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Impact Factor 2.30

DOI: 10.5281/zenodo.10500240

Examine the Efficacy of Internal Financial Control Practices on the Financial Performance of County Hospitals, Kenya

Author Details: Elias Odula Barasa

Lecturer, Kenya school of Government

Email:elias.odula@ksg.ac.ke

Abstract

Governments across the world have adopted a wide range of PFM reforms to make fiscal policies more consistent and effective over the medium-term and emphasize the impact of policies and spending. In Africa, weaknesses in PFM systems have long been regarded as impeding good governance, accountability and efficiency in government actions. Governments have been under pressure from the citizens and development partners to pursue austerity measures while simultaneously delivering government services. The general objects of devolution is to devolve economic resources closer to the people and for this to be felt by the citizens, effective public financial management practices are required. Despite the improved legislative process and institutional frameworks on public finance management in the last six years, Kenya continues to experience myriad challenges that are not in line with the expected global standard practices. Thus leading to impoverished service delivery. The general objective of this study was to Examine the Efficacy of Internal Financial Control Practices on the Financial Performance of County Hospitals in Kenya. Justification that Revenue and expenditure deviations, weak management of assets and liabilities, technical incapacities, gaps between policy making, planning and budgeting, lack of accountability and transparency and lack of oversight roles have been identified as constrains to effective implementation of the PFM system in the counties. That study intends to enhance policy frameworks that streamline prudent management of public resources. The research was anchored on Agency Theory. The study used mixed research design and a purposive sampling technique. Primary data was collected using a questionnaire whereas secondary data was obtained from Office of Controller of Budget, Office of the Auditor General and County Treasury Offices. The study used both qualitative and quantitative data. While content analysis was used to analyze the qualitative data, Statistical Package for Social Science (SPSS) Version 20 was used to analyze quantitative data that generated both descriptive and inferential statistics. The major finding was that internal control practices that include control activities, control environment and internal audits had the highest significance on performance of County Hospitals. From the findings of the study, it was evidence that those County Hospitals that had invested in effective internal control systems had more improved performance as compared to those County Hospitals that had a weak internal control system. It was also evidenced, that policy makers would obtain knowledge of the financial sector dynamics and the responses that are appropriate.

Key Words: Examine, Efficacy, Internal, Control, Practices, Financial, Performance, County Hospitals, Kenya

INTRODUCTION

Background

Public Financial Management (PFM) practices are essential for effective and sustainable economic management and public service delivery (OECD, 2018). The ability of governments to efficiently collect

revenue and spend it in an accountable and transparent manner, is instrumental for countries seeking to expand their economic growth, increase available resources to pursue development objectives and improve service delivery (PEFA, 2016).

Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud and protecting the organization's resources, both physical and intangible. Government institutions have employed financial control measures that design methods and procedures to produce effective operations, establish reliable financial reporting, avoid fraud and maintain compliance with regulations and laws.

In recent years, governments across the world have adopted a wide range of PFM reforms to make fiscal policies more consistent and effective over the medium-term and emphasize the impact of policies and spending. According to Bunse and Fritz (2012) many OECD and EU countries including Australia, New Zealand, USA, Canada, UK, Netherlands, France, and Denmark, among others, have undertaken public sector accounting and budgeting reforms (PFMR) in the last 30 years.

In Africa, weaknesses in PFM systems have long been regarded as impeding good governance, accountability and efficiency in government actions (Fritz et al., 2018). Governments have been under pressure from the citizens and development partners to pursue austerity measures while simultaneously delivering government services (Cangiano, Curristine & Lazare, 2013).

Kenya has also developed a robust legal framework to support PFM reforms through the enactment of legislations including the Public Procurement and Disposal Act, the Public Finance Management Act, the public finance management (national government) regulations and the public finance management (County Hospitals) regulations, 2015 (ICPAK, 2017). Financial planning, revenue mobilization; financial reporting and financial control have had a positive and significant relationship with financial performance. In Mombasa County, (Kingi.S. & Ibrahim, A. 2019), found that improvement in public financial management practices at Mombasa County Hospitals would led to financial performance. However, certain factors were curtailing the financial performance of the county including lack of proper consultation with necessary stakeholders, revenue leakages and lack of proper oversight.

The Article 226(2) of the Constitution and section 68(1) of the PFM Act, the Accounting Officers are responsible for management of their department's public finances including whether sufficient resources have been allocated to a particular program. They are also responsible for maintaining effective systems of internal control and preparation of financial reports that reflect a true and fair financial position of the entity.

The internal controls, practices in public hospitals impacted on financial performance of Level 5 Hospital. Internal controls should be embedded in the operations and culture of the Institution. Poor or ineffective controls put resources at risk where there are inefficiencies, theft, abuse or fraud. Internal Control Processes consists of five interrelated components, which include Control (or Operating) environment, Risk assessment, Control activities, Information, communication, and Monitoring (UNFPA, 2019).

Statement of the problem

A fundamental objective of every government is maintenance of fiscal discipline, resource mobilization, strategic resource allocation, and efficient delivery of public services (Fritz et al., 2017). The introduction of the devolved system of government in Kenya came up with various legal reforms that aimed at establishing sound Public Financial Management systems that would enhance better financial control practices at the county level. Various milestones have been achieved through the implementation of public financial management systems such as establishment of various Public Financial Management structures, timely preparation of budget documents including County fiscal strategy papers, County budget review and outlook papers, budget estimates as per the Public Financial Management Act 2012 guidelines and timelines (KIPPR, 2018). These milestones, together with the introduction of the IFMIS have facilitated timely and systematic budget preparation and execution by County Hospitals and their public institutions thereby having considerable amount of effects on the financial performance of the counties.

Efforts towards achieving effective financial control practices including financial planning, budgeting, procurement, financial reporting, and internal control can adequately address these challenges. Financial control

practices impact positively on the financial performance of the counties and their institutions. Through the achievement of a sound fiscal discipline, effective and efficient resource mobilization, fair distribution of resources leading to efficient service delivery to the public.

In the county public hospitals, the issue of effective financial control practice has been poorly implemented due to incompetence of staff, corruption, political interference and the negligence by the county assemblies in playing their oversight role of passing key financial bills. Other financial practices that lead to ineffective financial control practices in the public hospitals include poor management of assets, employment of unskilled staffs, poor policy formulation, lack of planning and budgeting and lack of accountability and transparency.

The general objective

The general objective of this study was Examine the Efficacy of Internal Financial Control Practices on the Financial Performance of County Hospitals in Kenya

Justification

Revenue and expenditure deviations, weak management of assets and liabilities, technical incapacities, gaps between policy making, planning and budgeting, lack of accountability and transparency and lack of oversight roles have been identified as constrains to effective implementation of the PFM system in the counties (KIPPRA, 2018).

