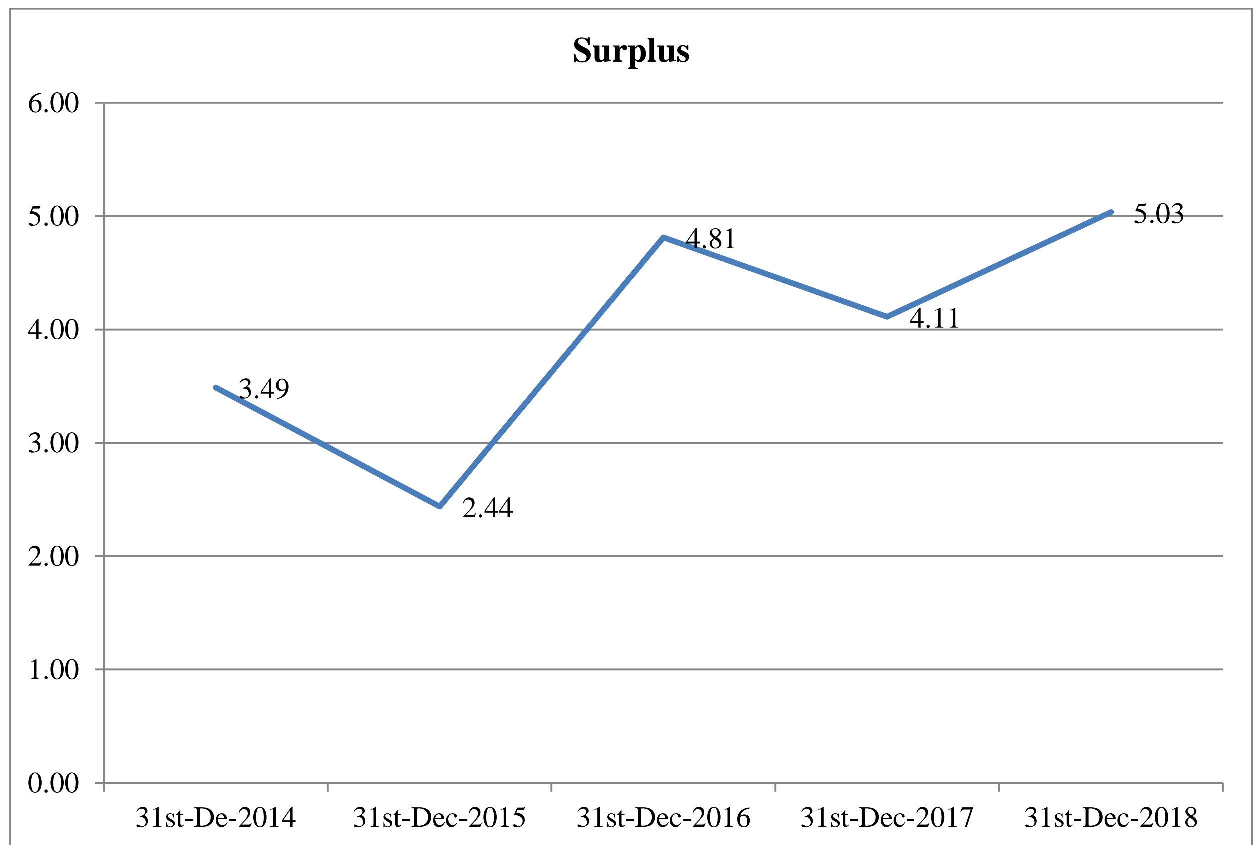

Figure 4.3: Trend Analysis on Surplus

The findings in Figure 4.3 imply instability in surplus among the studied counties. This variability in surplus cold be attributed to misuse of resources among the counties as opposed to being utilized in the most productive manner.

4.6 Determinants of Performance of Counties

This section is set out to present the determinants of performance of counties in Kenya. This was achieved by use of means and standard deviations based on the Likert questions formulated in the questionnaires.

