Public Financial Management Practices and Financial Performance of Mandera County Government, Kenya

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ABSTRACT

According to the auditor general's report, despite the huge sums of money counties receive, Mandera county government has not been able to meet their recurrent expenditures and revenue collection targets from 2015 to 2020. Past studies indicate that where there are prudent public financial management practices, county governments have been able to meet their mandates. It was therefore vital to empirically test public finance management practices in the Mandera county to establish whether they have a significant role in financial performance. The general objective of the study was to examine the influence of public financial management practices on financial performance of Mandera County Government, Kenya. Specifically, the study assessed the influence of budgeting process, resource management, financial policies and internal audit on financial performance in Mandera County. The study was based on systems theory, new public management theory and allocative efficiency theory. Cross-sectional research survey was applied in this study. Target population was all the 145 county government officers working in the revenue department. Stratified sampling method was used to arrive at a sample size of 95. The study used both primary and secondary data. A questionnaire was used to collect primary data whereas data collection sheet was used to collect secondary data from audited financial reports. Drop and pick later method was applied to administer the questionnaire. The study applied descriptive statistics, correlation and regression analyses to analyze the data collected. SPSS was used to conduct the analysis. Quantitative data analysis entailed computing descriptive statistics including frequency and percentage; measures of central tendency including the mean and the mode; and inferential statistics is including coefficient of determination, analysis of variance and regression analysis. The findings indicate that budgeting process, resource management, financial policies and internal auditing had positive significant effect on revenue collection. The study recommended that the county governments should ensure full employment of public financial management practices through strict adherence to the laid down frameworks in budgetary processes, resources management, financial policies, and internal audit. This would lead to optimal use of the available funds.

Key words: *Public Finance, Practices Management, Financial Performance, Mandera County Government.*

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1.0 Introduction

In public organizations, financial management is concerned with ensuring that funds are available when needed and that they are obtained and used in the most efficient and effective manner possible to serve citizens (Oladipo, 2014). To maximize resource efficiency, create the highest level of openness and accountability in government finances, and assure long-term economic success, strong Public Financial Management (PFP) systems are essential (Pimpong & Laryea, 2016). PFM guarantees that money is received efficiently and used appropriately and sustainably, according to (PEFA, 2016). Governments across the world collect revenues to fund their development projects. Taking into consideration the United States of America has federal, state, local and special governmental jurisdictions. Each of these levels of government levies taxes to support its operations, either entirely or partially. The types of tariffs imposed at each level of the state vary according to constitutional limitations. Revenue and levies are imposed at the national government and most state and local levels, whilst property taxes are mostly levied at the municipal level. The central government is the only one that may levy customs taxes and tariffs. Sales taxes, user fees and license fees are imposed by most states and many local governments. The United States Constitution requires a federal wealth tax to be apportioned to the states based on demographic size (Fisher, 2018).

In Kenya, both the national government and the county governments are responsible for revenue collection. The Kenya Revenue Authority was created by an Act of Parliament on July 1, 1995, Cap. 469, to enhance revenue mobilization while also providing efficient tax administration and long-term revenue collection at the national level. Direct and indirect taxes make up the bulk of the tax system. Direct taxes are expected to be paid by the forces that create revenue, whereas indirect taxes are considered to be received from the households, families, and companies that buy taxable items. Corporate, withholding, interest, rental income, and persona income taxes are examples of direct taxes (Awitta, 2010). The County Governments have a revenue section within the department of finance which is tasked with collecting revenue from taxation, permit fees, CESS, license fees and other sources identified by the authorities as a suitable and legitimate source of revenue to the government. The county governments also are entrusted with ensuring proper public financial management practices are upheld. This comprises of prudent budgeting process, resource management, financial policies and internal audit are done as per guidance of national treasury (Ataro, 2016).