Efforts towards effective execution of PFM practices including, financial planning and budgeting, procurement, financial reporting, and internal control, can adequately address these challenges and ensure that the PFM system impacts significantly on the financial performance of the county hospitals through the achievement of outcomes of aggregate fiscal discipline, effective resource mobilization, strategic allocation of resources, and efficient service delivery.

PFM practices on financial performance have revolved around Government ministries, departments and agencies, parastatals and have hardly considered County Hospitals or their agencies. Studies that have focused on County Hospitals have indicated that in general public financial management practices have a significant positive effect on financial performance of County Hospitals in Kenya. However, it is on this basis that the study seeks to examine the Efficacy of Internal Financial Control Practices on the Financial Performance of County Hospitals in Kenya.

LITERATURE REVIEW

Introduction

The need for Financial Control Practices has increased overtime and it has attracted scholars and academicians to study Financial Control Practices usage across-firms and countries. This furnishes the study with various Financial Control Practices adoptions studies.

Agency Theory

Agency theory is extensively employed in the accounting and finance literature to explain how, when one person manages another person's financial affairs, an agency relationship exists by default. Mitnick (2013) posits that Agency theory is defined as “the relationship between the principals, such as shareholders and agents such as the company executives and managers”. In this theory, shareholders who are the owners or principals of the company, hires the agents to carry out the work. Principals delegate the running of business to the directors or managers, who are the shareholder’s agents.

The agency theory on one hand helps to explain and predict the existence of internal audit in public sector where the principals are the county residents who have elected both the county executive and assembly to be the agents in running the county affairs in order to deliver services. However, each County Hospitals have an

internal audit function unit that is established in accordance with Section 155 (1) of the Public Financial Management Act, (No. 18 of 2012) of the Laws of Kenya.

The purpose of Internal Audit is to assist the county residents through the County Hospitals to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The agency theory helps to explain the role and responsibilities assigned to the office of the auditor general as mandated under Article 229 of the Constitution to audit and report on the accounts of the national and County Hospitals. Through reports, the county citizens may oversight the two arms of government and acquire the auditor general's independent opinion of whether the County Hospitals have spent funds as outlined in the enacted budget and raise queries related to failures to follow procedure that may indicate misuse of funds, and hence deny them the need critical services .

Financial performance management will measure how well the County Hospitals utilize the assets and resources available to generate revenue, and how well it manages costs in the execution of their mandate. On the other hand, non-financial performance management will include review of ratio-based performance measures, excluding the monetary value; such as customer satisfaction, employee engagement and satisfaction, quality of service provision, improving the way the public view of the operations of the County Hospitals. Non-financial performance measures are considered leading indicators of future financial performance.

Institutional Theory

Public finance procurement practices is broadly defined as the purchasing, hiring or obtaining by other contractual means of goods, construction works and services by the public sector Public procurement is alternatively defined as the purchase of commodities and contracting of construction works and services if such acquisition is effected with the resources from state budgets, local authority budgets, state foundation funds, domestic loans or foreign loans guaranteed by the state, foreign aid as well as revenue received from the economic activity of state. Public procurement thus means procurement by a procuring entity using public funds (Hassan, 2012).

This theory is relevant to this study when it comes to the implementation of procurement law, policy and practice in organizations that utilizes public funds particularly in devolved systems of governments in Kenya.

Since 2013 up to July 2017, the national government had disbursed Ksh. 1 trillion to County Hospitals. The government is required by the constitution to allocate at least 15 per cent of revenue to the County Hospitals with more than 60% of the total expenditure used on procurement. Public procurement in Kenya is guided by article 227 of the Constitution of Kenya 2010, Public Procurement and Asset Disposal Act 2015, Rules and Regulations, 2007 & 2013, Treasury & PPOA Circulars and PPOA Manuals which must be complied in totality.

Internal Controls Practices

Internal controls refer to the measures instituted by an organization to ensure attainment of the entity's objectives, goals and missions (Brennan & Solomon, 2008). They are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.

These systems are not only related to accounting and reporting but also relate to the organization's communication processes, internally and externally, and include procedures for: handling funds received and expended by the organization, preparing appropriate and timely financial reporting to board members and officers, conducting the annual audit of the organization's financial statements, maintaining inventory records of real and other properties and their whereabouts (Onyango, 2014).

International Accounting Standards (IAS) categorizes internal control types as a plan of organization, segregation of duties, control of documents, safeguarding of assets, competence of staff, arithmetic and accounting controls, recording and record keeping, supervision, authorization and approvals and vocation.

The Internal control includes the following: firstly, the control environment; it sets out the tone of an organization, influencing the conscience of its employees. It is the base for all other components of internal control, providing discipline and structure. Control environment factors include the following: Commitment to competence, human resource policies and practices, organizational structure, philosophy of management, responsible assignment.

Secondly, control activities are the policies and procedures implemented by an organization to ensure that management's directives are carried out. These activities are often grouped into the three categories of objectives to which they relate, namely, operations, financial reporting, and compliance. Control activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties and authority (Onyango, 2014).

Thirdly, internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management. The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. IA has four main components: (1) verification of written records, (2) analysis of policy, (3) evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organization's policies, and (4) reporting recommendations for improvements to management.

Fourthly, risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives. It entails the identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact. Further, note that at risk assessment entails the identification, evaluation and management of risks. Risks can relate to financial statement fraud or to the misappropriation of assets.

Lastly, internal reporting is a business practice, which involves collecting information for internal use. Financial reports are used to monitor a company's financial health and can inform decisions which need to be made about the direction in which a company will be taken (Onyango, 2010). On the other hand, information and communication platform assists to relay information about controls. It should be communicated to management in a timely manner, so that shortfalls can be addressed promptly.

The amount of information communicated should be appropriate to the needs of the recipient. Furthermore, monitoring assists the management to examine and assess whether its internal controls are functioning properly. Ideally, management should be able to spot control failures and make adjustments to improve the control environment.

Njiru and Bunyasi (2016) investigated the effect of internal controls on financial performance of Water Service Providers (WSPs) in Kenya, a case study of water companies under Tana Water Services Board. The study found that segregation of duties, cash reconciliation, inventory audits and cost management influence the performance of water companies under Tana water services Board. The findings revealed a strong positive relationship between the independent variables and the dependent variable (Njiru & Bunyasi, 2016).

Nwaobia, Ogundajo and Theogene (2016) adopted a desk/analytical review design to conduct a study on the internal audit practices and public financial management in Rwanda and Nigeria: bridging the transparency gap in public sector financial reporting. The study found out that the internal audit function would enhance transparency in public financial management and reporting if the unit is given full autonomy in terms of independence and well equipped with both human capital and relevant infrastructural facilities.