4.6.1 Corruption

The first determinant of performance of counties that the study examined was corruption as seen in Table 4.5.

Table 4.5: Corruption

	Mean	Std. Dev
The County Government losses money due to corruption amongst its leadership	4.01	1.01
There is skewed distribution and allocation of resources due to corruption	3.73	1.06
Corruption is rampant in counties	4.17	1.09
Corrupt dealings result into loss of funds that would have been used to fund projects	4.11	.974
The county Government has anti-corruption champions in place	3.45	1.17

Source; Research Data (2019)

Table 4.5 shows that many of avowals had 3.5 mean and above an indication that generally the respondents consented on the provided statements under corruption as a determinant of performance of counties. Respondents highly agreed on the statement that corruption was

rampant in counties (M=4.17) resulting into loss of funds that would have been used to fund projects (M=4.11). Respondents also agreed that money is lost in most counties on account of corruption particularly among the leadership. Thus, it can be deduced that corruption is a key determinant of performance of counties.

4.6.2 Government Regulations

The second determinant of performance of counties that the study examined was government regulation and the findings are on Table 4.6.

Table 4.6: Government Regulations

	Mean	Std. Dev
Public servants pay inadequate attention to financial regulations in their official duties	3.49	1.05
The public funds are appropriated with impunity	3.61	1.03
The internal audit functions of checks and balances are undermined	3.67	.907
The issue of finance management is very sensitive to the members of the public	3.95	.961
A fairly tax compliant institution does encourage taxpayers' responsiveness	3.79	.903
Procurement procedures are largely circumvented	3.54	1.22

Source; Research Data (2019)

From Table 4.6, the adherence to government regulations ranged from moderate to some great extent. In general, respondents agreed on government regulation as a determinant of performance of their county. Respondents highly agreed on the statement that finance management was very sensitive to the members of the public (M=3.95) and that a fairly tax compliant institution does encourage taxpayers' responsiveness (M=3.79). However, respondents were not sure whether public servants paid inadequate attention to financial

regulations in their official duties (M=3.49). Therefore, it can be summed up that government regulation is a determinant of performance of counties.

4.6.3 Financial Literacy

Financial literacy was the third determinant of performance of counties. The findings of descriptive statistics are shown in Table 4.7.

Table 4.7: Financial Literacy

	Mean	Std. Dev
Without proper skills, managers will not be in a position to track funds allocated.	3.97	.977
Loss of funds is experienced leaving the managers with no point to argue when explanation needed as a result of lack of skills	3.59	1.10
County Staff have adequate financial skills required to manage public funds	3.63	1.03
With financial skills, county government notices where funds have been misused	3.86	1.14
Personal financial management practices is greatly affected by personal financial literacy levels	4.01	.838

Source; Research Data (2019)

Table 4.7 shows that means of 3.5 and above can easily be seen that respondents agreed on the various statements under financial literacy as a determinant of performance of counties. Respondents highly agreed on the statement that personal financial management practices were greatly affected by personal financial literacy levels (M=4.01) and that without proper skills, managers would not be in a position to track funds allocated (M=3.97).

4.7 Diagnostic Tests

Diagnostic Tests were conducted to ensure that the data to be used did not violate the assumptions of regression analysis, these were normality test, multicollinearity and heteroskedasticity tests.

4.7.1 Normality Test

Normality test was done to ensure that the data set is normally distributed. It was carried out using PP Plots.