One of the government's tasks is to collect taxes and other forms of revenue. Revenue collection agencies, accounting firms, the tasks of the administration's defense lawyers, the budget division, taxpayers, tax assessors, the treasurer of the County government, and other branches, both at the county and national level, are all involved (Kimmel, 2013). Mandera County is one of the 47 counties in Kenya, located in the North Eastern part of Kenya and borders Ethiopia to the North, Somalia Republic to the East and Wajir County to the South. It is about 1,100km from the capital city of Nairobi by road. Nomadic pastoralism is the major economic activity in the in the county with camels, goats, sheep & cattle being the main type of livestock reared. The region vast pasture land has allowed this activity to be viable. The County is accessible by road and by air. In the wake of devolution, Mandera town has attracted interested investors opening up the town with different investments in the areas of hospitality industry, logistics, Banks, and other small businesses (Mandera county Government, 2019).

Despite the strong legislative and institutional frameworks for PFM in the last six years, Kenyan public finance management arena continues to experience myriad challenges that are not in tandem with the principles of public finance. For instance, since the beginning of devolved systems of government in 2013, every annual Auditor General's and Controller of Budget's Report has been indicating that some devolved units spend in total disregard to the PFM Act of 2012, the PPAD Act of 2015 and other fiscal responsibility principles (CoB, 2017). In particular, the reports clearly note that every year the county governments are allocated more than the stipulated 15 per cent of the national revenue with regular annual increments with Kshs 368 billion given in FY 2018/2019 compared to Kshs 341 billion in FY 2017/2018.

1.1 Statement of the Problem

Despite the strong legislative and institutional frameworks for PFM in the last six years, Kenyan public finance performance continues to experience myriad challenges that are not in tandem with the principles of public finance. From the financial year 2017/2018, 2018/2019 and 2019/2020 the county government of Mandera achieved 61.27%, 68.16% and 64.40% of the annual revenue collection target. This performance falls short of acceptable rate of 80 percent and above and therefore the county government is unable to implement its projects as planned. Past studies indicate that where there is prudent public financial management practices, county governments have been able to meet their mandates. It was therefore vital to empirically test public finance management practices in the Mandera county to establish whether they have a significant role in financial performance.

Cheruiyot (2018) study examined the effect of public financial management practices on performance of County Governments in Kenya and found that those county governments that had invested in effective internal control systems had more improved performance as compared to those county governments that had a weak internal control system. Wetosi, Tibbs and Olala (2018) study investigated the effect of Public Financial Management Practices on County Governments Financial Distress in Kenya and indicated that financial planning affects financial distress in the county. Nyongesa (2017) study investigated the effect of financial management practices on financial performance of Insurance Companies in Kenya and established that firm characteristics had a moderating effect on the relationship between working capital management, capital budgeting techniques, capital structure decisions, claims management policies, corporate governance and financial performance of insurance companies in Kenya. This study investigated the effects of public financial management practices on financial performance.

1.2 Objectives of the Study

i. Examine the influence of the budgeting process on financial performance in Mandera County, Kenya.

ii. Establish the relationship between Resources Management and on financial performance in Mandera County, Kenya.

iii. Examine the influence of financial policies on financial performance in Mandera County, Kenya.

iv. Determine the influence of internal audit on financial performance in Mandera County, Kenya.

2.0 Literature Review

2.1 Theoretical Review

The theory applied to guide the study was New Public management theory.

2.1.1 New Public Management Theory (NPM)

The proponents of the New Public Management theory are Hood and Jackson in 1991. This theory was connected in this study to interface powerful practices of revenue collection, portion and oversight in the effective delivery of services in the public sector. The new public management (NPM) is centred on issues of making governments effective (Kaboolian, 1998). Savoie (2003) takes note of that the theory prescribes changes to make governments progressively productive and responsive by utilizing private sector techniques and making economic situations for the conveyance of administrations. Moreover, Osborne (2006) demonstrates that the NPM theory depicts the predominance of private administrative procedures over those of public administration and has the suspicion that the appropriation of private area practices would prompt enhancements in the proficiency and adequacy of public services. In actuality, NPM heavily depends on the theory of the private sector and on business logic.