The empirical evidence that in order to attain transparent financial management and reporting in public offices, there should be strict adherence to the nations' constitutional framework in terms of preparation and presentation of financial statements, submission and review as well as timely report of the Auditor-general to the National Assembly's Public Accounts Committee. (Nwaobia et al., 2016).

Implementation of high quality financial reporting practices and standards (IPSAs) will enhance the work of the internal auditors and even lessen their burden in carrying out their civic roles. Finally, for transparent public financial management and reporting, there should be speedy resolution of all audit queries, as

well as timely and easy accessibility of AFS by the citizens in line with constitutional provisions (Nwaobia et al., 2016).

Onyango (2014) used descriptive research design to determine the influence of internal controls on the performance of County Hospitals in Kenya. The target population for this study was the 47 County Hospitals in Kenya with County Hospitals' employees working in the finance department being used as the respondents. The study established that County Hospitals did not implement internal audits recommended by the Auditor General to improve management of financial resources.

Others did not check the study established that there was no clear separation of roles among workers and that the employees work. Therefore, the study recommended that an external body to be established by the national government to audit County Hospitals regularly for accountability. In addition, the study recommended that county management should allocate enough resources to empower employees with necessary skills to perform their duties, and at the same time, County Hospitals leaders should be exposed to international forums and conferences to learn more on controls. Moreover, the study recommended that that all County Hospitals should invest in modern ICT systems to improve service delivery to key stakeholders (Onyango, 2014).

Lerno (2016) investigated the impact of internal control practices on performance in County Hospitals in Kenya. The study used a descriptive study design and utilized primary data. The target population included the county administrators in the forty-seven (47) counties in Kenya. The researcher concluded that the County Hospitals in Kenya have adopted internal control practices but the adoption of such practices has not fully led to improvement of performance in County Hospitals.

Mugo (2013) investigated the relationship between internal control systems and financial performance in Technical Training Institutions in Kenya. In the study, internal controls were looked at from the perspective of control environment, internal audit and control activities whereas financial performance focused on liquidity, accountability and reporting as the measures of financial performance. The data from the research was collected from a population of 37 Technical Training Institutions in Kenya. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the internal audit department and in addition, the institutions should establish and manage knowledge/information management system to enable all parties within the institution to freely access and utilize the official information (Mugo, 2013).

Wakiriba, Ngahu and Wagoki (2014) looked at the effect of control activity on financial management in Mirangine Sub-County of Nyandarua County. The study adopted a descriptive design and targeted 30 accounting, finance and administrative staff in the government departments in Mirangine Sub-County. The study employed a census survey where all members of the target population constituted the study sample. The study concluded that the public sector in Mirangine Sub County has an effective internal control system characterized by clear separation of roles, supervision and commitment of management. However, there are weaknesses in the implementation of financial controls since internal audit function is not well extended to all the departments. The study recommended a competence staff-profiling, establishment of information system within the departments and improving the generation of more finances for the operations of the government departments.

Babatunde and Dandago (2014) examined the effects of internal control system deficiency on capital project management in the Nigerian public sector. A sample of two hundred and twenty-eight capital projects (228) was used. Kendall's ANOVA and Chi-square X2 statistics were employed to analyze the data collected. The study found out that internal control system deficiency has significant negative effects on capital project management in the Nigerian Public Sector. The study recommended strict compliance with internal control system in the best interest of the citizenry.

Performance

Performance management framework operational in the public service in Kenya has evolved over the years as a globally acceptable good management practice. At the National level, performance management has

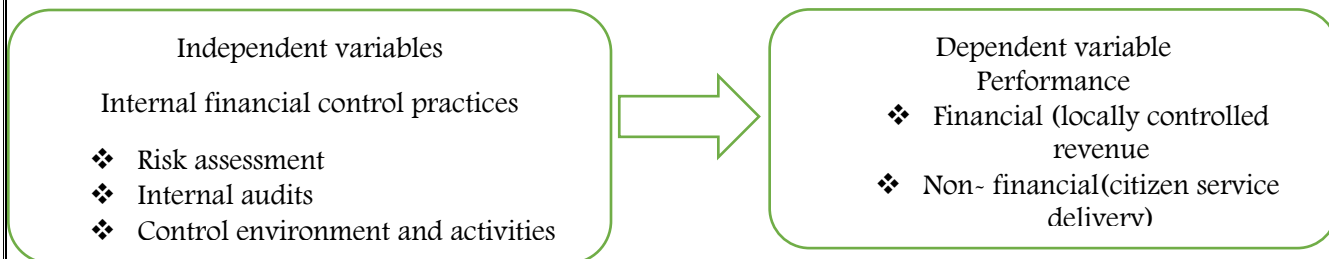
not been legally prescribed by any applicable legislation but rather as a policy document adopted by the Cabinet in 2004. At the County Hospitals level, however, performance management is legally prescribed through various sections of the County Hospitals Act, 2012 (CGA), and the Public Finance Management Act, 2012 (PFM).

As part of its wider public sector modernization and reform agenda, in 1999, the Tanzanian government introduced strategies such as Performance Management System (PMS) to public sectors including local governments for planning, implementation, monitoring, and evaluation and reporting in the public services of Tanzania. The system aimed to provide quality public service to the public, improve performance of public service institutions, improve accountability and responsiveness, ensure effective and efficient use of public resources, and provide standards for providing comparisons and benchmarking within the public service institutions in Tanzania as well as other public service institutions across the world for continuous improvement (Wang & Ngomuo, 2015).

Public institutions therefore can improve on their service delivery process and enhance their competitiveness by adopting performance contracting in their management programs. It is noted that public service reforms have entailed multiple performance improvement initiatives including rapid results initiative, performance contracting and service charter. The gains being recorded in the public sector performance in Kenya could therefore be attributable to these performance improvement initiatives though to varying degrees (Korir, Rotich, & Bengat, 2015).

In a bid to establish the performance of County Hospitals in Kenya, the study measured their performances in terms of both financial and non-financial parameters. With financial performance examined through local collected revenues targets whereas non-financial performance studied using service delivery (Wang & Ngomuo, 2015).

Figure 2.1: Conceptual Framework



Critique of empirical evidence

Further, financial management systems should be supported in order to ensure prudent management of funds and adequate sensitization of both the employees and the public on best financial management practices to enhance the oversight role. This component of budget making process has largely been deactivated to avoid transparency and accountability.

Secondly, that internal controls in both public and private organizations act to safeguard an organization's assets and resources, ensure the accuracy and completeness of its accounting data, detect errors, fraud, and theft and produce reliable and timely financial and management information. The review of scholars' views has demonstrated that internal auditors within public entities should be qualified, skillful, objective and independent if they are to improve on the readability and trust of financial reports prepared by public sector entities.

Adoption of global best practices is essential in ensuring qualitative service delivery and the quality of service from the internal audit function determines the reliance users will place on financial information communicated by public institutions through their financial reports. Even though greater efforts have been made in private sector, much need to be done in public entities and particularly County Hospitals.

