International Research Journal Of Economics and Finance

Vol 4, Issue 3, pp 323-338, Oct 27, 2022, © International Research Journal Publishers, ISSN 2710-2742 (online) www.irjp.org

EFFECT OF RISK ASSESSMENT AND MONITORING ACTIVITIES INTERNAL CONTROL SYSTEMS ON MANAGEMENT OF LOCAL REVENUE BY COUNTY GOVERNMENTS OF KENYA

[1*]Ayao Evans Onsindu, [2]Prof. Willy Muturi & [3]Prof: Christopher Kanali

[1]Scholar, Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kenya
[2]Lecturer, Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kenya
[3]Lecturer, Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kenya

Accepted, October 27, 2022

ABSTRACT

An adequate and effective internal control system is necessary for better organizational performance. Studies show that an effective internal control mechanism prevents and detects fraud which then enables management to take necessary steps to remedy the situation. This study attempted to examine the effect of internal control systems on the management of local revenues by the county governments of Kenya. The study was guided by the COSO (1992) integrated framework. The components of the internal control system framework included risk assessment and monitoring activities and their effect on revenue management. Statistical data was collected by a COSO questionnaire that was adapted for use in public entities. The County Chief Officers for finance from all counties provided information on the adequacy and effectiveness of their internal controls respectively. The purpose was to address the problem of poor revenue management cited by the controller of the budget in the most recent report. Perennial revenue losses and the inability to meet revenue targets motivated the study. Data was processed and analyzed using descriptive statistics such as frequencies, percentages, mean and standard deviation and inferentially using correlation and regression to describe characteristics and show relationships that predict the effective management of revenue in county governments. The final results of the analysis were presented by summary tables. The hypotheses were tested statistically at the 0.05 level of significance. Risk assessment and monitoring activities were found to have a significant positive relationship with the management of local revenue. Therefore county governments have to put more effort in mainstreaming these aspects to improve their revenue management systems so that budget items can be well financed for better outcomes. The county governments in Kenya should embrace enterprise risk assessment and good monitoring activities to maximize on the financial benefits of internal control systems.

Keywords: *Risk Assessment, Monitoring Activities, Management of Local Revenue, County Governments*

INTRODUCTION

All over the world, organisations face operational risks that could make it harder to reach their financial and non-financial goals. It may not be possible to manage an entity's resources well without a control system that guides decisions and actions toward a specific goal.

Studies, like the ones done by Gupta (2006) and Muthusi (2017), have shown that if local government units don't have an up-to-date internal control system, they are more likely to waste money, commit fraud, and misuse resources. As a result, more fraud and theft of company assets have been linked to agency conflicts, which happen when the agent (manager) pursues interests that are different from those of the principals (shareholders). The economic theory of Alchian and Demsetz (1972) and Jensen and Meckling is where agency theory comes from (1976). This theory is based on the idea that the principal and the agency have different views on risk. This makes it hard for agents and their bosses to get along, and it costs money to keep an eye on what the agent is doing.

An internal control system is how the company's leaders try to know for sure that the right steps are being taken to protect company property and related accounting records (Messier, 2000). So, the internal control system should help the company reach its goals and fulfil its mission while minimising the risks that come with the fast-changing economic, political, and social environment and the possible unreliability of the enterprise operating systems, which are in charge of putting daily management strategies into action.

Since the 1980s wave of corporate failures in America and Europe, controlling activities and information quality have gained popularity. This led to international regulation mechanisms like the tread-way commission (COSO, 1992). Corporate managers and internal auditors were to follow the risk control framework to reduce financial reporting fraud and scandals (Enron, WorldCom, Tyco International in the United States and Maxwel Communications, Bank of Credit and Commerce International in Europe). The 1990s and early 2000s were rife with accounting scandals. Regulators added controls to restore public confidence in financial markets (VanHorne & Dhamija, 2012). Congress passed the Sarbanes-Oxley Act (2002), which emphasised internal control, monitoring, and reporting. The Act improves financial disclosures, internal controls and processes, and top management's accountability for financial report information. Internal control deficiencies caused many corporate failures, fraud, and asset mismanagement, especially in financial reporting. Enron, Tyco International, world com, and global crossing plunged in value, shattering investor faith (Elmady & Thirivadi, 2014).