The assumptions of NPM effortlessly apply to issues of open money related administration and its effect on administration conveyance. NPM points of view accentuate consistence with ethics, openness, equity, decency, obligation, responsibility, judiciousness, cooperation, responsiveness to the necessities of the general population and proficiency in administration of public resources. Public Financial management practices is the coordination of public financial resources for effectiveness out in the public service delivery. It includes revenue collection, planning and budgeting, internal audit, and external oversight, among others with a view to elevating accessibility of advantages to the best number of nationals (Broback & Sjolander, 2002). Bartle and Ma (2004) set that PFM includes effectively organizing, coordinating and overseeing financial transactions in the public sector. There is accordingly a requirement for viable management and institutional structures, the two of which are gone for making public sector progressively effective like the private sector. This is relied upon to animate execution and reduce cases of corruption. Different suppositions incorporate citizen focused services, esteem for citizens' tax, and a responsive public service work force. Osborne (2006) portrays some different components of NPM which have solid importance to new public management. NPM theory was connected in this study to interface best practices in budget process and public service delivery.

2.2 Empirical Review

Isaboke and Kwasira (2016) study assessed the relationship between budgeting process and financial performance of county government of Nakuru, Kenya. The study employed a descriptive survey research design targeting the staff in the county government. A sample of 80 staff members were selected to be the respondents in the study. The researcher employed a structured questionnaire to collect primary data. Data was analyzed in form of both descriptive and inferential statistics. The study established that financial capacity had a strong positive significant relationship with the financial performance. Kamau, Rotich and Anyango (2017) study examined the effect of budgeting process on budget performance of state corporations in Kenya: A case of Kenyatta National Hospital. A descriptive research design was employed. The study used descriptive statistics to analyse the quantitative data and content analysis for the qualitative data. The relationship between budgeting process and budget performance was analyzed using correlation and regression analysis. The study established that budgetary participation has an effect on budget performance of State Corporations in Kenya. Kibunja (2017) carried out a study on the relationship between Budgetary Process and Financial Performance of Murang'a County Government, Kenya. The study employed quantitative data analysis technique: descriptive and inferential statistics analysis using multiple regressions. The study found that though financial management had been decentralized to departments, there were inefficiencies in regards to technology adoption, controls, oversight and timely supplementary budgeting. Budget monitoring aspects reviewed revealed weaknesses in terms of internal controls including auditing, stakeholder oversight and compliance to regulatory frameworks.

Mukwevho (2015) carried out an investigation on capacity building as a means to enhance effective service delivery in the public service. The study investigated the mechanisms to be put in place to ensure that the capacity building objectives are achieved. The scientific mixed mode research design for data collection was adopted in this study. Stratified simple random sampling procedure was employed with the acceptable sample size of the respondents was selected. The findings of the study revealed that the Vhembe District Municipality did not have a well-coordinated HRD system regarding policies and plans. It was therefore recommended that iii several policies be put in place to enhance the capacity of the employees within the municipality for improved service delivery. Odumeru and Ilesanmi (2015) study investigated the effects of resources development on financial performance of organisations. A total of 84 copies of a questionnaire that was distributed to and received from bank workers of two of Nigeria's leading banks. Results show a significant relationship between employee participation in HRD including perceived benefits of HRD and organisational commitment and employee competence. The study also shows a significant relationship between competence & commitment and financial performance. In Kenya, Kyalo (2017) did an investigation on resource capacity on service delivery in Nduta, Shisia, Kamau and Asienga (2017) carried out an investigation on Challenges Facing Public Resources Management of Devolved Governments in Kenya: A Case of Machakos County. The main objective of the study was to assess the challenges of public resources management in Machakos County. A descriptive design method was used for the study. The target population of the study included the senior, middle and lower level managers at the County Government of Machakos. On the basis of empirical findings, the study established that there is a relationship between strategic, institutional, integrated and analytical challenges and public resources management in Machakos County.