Thirdly, developing countries, public procurement is increasingly recognized as essential part of service delivery and it accounts for a big proportion of total expenditures, hence the need for streamlining Public

Procurement practices. Performance and specifically service delivery can only be effective and efficient when processes and systems are well in place and follow accordingly. Unfortunately, in most developing countries, the procurement processes are bypassed or being looked at as insignificant. As a result, implementation becomes a nightmare. The issue of service delivery is very much evolving and requires adequate policy, planning and implementation. The major objective of service delivery in the public sector is to meet the satisfaction of the citizenry, thus meeting the socio-economic objective of the country to a larger extent. There is limited empirical literature on procurement practices influencing performance in County Hospitals; hence this study fills this gap.

Fourthly, sound revenue system for both national and sub-national governments is an essential pre-condition for the success of fiscal decentralization and on the other hand raising revenues, and local revenue mobilization has the potential to foster political and administrative accountability by empowering communities. Principally internal revenue mobilization is made up of two aspects, which are policy formulation and administration. With regard to policy formulation, it deals with the physical goal determination and formulation of laws and rules for the attainment of such goals. The administration on the other hand deals with the executions of the physical policies formulated. Though equally important in revenue mobilization, policy formulation and administration do not receive equal attention both in theory and practice hence the need to bridge the gap.

Fifthly, public financial corporate governance is concerned with the structures and processes for decision-making, accountability, control and behavior at the top of public organizations. From the analysis, it could be inferred that the public sector governance is not totally new, and is probably at least as old as corporate governance in the private sector— governance in publicly listed companies. In terms of governance in the public sector, what is new is probably their elevation to a position where their introduction is supported by government policy. Their successful implementation is dependent not only on this mandate but also on the use of psychological constructs and practices that build such things as commitment, trust, and social capital.

The development of governance arrangements in both the private and the public sector. Those parallels suggest that governance issues have indeed become an intrinsic part of good management of both the public and private entities. Adopting the same basic good corporate governance standards, the public sector and the private sector have developed (in parallels) each own unique governance models, practices and mechanisms that suit each individual organization's circumstances.

Lastly, on the County Hospitals performance, those public sector organizations are owned and controlled by both national and County Hospitals. They aim to provide public services, often free at the point of delivery. Their purpose is to provide a quality service to the public. Unlike in the private sector where for example financial performance of companies are measured by use of accounting information or stock values in a financial management context, the measurement of performance is much harder for public sector organization where the standard of the service is more often than not based on opinion or feelings and not necessarily fact.

Therefore, attempts to institutionalize performance measurement in County Hospitals is an imperative step in ensuring that County Hospitals demonstrate their development results, it marks a paradigm shift in the sense that counties will no longer just demonstrate what they have done but rather how their activities and interventions have benefited the people of Kenya hence the need to use both financial and non-financial parameters for holistic approach.

Research Gaps

Internal control and public finance procurement plays a crucial role in enabling public authorities control wastage of public funds giving taxpayers value for money, improving the quality of government service delivery and permitting better allocation of resources.

It is evident that researches in the area of performance and public financial management practices has been done but largely County Hospitals in Kenya have not been tackled exhaustively.

Most of the past literature reviewed indicated that researchers concentrated on measures of financial performance in private sector with using accounting information and financial ratio. Among the common

accounting ratios used to measure profitability are: return on assets (ROA) and return on capital employed (ROCE) (Butt, Hunjra, & Rehman, 2010; Mwaura, 2013; Ngaruro, 2013; Onyiego, Namusonge, & Waiganjo, 2017).

However, for the few studies that were done on the public sector, they used non-financial measures with multiple performance improvement initiatives including rapid results initiative, performance contracting and service charter have been adopted to determine service delivery. Interestingly, in Kenya, at the national level, performance management has not been legally prescribed by any applicable legislation but rather as a policy document adopted by the Cabinet in 2004.

At the County Hospitals level, however, performance management is legally prescribed through various sections of the County Government's Act, 2012 and the Public Finance Management Act, 2012 (CoG, 2017). Therefore, the need for this study to fill the gap and integrate financial and nonfinancial performance measures in public sector to allow an elaborate mechanisms to determine the relationship between public finance management practices and performance management in public sector (Wang & Ngomuo, 2015).

Most findings of the past studies overwhelmingly support the hypothesis that financial planning practices play a big role in implementing most organizational policies (Mutune, 2014; Mwaura, 2013; Ngaruro, 2013). The gap exists with the failure of firms and especially in public sector both at national and County Hospitals to implement financial planning activities and business planning activities that at the end leads to poor performance.

Notably, numerous past researches into the relationship between participatory budgeting and organization performance mechanism have concentrated generally on developed countries. Therefore, the study seeks to fill the existing research gap by carrying out a survey study on the relationship between participatory budgeting and performance of County Hospitals in Kenya (Obwaya, 2011).

Mutua and Wamalwa (2017) clearly observed that local revenue is not only an important revenue source for any county in expanding its budgetary and service delivery needs but also a good fall back when transfers from national government delays.

Mbae (2014) observed that public procurement law had a great impact on the procurement performance, in the sense that the law reduces the speed with which goods and services are procured, increases the level of transparency among government offices and improved utilization of funds in the County Hospitals operations.

RESEARCH DESIGN AND METHODOLOGY

According to Ellingsen et al. (2010) research methodology applies statistical analysis to the qualitative study of human subjectivity such as attitudes, beliefs, feelings and opinions. Research methodology is effective for obtaining data from small samples, and it offers respondents a concise and valid way of expressing their viewpoints with minimal researcher interference.

Research philosophy and design

The research philosophy adopted was pragmatism (Creswell, 2013). This approach allowed the researcher to use appropriate methods, techniques and procedures that appropriately matched to the specific questions and objectives of the research study. This is because every method has its limitations and that the different approaches can be complementary. Pragmatism ensured that the research problem was central, suitable data collection and analysis tools were selected to provide empirical data on public financial management practices and performance of County Hospitals in Kenya (Creswell, 2013).

Research Design

According to Creswell and Creswell (2017) research design is a plan and structure of investigation so conceived as to obtain answers to research questions.

The study used a mixed research design, that is, correlational and descriptive design. Zikmund et al. (2013) observed that this method is best suited for gathering descriptive information when the researcher wants to

describe the state of affairs as they exist. Descriptive design was used to allow the researcher to gather information, summarize, present and interpret it for purpose of clarification.

The design is suitable for the study since it enables description of both dependent and independent variables; on one hand, performance of County Hospitals in terms of financial and non-financial parameters, while on the other hand, public financial management practices in terms of internal control, financial planning and budgeting and public finance procurement. The correlation design on the other hand comprises of collecting data to determine whether, and to what extent, a relationship exists between two or more variables. Correlation design was therefore appropriate since the study intended to establish the effect of public financial management practices on financial performance of County Hospitals in Kenya with a focus on Level five Hospitals.