An effective system of internal control in any organization according to the COSO (1992) framework is a process affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to effectiveness and efficiency in operations and reliability of financial reporting; and iii) compliance with applicable laws and regulations (Gupta, 2006). The COSO (1992) internal control framework is made up of five parts: the control environment, risk assessment, control activities, information and communication, and monitoring. It is important for the public good that public sector organisations have good financial management (Prowle, 2010). In 2004, Pramod did a study in India on the difficulties of collecting taxes in developing economies. One of the things he found was that governments lose much-needed money because most transactions are done in cash without leaving a paper trail. He stressed how important it is for governments to have strong internal control systems if they want to help their people in real ways.

Sarens and De Beedle (2006) argue that setting up checks and balances within the organization enable management to minimize inherent losses and wastage of resources. Public entities increasingly fail to prudently manage their resources which are either financial or material. This places them on a collision course with the citizens they are supposed to serve. Management of financial resources in a public entity like the county government involves efficient collection and spending of revenues as planned so that benefits accrue to

the largest number of people within its jurisdiction. Financing of public goods and services can only be provided if and when the governance systems in the counties are working well so that financial and non-financial resources are preserved and applied prudently. Counties in Kenya have in the recent past failed to properly account for spending of sharable revenues and also locally collected revenue (OCOB, 2016). This according to some authors is attributable to poor internal control systems that lead to low incomes generated due to irregularities and errors (Muthusi, 2017).

For the first half of FY 2015–2016, local tax collection by counties was observed to be low at roughly 24 percent compared to an anticipated objective of 50 percent. For the first half of the year, the counties collected Kshs 13.92 billion vs Kshs 28 billion projected. According to the budget implementation assessment report for the first half of the FY 2015–2016, the revenue was unable to pay for many of the budgeted activities as a result, and the amount of outstanding debt was accumulated. It is also noted that while Article 209 (3) of the constitution allow county government to impose taxes and charges authorized by an act of parliament and the money be deposited on behalf of the devolved unit (Article 207) into the county revenue fund account except that which is excluded by an act of parliament, a number of county governments violated this requirement by spending revenues at source. Again, this points to a serious control weakness in the collection and use of county revenue funds.

Further, weaknesses in the monitoring of development projects were observed because counties did not have an effective monitoring and evaluation (M & E) framework. As a result, there may be unnecessary wastage of financial and material resources (OCOB, 2016). Poor follow-up and recording of ongoing projects make local county governments not to be accountable for funds assigned as used in various development projects. Therefore, internal risks management weakness would be blamed for the situation in many county governments in the country. The internal audit unit and audit committee function was either unavailable or dysfunctional. This according to Section 155 of PFM Act (2012) is meant to enhance management control, transparency and accountability in the management of public resources. The absence of an internal audit function exposes the administrators to enormous risk of resource misappropriation, wastage and fraud. From the foregoing, it is apparent that county governments in Kenya continue to face challenges that are structural and require quick intervention to address the key issues highlighted. Hence, this proposed study makes an attempt to investigate whether the internal control weaknesses in the county governments have reduced from the report by the controller of budget (2016).

Statement of the Problem

Kenya's Constitution of 2010 established 47 county governments and one national government. The goal of the new government structure was to make governance more accountable, transparent, responsive, and effective to Kenyans. Since 2013, the national government has started sharing earnings with county governments in accordance with the constitution, and county governments are supposed to finance their budgets and fulfil established targets using locally generated revenue. However, reports by the Auditor General and the Controller of Budget for the first half of the fiscal year 2015/2016, captured by the budget implementation review, indicate that administration of county funds is fraught with internal control weaknesses, failing to meet revenue collection targets and unplanned spending.