Salawu, Asaolu and Yinusa (2012) study investigated the relationship between financial policy and corporate performance: an empirical analysis of Nigerian listed companies. Panel data covering a period from 1990 to 2006 for 70 firms were analyzed. Pooled OLS, Fixed Effect Model and Generalized Method of Moment panel model were employed in the estimation and data were sourced from the annual report and financial statement of the sampled firms. The estimation of the dynamic panel-data results show that long-term debts, tangibility, corporate tax rate, dividend policy, financial and stock market development were all positively related with firms' performance. Jackline (2018) study examined the influence of financial policy on financial performance of commercial banks listed in Nairobi Securities Exchange. Descriptive research design was adopted and panel data extracted from the annual reports and financial statements of listed commercial banks obtained from the NSE websites, Capital Markets Authority library and banks websites. From regression analysis there was enough evidence to report that there is a positive and significant effect of investment policy on financial performance of listed commercial banks. Further, correlation analysis revealed a positive and significant effect of investment policy and financial performance. Namutenda and Muturi (2017) carried out a study on the effect of lending policies on financial performance of Microfinance Institutions in Kisii County, Kenya: A Case Study of Kenya Women Finance Trust. The study adopted a descriptive case study research design with a target population of 116 KWFT loan officers. The study found out that financial performance has strong correlation with lending policies which include joint liability. The study concludes that lending policies namely; group liability, monitoring polices and repayment frequency improves the financial performance of MFIs.

Ondieki (2013) study examined the effect of Internal Audit on Financial Performance of Commercial Banks in Kenya. The study selected one senior manager in the finance department. The study found that a unit increase in internal audit standards would lead to increase in financial performance of commercial banks, a unit increase in independence of internal audit would lead to increase in financial performance of commercial banks, a unit increase in professional competency would lead to increase in financial performance of commercial banks. Chiggai (2016) study investigated the effect of internal audit practices on organization performance: A Case of Regulatory Bodies in Kenya. The primary data collection method was used in collecting information through use of a questionnaire.