Target Population

The target population refers to the complete group of specific population elements relevant to the research project (Zikmund et al., 2013). The target population was fifty (50) Level five hospital staff that consisted of the hospital accounting officer, consultants, heads of departments and their assistants, finance and accounts department staff, internal audit department staff, procurement department staff, revenue officers and cashiers.

Sampling Frame

A sampling frame as a list of population from which a sample is drawn. It is the source material or device from which list of all elements within a population that can be sampled is drawn and may include individuals, households or institutions. It is a published list with a set of directions for identifying a population (Zikmund et al., 2013).

A sampling frame facilitates formation of a sampling unit that refers to one member of a set of entities being studied, which is the material source of the random variable. For this study, the sampling frame was drawn from the lists of consultants, heads of departments and their assistants, finance and accounts department staff, internal audit department staff, procurement department staff, revenue officers and cashiers in the hospital that were obtained from the Human Resource Department of the hospital.

Sampling Technique and Sample Size

Sampling is a procedure of using a small number of items or part of the whole population to make conclusions regarding the population. It enables the researcher to estimate some unknown characteristics of the population and generalize (Zikmund et al., 2013). In selecting a sample, either probability or non-probability or both methods may be used. For this study, non-probability sampling was employed.

Non-probability sampling method is where every item in the population has unknown chance, or probability, of being chosen. Non-probability sampling is a sampling technique where the samples are gathered in a process that does not give all the individuals in the population equal chances of being selected. Under non-probability method, this study utilized purposive sampling method in selecting its sample. This is because the consultants, heads of departments and their assistants, finance and accounts department staff, internal audit department staff, procurement department staff, revenue officers and cashiers in the in the hospital were purposively sought. Purposive sampling is a non-probability sampling method and it occurs when elements selected for the sample are chosen by the judgment of the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgment, which saves time and money.

Purposive sampling method may prove to be effective when only limited numbers of people can serve as source of primary data due to the nature of research design and aims and objectives. In purposive sampling personal judgment needs to be used to choose cases that help answer research questions or achieve research objectives .

Data Collection Methods

In social sciences, the most commonly used instruments are: questionnaires, interview schedules, observational forms, and standardized tests (Zikmund et al., 2013).

According to Kinyanjui (2014), self-administered structured questionnaire is used to collect both quantitative and qualitative strands. This study involved both the qualitative and quantitative aspects of both independent and dependent variables and therefore, self-administered structured questionnaire was appropriate for this study. The questionnaire took the format of five-point Likert scale of 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree as recommended by (Bryman, 2015).

Data Collection Procedures, Data Analysis and Presentation

The data collected from the field was cleaned, edited and coded. Corbin et al. (2014) and Zikmund (2013) defined data analysis as the computation of certain measures along with searching for patterns of relationships that exist among data groups. Data processing and analysis is essential to ensure that all relevant data is gathered for making contemplated comparisons and analysis. Quantitative data was presented using statistical techniques such as tables while qualitative data presented descriptively

The descriptive analysis to analyze the quantitative data while on the other hand qualitative data was analyzed using content analysis. Neuman (2014) lists content analysis as a key non-reactive research methodology and described it as a technique for gathering and analyzing the content of text.

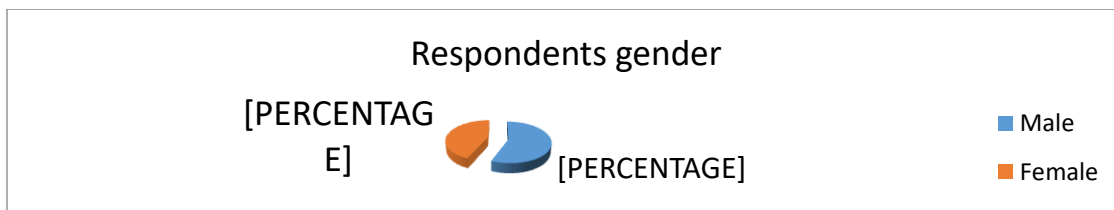
The ‘content’ refers to words, meanings, pictures, symbols, ideas, themes, or any message that can be communicated. The ‘text’ is anything written, visual, or spoken that serves as a medium for communication.

Respondents gender

The research results in Table 4.1 shows that 56.3% (28 respondents) of the officials working in Kiambu level 5 Hospitals were male compared to 43.7% (22 respondents) were female. Results are similar to Lotiaka et al (2016).

Table 4.1: Respondents gender

	Frequency	Percentage
Male	28	56.3
Female	22	43.7
N	50	100.0



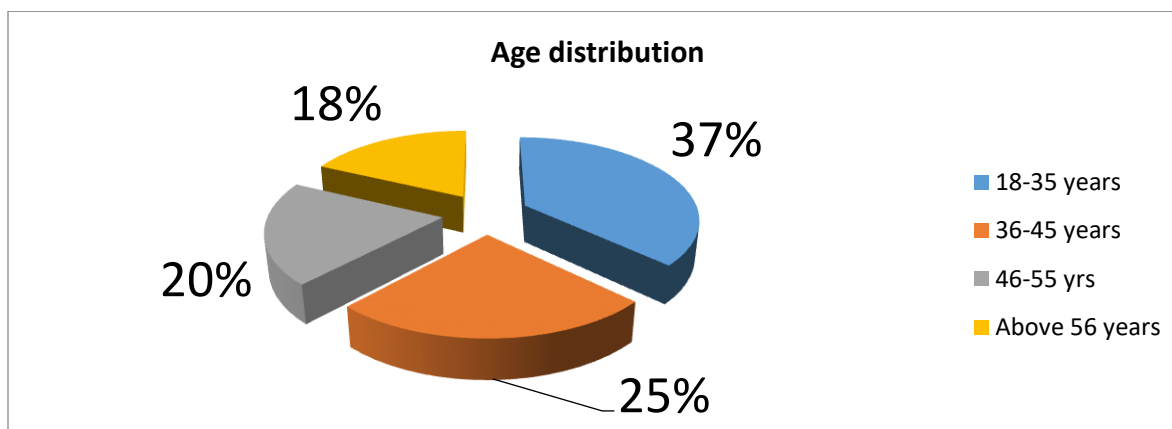
(Study source, odula 2023)

Fig.4.1Age distribution

The respondents were asked to state their age categories and their responses were as shown in table 4.2 and figure 2 below:

	Frequency	Percentage
18-35 years	19	37.0
36-45 years	13	25.0
46-55 years	10	20.0
Above 56 years	8	18.0
N	50	100.0

(Study source ,odula 2023)



(Study source, odula 2023)