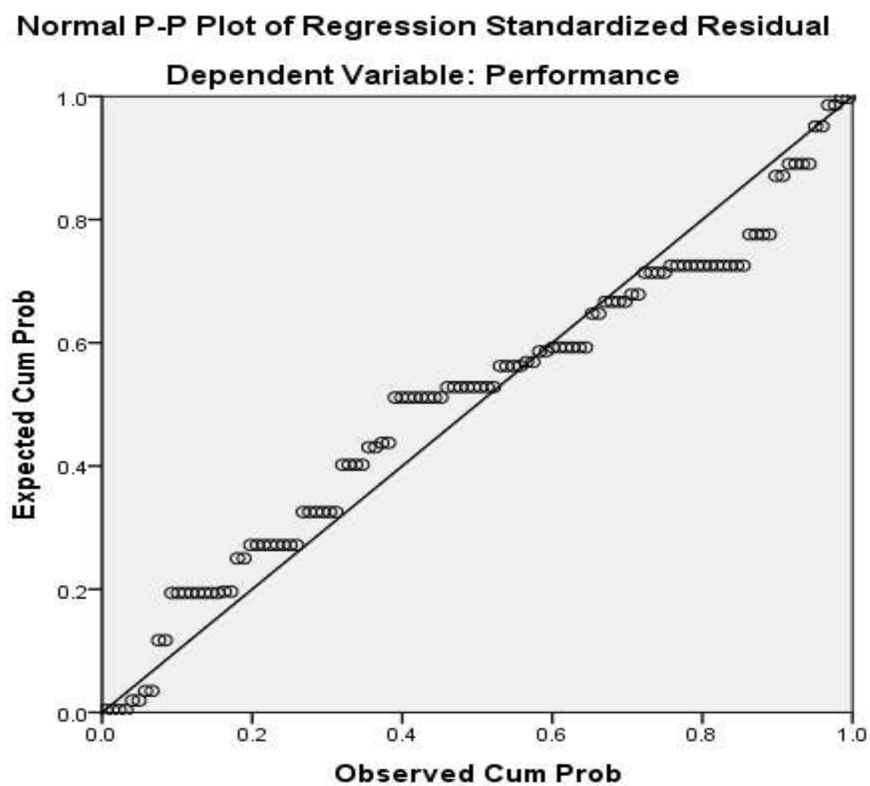

Figure 4.4: PP Plots for Testing Normality

From the Figure 4.4 the data points are close to the normal PP plot line meaning the data is distributed normally.

4.7.2 Multicollinearity Test

Multicollinearity test was done using Variance of Inflation Factor (VIF).

Table 4.8: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	**VIF**
Corruption	.722	1.386
Government Regulations	.599	1.669
Financial Literacy	.749	1.336

a. Dependent Variable: Performance

Source; Research Data (2019)

From the results in Table 4.8, all the variables had VIF values below 1-10; this implies that there was no multicollinearity.

4.7.3 Heteroskedasticity Test

Scatter plots were used to determine the presence of heteroskedasticity.