2.3 Conceptual Framework

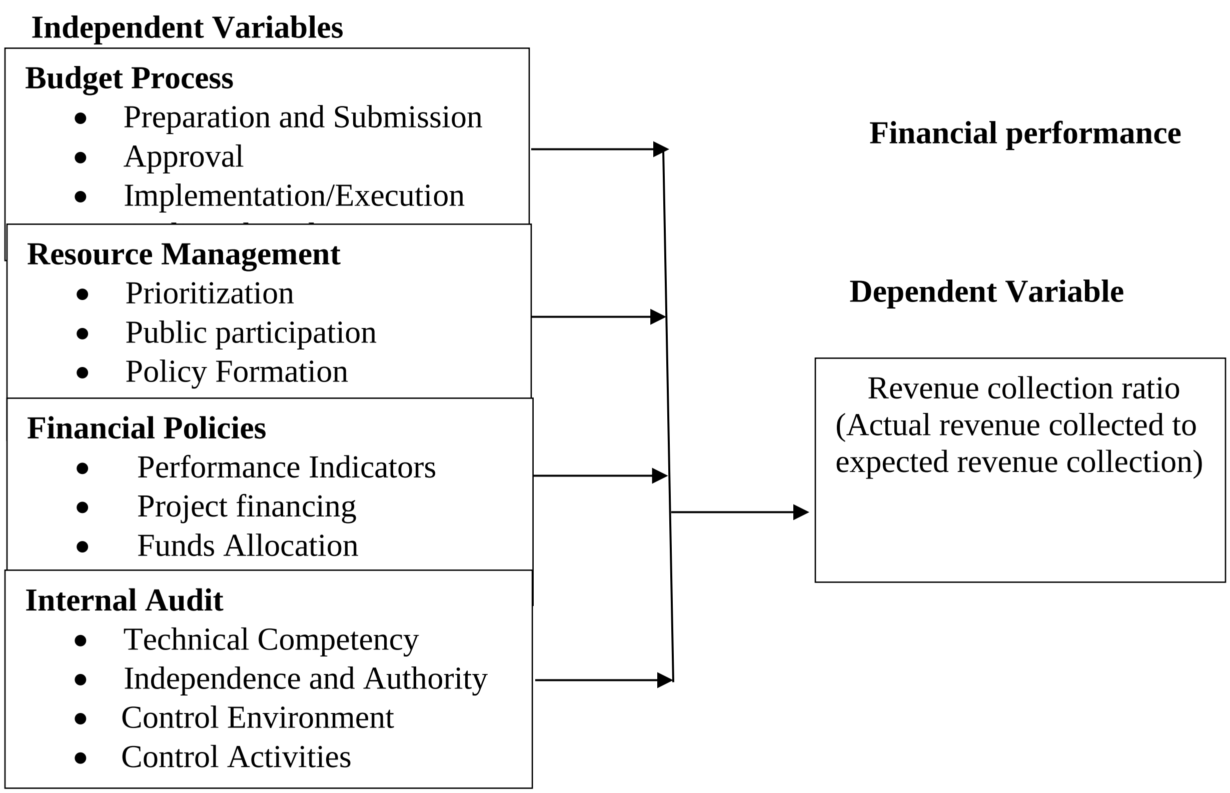

Figure 1: Conceptual Framework
Source: Researcher (2022)

3.0 Research Methodology

Descriptive study design was applied in this study. Creswell (2011) cites that a descriptive study provides for an in-depth analysis of a single or a few items which gives the study more information and detail about the study subjects. Thomas (2011) on the other hand observes that descriptive design in social studies is important as it provides a detailed analysis of what is happening which can provide important information for decision making. The target population for this study constituted: accountants, finance officers, auditors, revenue officers, and sub-county administrators working with Mandera county government in Kenya all totaling to 124. These members of staff have been selected because the finance department is charged with revenue affairs in the county government of Mandera and are best suited to give information in regard to the public finances in the county.

The study used stratified sampling method to ensure that all cases are well represented and use simple random sampling method to select the respondents. According to Mugenda (2003) a sample size is a small group obtained from the accessible population. The study used a sample size formula by Taro Yamane (1967) assuming an error term of 5%. The sample size was 95 respondents which represent a 76.6% of the target population. The proportionate distribution of sample size was obtained using a 0.766. Both a questionnaire and data collection sheet were used to gather primary and secondary data for this study. Kothari, (1990) argues that a primary source of data provided from the words of witness or first record of an event. Primary data was collected by the help of semi-structured questionnaires based on theoretical and empirical review of data linked to financial management practices in decentralized government. The designed questionnaire had five Sections. Secondary data was collected from county's annual audited financial reports. .

According to Brains and Manheim (2011) validity is the extent to which a concept, conclusion, or measurement is well-founded and corresponds precisely to the real world. In other words, the validity of a measurement tool such as a questionnaire is said to be the degree to which that tool measures what it claims to measure. The researcher determined the content validity of the research instrument. Where validity has been established, any inferences made from such data will be accurate and meaningful (Mugenda & Mugenda, 2003). The validity of this study increases by using various sources of evidence (Yin, 2003). The first phase of this research employed the econometric technique to establish the relationship between public funds management and delivery of services in Mandera County. Quantitative analysis involved computing descriptive statistics that comprise of: the frequency and percentage for the quantitative data. Measures of central tendency were likewise utilized in which case the mean was computed. Measures of dispersion were computed especially the standard deviation. Inferential statistics were applied on all the quantitative data where content analysis, variance analysis (ANOVA) and regression were used. Quantitative data was presented through tabulation, percentages, mean, standard deviation and frequencies. Bivariate regression models were applied to determine the importance of each variable to the study.

4.0 Data Analysis Results

4.1 Influence of Public Financial Management Practices on Financial Performance

The general objective for this study was to investigate the effects of public financial management practices on financial performance of Mandera County, Kenya. This was achieved through inferential statistics including the coefficient of determination (R-Square), analysis of variance (ANOVA) and the regression coefficients. Test for autocorrelation was also performed.