The collection of revenue, spending, and banking operations have all continued to contravene the Public Finance Management Act. Many devolved units continue to report lower-than-expected revenue collection, with less than 50% performance compared to pre-county government performance. According to the reports, county governments face issues such as

revenue spent at the source, poor monitoring of development projects, poor accounting for conditional grants and road fees, and dysfunctional internal audit and committee activity. These problems are linked to the internal control mechanisms in the devolved entities. When organisational processes, procedures, and programmes for regulating and managing resources are ineffective or non-existent, fraud, pilferage, misappropriation, and waste of funds become increasingly widespread. It is stated that some public officials at all levels are inclined to be corrupt in systems where they believe accountability and transparency mechanisms are insufficient to dissuade such behaviour or if chances for collusion give incentives for dishonesty (Muthusi, 2017).

The absence or weakness of internal control mechanisms has been blamed for a lack of effective revenue management. However, it is unclear which parts of these systems are the primary contributors to the current inadequate management of county resources, and therefore this study. Using the COSO, (1992) internal control framework, Crutchley et al. (2007), Mwachiro (2013), and Nyaata (2017) found that each of the components contributes differently to ineffective revenue management. It is still unclear which of these factors significantly contributes to the current situation among Kenya's County Governments, which is why this study was necessary.

Research Objectives

i. To examine the effect of risk assessment on management of local revenue by county governments of Kenya
ii. To establish the effect of monitoring activities on management of local revenue by county governments of Kenya.

Hypotheses for Study

H_01: Risk assessment has no significant effect on management of local revenues by county governments of Kenya.

H_02: Monitoring activities have no effect on management of local revenue by county governments of Kenya.

Theoretical Review

Stewardship Theory

Davis, Schoorman and Doldison (1997) defined a steward as one who protects and maximizes shareholders wealth through firm performance. By so doing the steward gets to maximize his utility functions too. Managers act as stewards or caretakers by acting as if they were owners. In terms of care and concern they demonstrate this at work rather than being mere executors of interest of others. The theory is more concerned about the role of top management in creating value in organization through identifying and formulating common aspirations as stewards of excellence and developing training programs for pursuit of excellence, and; iii) providing moral support. In this study county CEO and the executive is assumed to be interested in the success of county government development programs because this would earn them good reputation for another term or even a higher political office. Managers of county governments are expected to integrate their goals with that of their voters for the duration they are in office. Aligning interest and goals between county managers and residents is necessary for the achievement of county development objectives. Thus, internal control system serves to manage this kind of risk through continuous monitoring of operations to ensure compliance with standards. For successful result, internal auditors, external auditors, managers and the board must work together in a complimentary fashion to enhance effectiveness and performance.

Stakeholder Theory

Stakeholder theory was developed by Freeman (1984) to incorporate corporate accountability to diverse stakeholders. Stakeholders are those with a stake in some aspect of a company,

product, operation, market, industry and outcome. They affect and are affected by business activities in any given environment. Primary stakeholders are employees, customers, investors, government and communities. Conversely, secondary stakeholders are media, trade associations, and special interest groups. Capturing stakeholder concerns in organizational strategies is important for trust and confidence to be built. The performance of organizations may depend to a great extent to how stakeholder issues are addressed and involvement in certain key decisions impacting them is arranged and achieved. Corporate social responsibility is one of the ways that stakeholder needs are met. In addition, change in board composition to include more outside directors reduces the perception that the board is beholden to management.

Approaches to stakeholder theory combine compliance and value creation in business process. A compliance approach establishes moral and legal minimum set of rules necessary for stakeholder existence. On the other hand, value creation approach seeks to create objectives, aspirations to unite different stakeholders in pursuit of excellence. Stakeholder theory has been described as instrumental but more specifically as normative that require managers to give simultaneous attention to interest of all legitimate stakeholders. The achievement is attained by adjusting attitudes, structures and practices to accommodate diverse interests in an organization. This theory is applicable to the study because public entities are custodian of citizens' social and economic interests. County residents are stakeholders in the governance performance of the county managers.