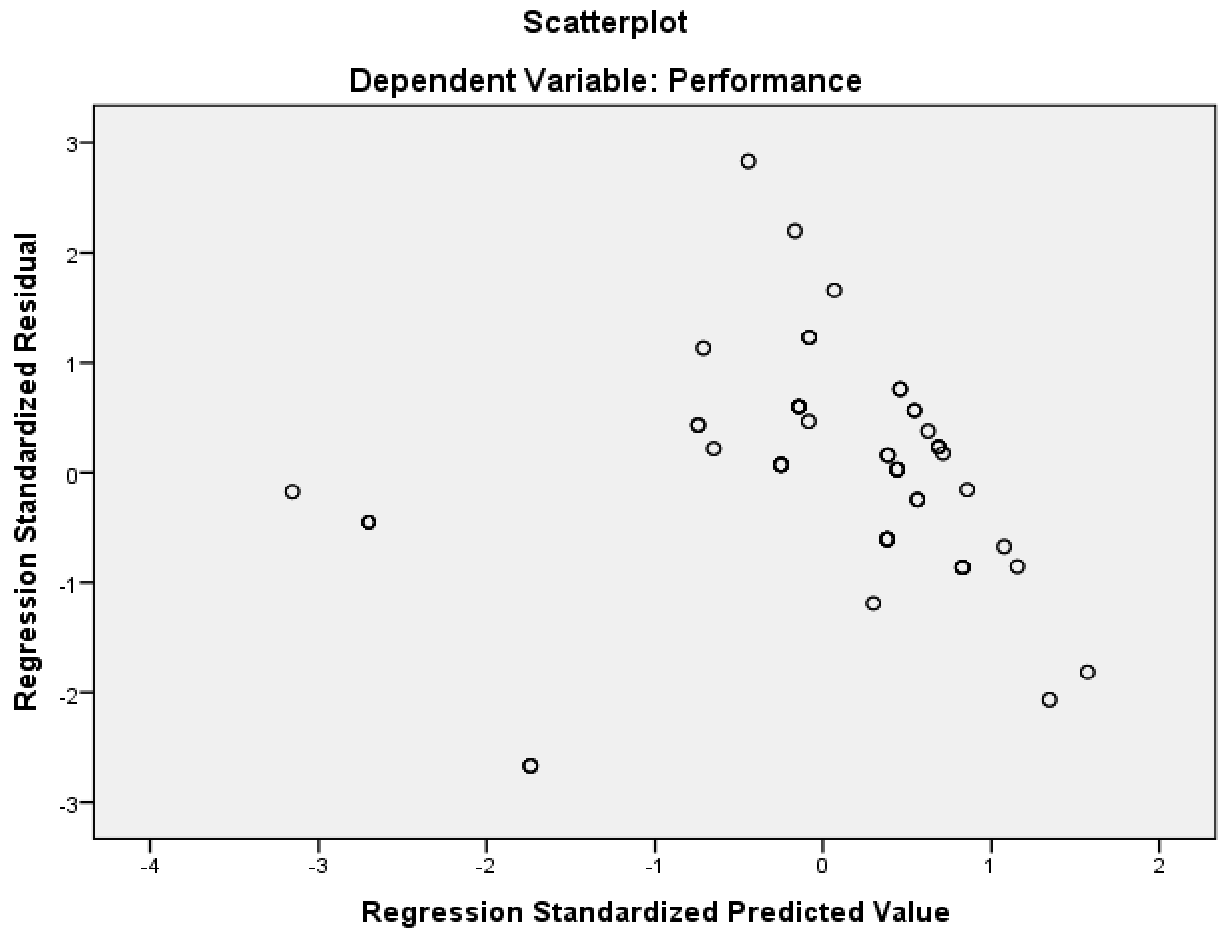

Figure 4.5: Scatter Plots

The Scatter Plot above was used to test the presence of heteroskedasticity in the data set of the study. Results show that there is a wide spread of data points without indicating a clear and defined pattern. This could be an indicator that of absence of heteroskedasticity in the data set.

4.8 Correlation Results

The study conducted correlation analysis to determine the relationship between the identified determinants and performance of counties shown in Table 4.9

Table 4.9: Correlation Results

		Performance	Corruption	Government Regulations	Financial Literacy
Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	149			
Corruption	Pearson Correlation	-.537**	1		
	Sig. (2-tailed)	.000			
	N	149	149		
Government Regulations	Pearson Correlation	.304**	-.673**	1	
	Sig. (2-tailed)	.000	.000		
	N	149	149	149	
Financial Literacy	Pearson Correlation	.394**	.801**	-.825**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	149	149	149	149

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

Source; Research Data (2019)

The results in Table 4.9 show that corruption ($r=-0.537$, $p<0.05$) has a negative and significant relationship with performance of counties. Government regulations ($r=0.304$, $p<0.05$) has a postive and significant relationship with performance of counties. Financial literacy ($r=0.394$, $p<0.05$) was found to be postive and significantly correlated with performance of counties.

4.9 Regression Results

The identified factors were regressed against performance of counties and these results are shown in the upcoming sections.

4.9.1 Model Summary

The findings on the Model Summary of the study are shown in Table 4.10.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.809[a]	.654	.647	.88818

a. Predictors: (Constant), Financial Literacy, Corruption, Government Regulations

The coefficient of correlation R from Table 4.10 is 0.809; this means that there exists a strong correlation between the identified determinants and performance of counties in Kenya. The value of the coefficient of determination R square is 0.654; this infers that the model used in the study was fit. The adjusted R squared is given as 0.647; which can be interpreted to mean that 64.7% change in performance of counties in Kenya is explained by financial literacy, corruption, government regulations.