Table 1: Regression Coefficients for the Relationship between Budgetary Process and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	-0.223	0.336		-0.664	0.509
Budget Process	0.156	0.409	0.157	0.381	0.704
Resource Management	1.307	0.431	1.220	3.030	0.003
Financial Policies	-0.895	0.544	-0.867	-1.646	0.104
Internal Audit	0.458	0.370	0.387	1.236	0.220

As indicated in Table1, the estimators ($\hat{\beta}_0, \hat{\beta}_1, \hat{\beta}_2, \hat{\beta}_3 and\ \hat{\beta}_4$) were 0.156, 1.307, -0.895, and 0.458 respectively. This implies that when the four independent variables (budget process, resource management, financial policies, and internal audit) are held constant, financial performance will be (-ve) 0.223. When there is increase in budgetary process by one-unit, financial performance would change positive by 0.156 units which was found to be insignificant (p-Value=0.704>0.05) at 5% significant level. Similarly, a change in resource management by one unit would also lead to an increase in financial performance by 1.307, a change that is significant (p-Value=0.003<0.05). However, an increase in Financial Policies by one unit would lead to a decrease in financial performance by 0.895 units although this influence would be insignificant (p-Value=0.220>0.05). Lastly, an increase in internal audit by one unit would lead to an increase in financial performance by 0.458. This increase would, nonetheless, be insignificant (p-Value=0.220>0.05).

The model $P_f = \beta_0 + \beta_1 B_P + \beta_2 R_M + \beta_3 F_P + \beta_4 I_A + \varepsilon$ can therefore be estimated as:

$$\boldsymbol{P_f = -0.223 + 0.156B_p + 1.307R_m - 0.895F_p + 0.458I_a}$$

Where P_f is the financial performance, B_p is the budgetary process, R_m is the resource management, F_p is the financial policies, and I_a is the internal audit.

4.2 Budgeting Process and Financial Performance

Descriptive statistics were based on respondents' opinions on whether citizens participate in budget formulation as well as on other aspects related to budgetary process. Mean and standard deviation were used where the higher the mean the more prevalent a particular factor ranked by the respondents in respect of their respective opinion. On the other hand, standard deviation measured the dispersion of the responses relative to the mean.

Inferential statistics computed included the coefficient of determination (R-Square), analysis of variance (ANOVA) and the regression coefficients. Test for autocorrelation was also performed.

Table 2: Model Summary of Budgeting Process and Financial Performance

R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
.874a	0.764	0.761	0.527	1.511

Results in Table 2 show a coefficient of determination of 0.764 with the standard error of estimate being 0.527. This implies that budgetary process explains 76.4% of the variation in financial performance of Mandera County, assuming all other variables in public financial management practices are constant. Results also indicate a Durbin Watson statistic of 1.511 which falls within the relatively normal range of 1.5 to 2.5 (Field, 2009) and therefore there was no presence of autocorrelation in the residuals from a regression analysis.

Table 3: ANOVA for Budgeting Process and Financial Performance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	67.517	1	67.517	242.912	.000b
Residual	20.846	75	0.278		
Total	88.364	76			

As shown in Table 3, F-Calculated (1, 75) was 242.912 which is greater than F-Critical (1, 75) = 3.968 at 5% significant level (2-tailed test). Results also shows a probability value (p-Value) of 0.000 < 0.05. This implies that budgetary process has a significant effect on financial performance of Mandera County.

Table 4: Regression Coefficients for the Relationship between Budgetary Process and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	0.744	0.223		3.334	0.001
Budgetary Process	0.868	0.056	0.874	15.586	0.000

As indicated in Table 4, the estimators ($\hat{\beta}_0$ *and* $\hat{\beta}_1$) were 0.744 and 0.868 respectively. This implies that when the independent variable (budgetary processes) is held constant, financial performance will be 0.744. When there is a change in budgetary process by one unit, financial performance would change positive by 0.868 units. Given that p-Value is 0.000<0.05, this change would be significant at 95% confidence level.

The model $P_f = \beta_0 + \beta_1 B_p + \varepsilon$ can therefore be estimated as:

$$\boldsymbol{P_f = 0.744 + 0.868B_p} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \textit{(i)}$$

Where P_f is the financial performance and B_p is the budgetary process.

In summary R-Square was found to be 0.764 with F-Calculated (1, 75) being 242.912 > F-Critical (1, 75) = 3.968 at the 5% significant level (2-tailed test). Additionally, p-Value was 0.000 < 0.05 while the estimated beta coefficient ($\hat{\beta}_1$) had a positive and significant elasticity (0.868; p-

Value<0.00). Consequently, the researcher concludes that budgetary process has a significant and positive effect on financial performance of Mandera County.