Conceptual Framework

The study adapted COSO's (1992) internal control integrated framework components since it has been widely used in studying internal control weaknesses in many organizations both public and private. Independent variables were risk assessment and monitoring activities. The dependent variable is management of local revenue by the county governments. Figure 1 presents the conceptual framework.

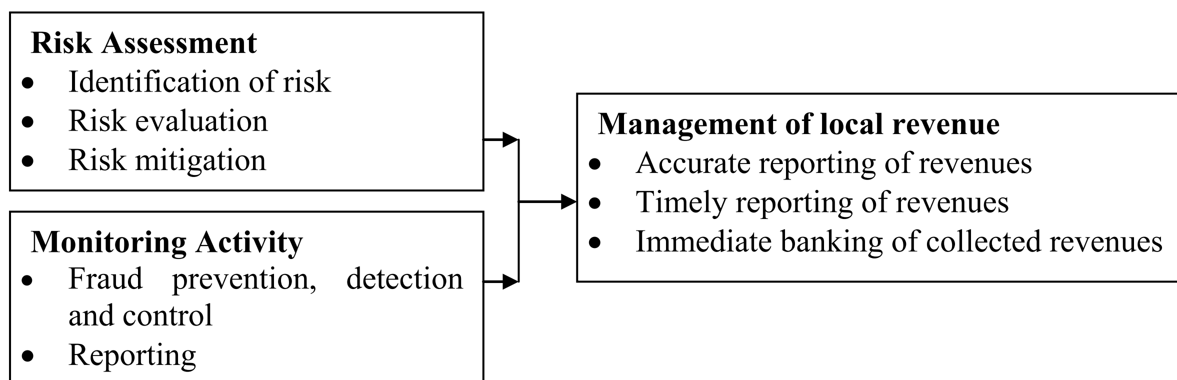

Figure1: Conceptual framework

Empirical review

Organizations face various risks that are either internal or external that need to be assessed and managed. Risk assessment is more concerned with the identification of relevant risk and its analysis to achieve objectives. This becomes the basis for managing the risk. As changes take place (Economic, industry, regulatory and operating conditions), it becomes necessary to identify and manage unique risk associated with the changes (Noorve, 2006). Organization may be complex so they may require external expertise to assess risk facing the organization carefully and thoroughly. Risk control to be implemented must be proportional to the risk it

seeks to manage. The budget department is important in strengthening management control in the meriting units (Nyaata, 2017).

It is the management's responsibility to design internal control system that will ensure efficiency and effectiveness (Muthusi, 2017). In the context of public entity, the controls are necessary to ensure proper application of funds and efficient collection and spending of local revenue. Devolved government units like county government have continued to face risk of collecting less local revenue than projected (OCOB, 2016). A number of the devolved units according to OCOB (2016) reported a lower than 18 percent performance in revenue collection in the first half of 2015-2016 financial year. This situation has persisted for a number of years now with an average of 30 percent performance. The under-performance implies that some of the planned activities may not be implemented in the financial year as budgets have hidden deficits (ibid). Fatemi and Fooladi (2006) contend effective risk management leads to more balanced trade-off between risk and reward. The reward-risk trade-off for devolved public units would translate to efficient collection and effective spending of available resources to ensure maximum benefits for local residents. Failure to adopt an appropriate risk assessment and management procedure may prove expensive for a public entity because with the rising fraudulent activities, service delivery is negatively affected if planned activities deviate largely from actual results.