4.9.2 Analysis of Variance

The study conducted ANOVA at 5% level of significance and the findings are documented in Table 4.11.

Table 4.11: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	215.999	3	72.000	91.269	.000[b]
Residual	114.386	145	.789		
Total	**330.385**	**148**			

a. Dependent Variable: Performance

b. Predictors: (Constant), Financial Literacy, Corruption, Government Regulations

As shown in Table 4.11, the value of F calculated is 91.269 with the p=0.000 which is less than 0.05. The inference drawn from these findings is the overall model adopted in significant.

4.9.3 Regression Coefficients and Significance

The findings on regression coefficients and the significance are shown in Table 4.5.

Table 4.12: Regression Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	6.942	1.416		4.901	.000
Corruption	-.415	.029	-1.177	-14.425	.000
Government Regulations	.147	.037	.111	3.973	.002
Financial Literacy	.180	.042	.456	4.269	.000

a. Dependent Variable: Performance

The findings in Table 4.12 result into the following equation:

$$\mathbf{Y = 6.942 - .415X_1 + .147X_2 + .180X_3}$$

Where Y is = Performance

X_1 = Corruption Awareness

X_2= Government Policy

X_3= Financial Literacy

Thus, taking the level of significance as 0.05 for the p-values and 1.96 for the t-value, the documents that corruption awareness ($p=0.000<0.05$ and $t>1.96$). This deduces that corruption awareness has significant effect on performance of counties. Government policy ($p=0.002<0.05$ and $t>1.96$), this can be interpreted to mean that government policy has significant effect on performance of counties. Financial literacy has ($p<0.05$ and $t>1.96$), which imply that it has significant effect on performance of counties. Thus, the key determinants of performance of counties are corruption awareness (41.5%), financial literacy (18%) and government policy (14.7%) on the basis of their beta coefficients.

4.10 Discussion of the Findings

Corruption, significantly relates to counties performance but in a negative manner which implies that corruption slows down performance and future development. The finding is supported by

Wanjau, Muiruri and Ayodo (2012) who noted that in Kenya, corruption has resulted into resource loss, creating exaggerated expenditures and wastes and create room for fraudulent activities. Corruption is rampant in most of the counties which results into loss of funds and thus poor performance of the counties in Kenya. Money is lost in most counties on account of corruption particularly among the leadership. This is consistent with Pinto et al. (2008) sharing that corruption at organizational level is manifested basically at the senior level of management or by an individual who generally act in a manner that is corrupt for organizational gain.

Government regulations have a positive and significant relationship and effect on performance. In Kenya, these government regulations largely include Public Procurement Regulation (2006), Public Finance Management Act (2012) and Public Finance Management Regulation (2015).

According to According to GOK (2015), these regulations play an important role in guiding and regulating the operations of public sector entities including the counties. A fairly tax compliant institution does encourage taxpayers' responsiveness. The finding is supported by Baurer (2015) who indicated that fairly tax compliant entities makes the tax payers to be more responsive while limiting the number of tax evaders.

Financial literacy has positive and significant effect and relationship with performance of counties. This was also revealed by Gachango (2014) who realized that financial management at a personal level is largely influence by how individuals are knowledgeable and literate on financial processes and activities. According to Gachango (2014) there exists a positive link between the two variables of financial literacy and ability to manage financials, since without proper skills, managers may not be in a position to track funds allocated.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the analysis as determined and informed by the formulated study variables and it also covers the findings, drawn conclusions and recommendations for management and practice. The various study limitations the study faced and areas where future research is pointed out in the chapter.

5.2 Summary of the Findings

Broadly, this study covered the determinants of performance of Counties in Kenya. With specific objectives that looked at corruption, government regulations and financial literacy and their influence on performance of counties. The key theories that provided anchorage to the study included the stakeholders' theory, systems theory, agency theory, resource dependency theory and institutional theory.