4.3 Relationship between Resources Management and Financial Performance

The second objective for this study was to establish the relationship between resources management and financial performance in Mandera County, Kenya. Inferential statistics computed included the coefficient of determination (R-Square), analysis of variance (ANOVA) and the regression coefficients. Test for autocorrelation was also performed.

Table 5: Model Summary of Resources Management and Financial Performance

R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
.898a	0.806	0.804	0.478	1.817

Results in Table 5 show a coefficient of determination of 0.806 with the standard error of estimate being 0.478. This implies that resources management explains 80.6% of the variation in financial performance of Mandera County, assuming all other variables in public financial management practices are constant. Results also indicate a Durbin Watson statistic of 1.817 which falls within the relatively normal range of 1.5 to 2.5 (Field, 2009) and therefore there was no presence of autocorrelation in the residuals from a regression analysis.

Table 6: ANOVA for Resources Management and Financial Performance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	71.246	1	71.246	312.161	.000b
Residual	17.118	75	0.228		
Total	88.364	76			

As shown in Table 4.11, F-Calculated (1, 75) was 312.161 which is greater than F-Critical (1, 75) = 3.968 at 5% significant level (2-tailed test). Results also shows a probability value (p-Value) of 0.000 < 0.05. This implies that resources management as a PFM practices has a significant effect on financial performance of Mandera County.

Table 7: Regression Coefficients for the Relationship between Resources Management and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	0.152	0.229		0.663	0.510
Resources Management	0.961	0.054	0.898	17.668	0.000

As indicated in Table 7, the estimators ($\hat{\beta}_2$ and $\hat{\beta}_3$) were 0.152 and 0.961 respectively. This implies that when the independent variable (resources management) is held constant, financial performance will be 0.152. When there is a change in resources management by one-unit, financial performance would change positive by 0.961 units. Given that p-Value is 0.000<0.05, this change would be significant at 95% confidence level.

The model $P_f = \beta_2 + \beta_3 R_m + \varepsilon$ can therefore be estimated as:

$$\boldsymbol{P_f = 0.744 + 0.868B_p} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \textit{(ii)}$$

Where P_f is the financial performance and B_p is the resources management.

In summary R-Square was found to be 0.806 with F-Calculated (1, 75) being 242.912 > F-Critical (1, 75) = 3.968 at the 5% significant level (2-tailed test). Additionally, p-Value was 0.000 < 0.05 while the estimated beta coefficient ($\hat{\beta}_3$) had a positive and significant elasticity (0.961; p-Value<0.00). Consequently, the researcher concludes that resources management has a significant and positive effect on financial performance of Mandera County.

4.4 Inferential Statistics on the Relationship between Financial Policies and Financial Performance

Inferential statistics computed included the coefficient of determination (R-Square), analysis of variance (ANOVA) and the regression coefficients. Test for autocorrelation was also performed.

Table 8: Regression Coefficients for the Relationship between Financial Policies and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	0.529	0.234		2.264	0.026
Financial Policies	0.905	0.057	0.876	15.756	0.000

As indicated in Table 4.16, the estimators ($\hat{\beta}_4$ *and* $\hat{\beta}_5$) were 0.529 and 0.905 respectively. This implies that when the independent variable (financial policies) is held constant, financial performance will be 0.529. When there is a change in financial policies by one unit, financial performance would change positive by 0.905 units. Given that p-Value is 0.000<0.05, this change would be significant at 95% confidence level.

The model $P_f = \beta_4 + \beta_5 F_p + \varepsilon$ can therefore be estimated as:

$$\boldsymbol{P_f = 0.529 + 0.905F_p} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \textit{(iii)}$$

Where P_f is the financial performance and F_p represents the financial policies.

In summary R-Square was found to be 0.768 with F-Calculated (1, 75) being 248.248 > F-Critical (1, 75) = 3.968 at the 5% significant level (2-tailed test). Additionally, p-Value was 0.000 < 0.05 while the estimated beta coefficient ($\hat{\beta}_5$) had a positive and significant elasticity (0.905; p-Value<0.00). Consequently, the researcher concludes that financial policies have a significant and positive effect on financial performance of Mandera County. This is collaborated by the findings of Namutenda & Muturii (2017) where financial policies have significant effect on financial performance.