Fig.4.2

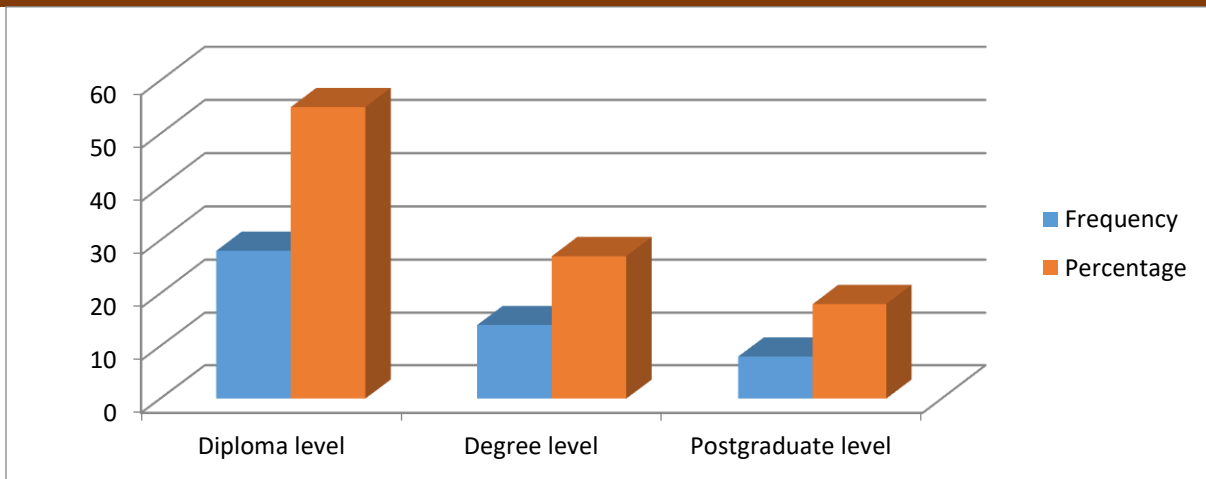
The results of the age distribution of the respondents indicates that majority of the respondents in the age bracket of between 18-35 years at 37.0% followed in number by those between 36-45 years at 25.0%, between 46-55 years were 20.0% while those above 56 years of age were 18.0%.Based on the findings, the respondents who were between the ages of between 18-35 years were the majority.

Respondents level of education

The respondents were asked to indicate their various educational levels. The results from the study showed that 55 percent (28 respondents) were diploma holders,27 percent (14 respondents) had their first bachelor's degrees while postgraduate level were at 18 percent as shown in Table 4.3. These findings are similar to Okongo (2015).

4.3: Respondents level of education

	Frequency	Percentage
Diploma level	28	55.0
Degree level	14	27.0
Postgraduate level	8	18.0
N	50	100.0



(Study source ,odula 2023)

Fig4.3

From the findings, it is clear that majority of the respondents were at diploma level and above. This indicated that the respondents understood the ethics of research and thus were expected to give honest and informative responses which would add to the credibility of the final research findings and report.

Job designation

The research study targeted the accounting officers & assistants finance & accounts dept. staff, procurement dept. staff, internal audit dept. staff and revenue officers and cashiers selected the Hospitals. Table 4.5 below shows that 30.0% (15 respondents) were accounting officer and assistants, finance & accounts dept. staff were 26.0%, procurement dept. Staff were 18.0%, internal audit dept. staff were 14.0% while revenue officers and cashiers were 12.0%. These findings concluded that the sample was a good representation of the hospital finance treasury officials.

Table 4.5: Job designation

	Frequency	Percentage
Accounting officer & assistants	15	30.0
Finance &Accounts Dept. staff	13	26.0
Procurement Dept. staff	9	18.0
Internal Audit Dept. staff	7	14.0
Revenue officers and cashiers	6	12.0
	50	100.0

(Study source ,odula 2023)

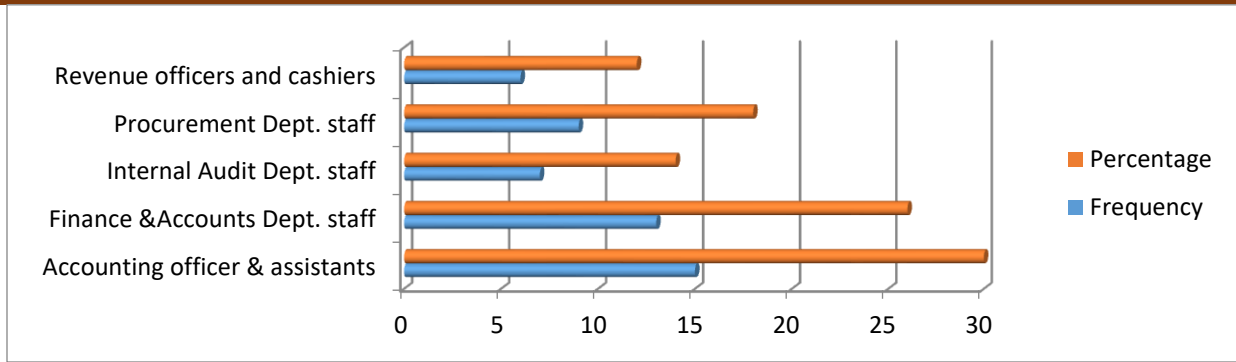


Fig.4.5 Length of Service at level 5 Hospitals

Table 4.6 shows that 46 % (23 respondents) indicated that they have been working for Kiambu level 5 Hospitals for a period of over 3 years. While on the other hand, 44 % (22 respondents) had less than 1 year, 6% (3 respondents) had 1-2 years, while 4% (2 respondents) had 2-3 years working experience in the Hospital. The findings indicate that while the Hospital had new employees, it also had old members who keep sufficient institutional memories that have enabled them upload the principles of devolutions.

Table 4.6: Length of Service at level 5 Hospitals

	Frequency	Percentage
Less than 1 year	22	44.0
1-2 years	3	6.0
2-3 years	2	4.0
Over 3 years	23	46.0
N	50	100.0

(Study source ,odula 2023)