5.2.1 Corruption and Performance of Counties

The study sought to establish how corruption determines performance of counties. From the findings, majority of the respondents agreed on various statements provided under corruption. Respondents agreed that corruption is rampant in most of the counties which result into loss of funds and thus poor performance of the counties. And that corruption was rampant in their respective counties resulting into loss of funds that would have been

used to fund projects. Respondents also agreed that money is lost in most counties on account of corruption particularly among the leadership. The findings of correlation analysis indicated that corruption negatively relates to performance of counties. From regression analysis, the study documents that corruption has significant effect on performance of counties.

5.2.2 Government Regulations

The study sought further to determine the effect on government regulations on performance of counties. The results of descriptive statistics indicated that adherence to government regulations ranged from moderate to large extent as shown by variation in the values of mean. However, in general, respondents agreed on government regulation as a determinant of performance of their county. Respondents highly agreed on the statement that fairly tax compliant institution does encourage taxpayers' responsiveness. On whether public servants paid inadequate attention to financial regulations in their official duties, most of the respondents were indifferent. Correlation results indicated that government regulations have a positive relationship with performance. From regression analysis, it was shown that government regulations have significant effect on performance.

5.2.3 Financial Literacy

The last objective of the study investigated the effect on financial literacy on performance of counties. Most of the statements under financial literacy had high values of means; showing that respondents agreed on them. More specifically, most of the respondents agreed that without proper skills, managers would not be in a position to track funds

allocated. The findings of correlation analysis showed that financial literacy has positive relationship with performance of counties. From regression results, financial literacy had a significant effect to performance of counties.

5.3 Conclusion

Corruption has a negative relationship with performance of counties. Corruption significantly affects performance of the counties. Corruption is rampant in most of the counties which results into loss of funds and thus poor performance of the counties in Kenya. Money is lost in most counties on account of corruption particularly among the leadership.

Government regulations have a positive relationship with performance. Government regulations have significant effect on performance. A fairly tax compliant institution does encourage taxpayers' responsiveness and it is not clear whether public servants pay little attention to financial regulations while handling their official work duties. Financial literacy has positive relationship with performance of counties. It had a significant effect on the performance of counties and individual financial management practices is affected to a great extent by literacy levels in financials. Without proper skills, managers may not be in a position to track funds allocated.

5.4 Recommendations of the Study

The study noted that corruption is one of the key performance determinants of counties in Kenya. It was also noted that corruption is rampant in most counties in Kenya resulting into loss of funds. The study recommends that policy makers and agencies like the Ethics and Anti-Corruption Commission (EACC) should enhance its active role in fighting corruption among counties in Kenya. There should be strict regulations and rules that all people implicated with corruption should face including jail terms. The Kenyan Judiciary plays a key role in fighting corruption as far as hearing and determination of the reported cases of corruption is concerned. Measures should be adopted among all counties in Kenya that make it hard for official to engage in corrupt dealings. These include strengthening the systems of internal controls that are in place in all counties in Kenya.

More awareness on effects of engaging in corruption and a change in behaviors of the public servants is paramount as far as the fight against corruption is involved. All public servants including employees working in County governments should be sponsored to attend refresher sources in personal financial management so as to enhance their financial literacy.

5.5 Limitations of the Study

The present study was limited to three counties: Baringo, Elgeyo Marakwet and Laikipia County Governments. It was not possible to cover all the 47 counties in Kenya due to financial constraints and time factor. The study looked at the determinants of performance of these counties. The specific determinants that the study focused on include corruption,

government regulations and financial literacy. In terms of methodologies, primary and secondary data sources were used.

5.6 Areas for Further Research

The study recommends advanced research in the remaining 44 Counties in Kenya so as to make informed deductions on the determinants of performance of the counties. The study found that the identified determinants (corruption, government regulations and financial literacy) jointly explain 64.7% change in performance of counties. The implication of this result is that apart from these determinants, there exists other factors that determine performance of counties which future studies should focus on.