4.5 Influence of Internal Audit on Financial Performance

The fourth objective for this study was to establish the relationship between internal audit and financial performance in Mandera County, Kenya.

Inferential statistics computed included the coefficient of determination (R-Square), analysis of variance (ANOVA) and the regression coefficients. Test for autocorrelation was also performed.

Table 9: Model Summary of Internal Audit and Financial Performance

R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
.891a	0.794	0.792	0.492	1.655

Results in Table 9 show a coefficient of determination of 0.794 with the standard error of estimate being 0.492. This implies that internal audit explains 79.4% of the variation in financial performance of Mandera County, assuming all other variables in public financial management practices are constant. Results also indicate a Durbin Watson statistic of 1.655 which falls within the relatively normal range of 1.5 to 2.5 (Field, 2009) and therefore there was no presence of autocorrelation in the residuals from a regression analysis.

Table 10: Regression Coefficients for the Relationship between Internal Audit and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	0.248	0.261		0.951	0.345
Internal Audit	1.053	0.062	0.891	17.027	0.000

As indicated in Table 4.20, the estimators ($\hat{\beta}_6$ *and* $\hat{\beta}_7$) were 0.248 and 1.053 respectively. This implies that when the independent variable (internal audit) is held constant, financial performance will be 0.248. When there is a change in internal audit by one unit, financial performance would change positive by 1.053 units. Given that p-Value is 0.000<0.05, this change would be significant at 95% confidence level.

The model $P_f = \beta_6 + \beta_7 I_A + \varepsilon$ can therefore be estimated as:

$$\boldsymbol{P_f = 0.248 + 0.1.053 I_A} \ldots\ldots\ldots\ldots\ldots\ldots \quad (iv)$$

Where P_f is the financial performance and I_A is the internal audit.

In summary R-Square was found to be 0.794 with F-Calculated (1, 75) being 289.904 > F-Critical (1, 75) = 3.968 at the 5% significant level (2-tailed test). Additionally, p-Value was 0.000 < 0.05 while the estimated beta coefficient ($\hat{\beta}_7$) had a positive and significant elasticity (1.053; p-Value<0.00). Consequently, the researcher concludes that internal audit has a significant and positive effect on financial performance of Mandera County. This is in contrast to findings by Mucchiri & Jagaongo (2017) which indicate that there is no significant effect of internal audit and financial performance of public institutions.

5.0 Conclusion and Recommendations

5.1 Conclusion

The purpose of this study was to investigate the effects of public financial management practices on financial performance of Mandera County, Kenya. Each of the four practices of public financial management (PFM) assessed in this study was significant in determining financial performance of Mandera County. Therefore, it can be concluded that budgetary processes, resources management, financial policies and internal audit are all significant if a count has to perform well financially. Public Finance Act and other relevant legislations are particularly crucial in the budgetary processes since they normally guide in setting out sets out the objectives for a particular department allowing the budgetary output to achieve public acceptability because of inclusivity and the wide consultations that are outlined in these legal frameworks. In terms of resources management public participation and the need to optimize some objective function is important with various stakeholders being involved for proper resource management. Success of PFM in influencing financial performance is also highly reliant on knowledgeability of the members of the county staff who are accountable and responsible for its implementation based on the existing accounting standard. Moreover, internal auditors who are competent and perform audits on county finances continuously are important to ensure adherence to the prevailing legal framework and also establishing whether funds are used optimally.

5.4 Recommendations

The researcher makes the following recommendations: The county governments should ensure full employment of public financial management practices through strict adherence to the laid down frameworks in budgetary processes, resources management, financial policies, and internal audit. This would lead to optimal use of the available funds. Legislators at both national and county assemblies should formulate, review and enhance policies that are in tandem with the spirit of public financial management practices and thus make PFM for efficient and effective at county levels. There is need for more public involvement in budgetary processes to ensure full support from the citizens especially in meeting the funding requirements and execution of county projects.

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