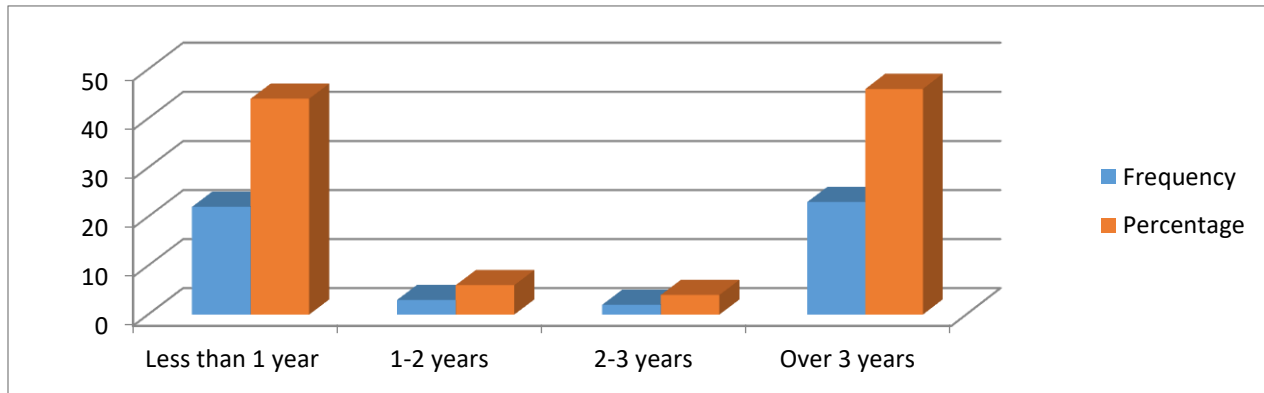


Fig.4.6 Statistical analysis of the study variables

In a bid to explore the effect of public financial management practices on performance of Kiambu level 5 Hospitals, the study was arranged around four variables. This section provides a systematic descriptive, correlational and inferential analysis of each of the variables. The dependent variable was performance of the hospital; independent variables were; Budgeting control Practices, internal control practices and Public Finance Procurement practices.

Performance of level 5 Hospitals

General objective: To determine the effect of public financial management practices on the performance of County Hospitals in Kenya with focus on Kiambu level 5 Hospitals. Performance of the hospital was

measured using a 5-Point Likert scale, where 1 represented 'Strongly Disagree (SD)' and 5 represented 'Strongly Agree (SA)'.

a) Descriptive analysis for performance of level 5 Hospital

In a bid establish the performance of the hospital; the study measured their performances in terms of both financial and non-financial parameters. With regard to financial performance; local collected revenues targets were used. In the research findings from Table 4.7 70.4 % (M=3.96, SD=0.1.048) of the respondents agreed that the hospital has regularly been attaining the annual locally revenue targets for the past four years. 71.5 % (M=3.90, SD=0.801) of the respondents indicated that the hospital has sufficient staff to administer and collect own revenue sources while on the other hand 75.8% (M=0.407, SD=0.786) of the respondents observed that the own revenues sources of the hospital is cost effective and adequately covered by a legal framework.

In addition, 51.5 % (M=3.38, SD=1.064) of the respondents posited that the hospital has a debt collection unit that follow taxpayers who have defaulted or delayed in hospital fees. Furthermore, 41.9 % (M=3.34, SD=0.863) of the respondents agreed that outsourcing has led to better revenue administration performance compared to collection by the hospital. In the study, 75% (M=3.93, SD=0.816) of the respondents opined that automation of revenue collection operations has increased collections and reduced leakages. 69.6 % (M=3.87, SD=0.839) of the respondents observed that the county provides affordable and accessible healthcare services.

Table 4.7: Responses for performance of County Hospitals

Statement	SD	D	N	A	SA	Mean	Std. Deviation	
	%	%	%	%	%			
a) The county government has regularly been attaining the annual locally revenue targets for the past four years.	1.4	9.9	18.3	32.4	38.0	3.96	1.048	
b) The county government has sufficient staff to administer and collect own revenue sources.		4.3	24.3	48.6	22.9	3.90	.801	
c) The own revenues sources of county government is cost effective and adequately covered by a legal framework.		1.4	22.9	42.9	32.9	4.07	.786	
d) The county governments have a debt collection unit that follow taxpayers who have defaulted or delayed in paying tax/fees.	3.0	21.2	24.2	37.9	13.6	3.38	1.064	
e) Outsourcing has led to better revenue administration performance compared to collection by the county		16.4	41.8	32.8	9.0	3.34	.863	
f) Automation of revenue collection operations has increased collections and reduced leakages.		5.9	19.1	51.5	23.5	3.93	.816	
g) The county provides affordable and accessible healthcare services.			5.8	24.6	46.4	23.2	3.87	.839

(Study source, odula 2023)

b) Findings and discussions on performance of level 5 Hospitals

The study sought to examine the linear relationship between public financial management practices (PFMP) and performance of the hospital. The findings are consistent with results of Mutua and Wamalwa (2017) that observed that local revenue is an important revenue source for the hospital because it helps in expanding budgetary and service delivery needs. In addition, automation of revenue collection operations using LAIFOMS, IFMIS and other systems has increased collections and reduced leakages hence increased the funds available for critical projects (Mutua & Wamalwa, 2017).

Internal Control Practices (ICP) on performance of level 5 Hospital

a) Descriptive analysis of internal control practices (ICP) on performance

In the study, 70.4% (M=3.96, SD=1.048) of the respondents observed that they were aware of the existence of the audit committee. Seventy-one point five percent (71.5%) (M=3.90, SD=0.801) of respondents agreed that activities are carried out as planned. 75.8% (M=4.07, SD=0.786) indicated that they are confidence in the internal audit team. In the research findings, 51.5% (M=3.38, SD=1.064) of the respondents noted that internal accounting system is manual. However, 58.2% (M=3.34, SD=0.863) of the respondents opined that there are no incentives to discover and report control deficiencies.

Furthermore, 75.0% (M=3.93, SD=0.816) of the respondents showed that there is separation of duties and responsibilities in the finance team (for bookkeeping, deposits, reporting and auditing) 75.0% (M=3.93, SD=0.816). 85.5% (M=4.28, SD=0.784) of respondents revealed that access to different parts of an accounting system is controlled via passwords, lockouts and electronic access. While 69.6% (M=3.87, SD=0.839) argued that there are robust access tracking mechanisms that serve to deter attempts at fraudulent access, 61.9% (M=3.70, SD=0.962) observed that physical audits are frequently conducted on any physical assets tracked in the accounting system, such as inventory, materials and tools.

In addition, 91.6% (M=4.34, SD=0.675) of respondents pointed out that the county has standardized documents that are used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, to maintain consistency in record keeping over time. Ninety percent (90%) (M=4.13, SD=0.721) of the respondents indicated that occasional accounting reconciliations is done.

However, 78.2% (M=4.06, SD=0.784) of the respondents revealed that audit personnel have high integrity and ethical values with 95.8% (M=4.41, SD=0.623) of respondents stating that there are specific managers/officers required to authorize certain types of transactions. Besides, 57.5% (M=3.74, SD=0.882) of the respondents pointed out that the Governor has a “hands-on” oversight involvement in the audit activities. Seventy point four percent (70.4%) (M=3.96, SD=0.853) of the respondents noted that management personnel communicated the internal controls through frequent contact with accounting personnel.