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APPENDICES

APPENDIX 1: QUESTIONNAIRES

Section A: Background information:

1. What's your gender

   Male [ ] Female [ ]

2. For how many years have you been working with the county government?

   Less than 5 years [ ] 5 – 10 years [ ]

   11 -15 years [ ] Over 15 years [ ]

Section B: Corruption

Kindly indicate your level of agreement with the statements on corruption by using the following scale of 5 points where: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree

No.	Corruption	5	4	3	2	1
1.	The County Government losses money due to corruption amongst its leadership					
2.	There is skewed distribution and allocation of resources due to corruption					
3.	Corruption is rampant in counties					
4.	Corrupt dealings result into loss of funds that would have been used to fund projects					
5.	The county Government has anti-corruption champions in place					

Section C: Government Regulation

Kindly indicate your level of agreement with the statements on government regulations by using the following scale of 5 points where: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree

No.	Government Regulations	5	4	3	2	1
1.	Public servants pay inadequate attention to financial regulations in their official duties					
2.	The public funds are appropriated with impunity					
3.	The internal audit functions of checks and balances are undermined					
4.	The issue of finance management is very sensitive to the members of the public					
5.	A fairly tax compliant institution does encourage taxpayers' responsiveness					
6.	Procurement procedures are largely circumvented					

Section D: Financial Literacy

Kindly indicate your level of agreement with the statements on financial literacy by using the following scale of 5 points where: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree

No.	Financial Skills	5	4	3	2	1
1.	Without proper skills, managers will not be in a position to track funds allocated.					

2.	Loss of funds is experienced leaving the managers with no point to argue when explanation needed as a result of lack of skills					
3.	County Staff have adequate financial skills required to manage public funds					
4.	With financial skills, county government notices where funds have been misused					
5.	Personal financial management practices is greatly affected by personal financial literacy levels					

….. THANKS FOR YOUR PARTICIPATION ……

APPENDIX II: DATA COLLECTION SHEET

Year	Total Receipts	Total Payments	Surplus
2014			
2015			
2016			
2017			
2018			

APPENDIX III: RESEARCH INSTRUMENTS

David Rerimoi

P O Box 53 30400

KABARNET

Dear Respondent,

RE: RESEARCH QUESTIONNAIRE

I am a Masters Student at The University of Nairobi conducting a research entitled "How Does Corruption, Government Regulations and Policies, Financial Knowledge and Skills determine loss of Funds in Counties in Kenya". This research form part of the requirement for my Masters' degree qualification. I would appreciate if you would kindly take a little of your time to complete the questionnaire that I will provide. Any information that would be provided from you is for purely academic purpose and all responses will be treated with utmost confidentiality. Your cooperation is most valued and appreciated. I take this opportunity to thank you in advance for your quick return of your complete questionnaire.

Yours Faithfully,

David Rerimoi

APPENDIX IV: SECONDARY DATA

County	Financial Year	Receipts	Payments	Surplus
Baringo County	2014	6.628361	6.603513	5.373502
Baringo County	2015	6.686662	6.681622	4.748823
Baringo County	2016	6.736905	6.724698	5.179652
Baringo County	2017	6.761385	6.719692	5.722977
Baringo County	2018	6.784557	6.714628	5.956936
Elgeyo Markwet County	2014	5.640354	5.640357	0.474071
Elgeyo Markwet County	2015	5.643404	5.643407	0.477121
Elgeyo Markwet County	2016	5.671197	5.534093	5.103711
Elgeyo Markwet County	2017	5.684648	5.684519	2.158362
Elgeyo Markwet County	2018	5.697695	5.667978	4.518132
Laikipia County	2014	5.652296	5.610072	4.619135
Laikipia County	2015	5.602009	5.601875	2.089905
Laikipia County	2016	5.623249	5.608215	4.155063
Laikipia County	2017	5.643499	5.614463	4.45422
Laikipia County	2018	5.662847	5.620622	4.629685

Source; Auditor General Reports