Table 4.8: Response frequencies for internal control practices

Statement	SD	D	N	A	SA	Mean	Std. Deviation
	%	%	%	%	%		
a) I am aware of the existence of the Audit Committee	1.4	9.9	18.3	32.4	38.0	3.96	1.048
b) Activities are carried out as planned		4.3	24.3	48.6	22.9	3.90	.801
c) I am confidence in the internal audit team		1.4	22.9	42.9	32.9	4.07	.786
d) The internal accounting system is manual	3.0	21.2	24.2	37.9	13.6	3.38	1.064
e) There are incentives to discover and report control deficiencies		16.4	41.8	32.8	9.0	3.34	.863
f) There is separation of duties and responsibilities in the audit team (for bookkeeping, deposits, reporting and auditing)		5.9	19.1	51.5	23.5	3.93	.816
g) Access is controlled to different parts of an accounting system via passwords, lockouts and electronic access		2.9	11.6	40.6	44.9	4.28	.784
h) There are robust access tracking mechanisms that serve to deter attempts at fraudulent access.		5.8	24.6	46.4	23.2	3.87	.839
i) Physical Audits are frequently conducted on any physical assets tracked in the accounting system, such as inventory, materials and tools.	1.4	9.9	26.8	40.8	21.1	3.70	.962
j) The county has Standardised documents used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, to maintain consistency in record keeping over time.		1.4	7.0	47.9	43.7	4.34	.675
k) Occasional accounting reconciliations is done	1.4	1.4	7.1	62.9	27.1	4.13	.721
l) There are specific managers/officers required to authorize certain types of transactions		1.4	2.8	49.3	46.5	4.41	.623
m) Audit personnel have high integrity and ethical values.		2.9	18.8	47.8	30.4	4.06	.784
n) The Governor has “hands-on” oversight involvement in the audit activities.		6.1	36.4	34.8	22.7	3.74	.882
o) Management personnel communicate internal controls through frequent contact with accounting personnel.		4.2	25.4	40.8	29.6	3.96	.853

(Study source ,odula 2023)

b) Forms of internal control practices that can be implemented in order to increase the performance of Kiambu level 5 Hospitals

The study sought to find the other forms of internal control practices that can be implemented in order to increase the performance of the hospital. In their responses, 19.7% of the respondents indicated that county

monitoring and evaluation systems should be fully operationalized. This will verify whether the activities of each county's priority project or programs are happening according to planning timelines and targets presented in the County Integrated Development Plan (CIDP); and whether resources are being used in a correct and efficient manner. Similarly, 19.7% of the respondents opined that we should have frequent rotational audit across all departments to enhance independence, objectivity, and professionalism.

In addition, 13.8% of respondents indicated that the hospital should create opportunities for staff training and capacity building on internal control measures while at the same time 13.8% of respondents the human resource function should carry out an effective recruitment, selection and employ qualified staffs in all the departments. This will ensure that they carry out the hospital's objectives and provide quality services to the general public.

Furthermore, 11% of the respondents pointed that Kiambu level 5 Hospitals should have regular update of policies to ensure that they are congruent to the socio-economic needs of their respective devolved units. Eleven percent (11%) of the respondents observed that all departments of the hospital should put in place an effective and efficient revenue collection system in monitoring framework that ensures adequate supervision of the budgeted programs and project activities to enhance accountability and absorption of resources.

11% of respondents recommended that credible audit committees should be formed be responsible for providing oversight over the County Hospitals' audit and other areas involving public financial management. The audit committee plays a critical role in creating the right environment for quality auditing and hence strong internal control systems.

Table 4.9: Forms of internal control practices that can be implemented in order to increase the performance of County Hospitals in Kenya

Item	Frequency	Percent
a) Implement monitoring and evaluation systems	9	19.7
b) Conduct frequent rotational audit across all departments	9	19.7
c) Offer staff training opportunities and capacity building on internal control measures	7	13.8
d) Recruit, select and employ of qualified staffs	7	13.8
e) Institute regular update of policies	6	11.0
f) Automate revenue process	6	11.0
g) Form audit committees	6	11.0
TOTAL	50	100.0

(Study source ,odula 2023)

c) Correlation results of Internal Control Practices (ICP) on performance of County Hospitals in Kenya

The findings from the study established that there is linear relationship between Internal Control Practices (ICP) on performance of County Hospitals in Kenya.

Table 4.10 shows that there is positive correlation between ICP and the performance of County Hospitals in Kenya, $r(50) = 0.573$, $p\text{-value} < 0.05$. Therefore, an increase in use of ICP led to an increase in performance of County Hospitals in Kenya.

Table 4.10: Correlation results of Internal control practices on performance of County Hospitals in Kenya

Variable		Internal Control practices	Performance
Internal Control practices	Pearson Correlation	1	.573**
	Sig. (2-tailed)		.000
	N	50	50

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

(Study source, odula 2023)

Summary of findings

Effect of internal control practices on performance of Level 5 Hospital

The first specific objective was to examine how internal control practices (ICP) influence the performance of County Hospitals in Kenya Level five hospital. The study revealed that there is a positive relationship between effective internal control practices and the financial performance of County Level 5 Hospitals in Kenya. The findings showed that a positive statistically significant relationship existed between the two variables with ICP explaining 32.8 % of the performance of county governments in Kenya leaving the difference of 67.2% described by other factors outside the model.

The hospitals should embrace a robust internal controls practices that include control activities, control environment; internal audits are intended primarily to enhance the reliability of performance, either directly or indirectly by increasing accountability among information providers in an organization. Therefore, for any County Hospitals, an effective internal control unequivocally correlates with County Hospitals' success in meeting its revenue target level. These will include; a regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with government policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which County Hospitals achieve their objectives.

Conclusions

Effect of internal control practices on the performance of Level 5 Hospital

County Hospitals that had invested in effective internal control systems had more improved performance as compared to those County Hospitals that had a weak internal control system. From the findings, it was revealed that those County Hospitals that observed integrity, ethical values, risk assessment, control activities, and monitoring procedures recorded high performance.

Although internal audit is one area with the expertise to assess efficient utilization of public financial resources and help improve oversight and performance, public administration has paid little attention to the role of internal audit in the improving public financial management process. Therefore, there was need to fully invest in strong internal control systems that will help to mitigate fraud.

Recommendations

Internal control practices

Fully implement internal controls in the internal audit department in order to detect fraud and errors in time and in their processes to improve management of financial resources. In order to attain transparent financial management and reporting in public offices, there should be strict adherence to the nations' constitutional framework in terms of preparation and presentation of financial statements, submission and review as well as timely report of the Auditor General to the National Assembly Public account committee.

The citizens should timely publish the financial statements for easy accessibility. The national government to audit County Hospitals regularly for accountability should establish an external body. The

County Hospital officials should be constantly updated and well-grounded on international financial reporting standards (IFRS) and principles in order to enhance their knowledge and skills in application of accounting practices and to keep them updated on the contemporary issues.

(Study source ,odula 2023)

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