Monitoring of operations as suggested by Amudo and Inanga (2009) promotes effective functioning of internal controls system. Through monitoring activities an organization determines whether or not existing policies and procedures designed and implemented by management are working effectively. According to Bowrin (2004), monitoring as an integral component of internal control is achieved by continuous supervision and management of activities that include following up on customer complaints and feedback. This also means audits are conducted periodically by internal auditors to prove reasonable assurance about the effectiveness of the risk management system. Monitoring ensures that the findings of audits and other reviews are promptly resolved (Rezaee et al., 2001) In sum, monitoring includes management methods of following up and checking on performance to assure that controls and combined with and the component makes internal control system to come full circle through continuous improvement of other components.

Another study by Mwachiro (2013) using COSO (1992) framework also discovered that an effective ICS was important in enhancing revenue collection by the Kenya Revenue Authority (KRA). He argued that a weak ICS especially poor ethical values in an organization encourage collusion to fraud, loss of revenue and embezzlement of collected revenue. Other studies involving SACCOs in Kenya arrived at a similar conclusion; that without a strong internal control in the financial institutions, financial performance would be weak (Magara, 2013). The relationship between internal controls and the financial performance of manufacturing firms in Kenya returned a positive and strong coefficient especially for control environment and control activities (Ndembu, 2015). Monitoring activities, risk assessment and information and communication failed to predict the performance of the firms. However, monitoring and information and communication realized negative correlation coefficients which call for further investigation.

Findings by Muio (2012) on the impact of internal control system on financial performance of private hospitals in Kenya indicate a positive and strong correlation between the components and financial performance. The monitoring component had the strongest influence in the relationship followed by control environment, information and common risk assessment and control activities respectively. Strong internal control and appropriate organizational culture were found to be key in preventing accounting scandals among firms

according to Crutchley et al. (2007). Kaongo (2015) established that a shortage of competent staff existed at the local councils in general and revenue section, in particular, did not have sufficient segregation of duties which is potential for efficient monitoring of council revenue. He recommended that fiscal reforms be redesigned on the revenue structure and strengthen financial management. Further, there be improved information be supplied to the public through budgets and accounts to improve the opportunities for citizens to exercise their voice and demand accountability from elected leaders.

METHODOLOGY

In this study, a survey research design was used. A survey research design is a method of gathering data from a group of individuals chosen to reflect a specific target population. All Chief Officers in charge of Finance in the county governments of Kenya were the study's target population based on the main responders. Internal control mechanisms that reduce the operational and financial risks present in the devolved units are designed and put into place with the help of the Chief Officers. A census of the entire 47 Chief finance officers from 47 different counties was adopted.

The data was gathered using a questionnaire using a 5-point Likert scale. The data collected was analysed using quantitative methods. SPSS 21 was used to clean, organise, and analyse the data. In data analysis and interpretation, descriptive and inferential statistics were used. Descriptive statistics use measurements such as frequencies, percentages, mean, and standard deviation to describe the properties of data. In addition, inferential statistics included correlation and regression analysis to estimate the likelihood of internal control components predicting revenue management in Kenyan county administrations.

RESULTS

Descriptive Analysis

Risk Assessment on the Management of Local Revenues

Table 1: Respondent’s risk assessment on the management of local revenues

Respondents’ opinion	SD	D	N	A	SA	Mean	Stdev
The county has a well-documented policy on risk management	5.2	2.6	18.3	27.8	46.1	4	1
The county regularly updates the risk register	4.4	7.0	30.4	33.0	25.2	4	1
The county executive encourages reporting of events in order to identify the risks	4.3	2.6	16.5	44.4	32.2	4	1
The county has a monitoring system that identifies potential risks	3.5	8.7	22.6	36.5	28.7	4	1
There is adequate capacity to perform risk assessment in my county	3.5	5.2	33.0	38.3	20.0	4	1
The county has a risk review process after implementation of the mitigation measures/control for identification of risks	3.5	4.3	25.2	44.4	22.6	4	1
The county executive effectively communicates risks to the employees and the stakeholders	3.5	8.7	33.9	36.5	17.4	4	1
The county executive adequately evaluates and records the risk when making important decisions (launch of projects and development of strategic plans)	5.2	4.3	33.9	37.4	19.2	4	1

Respondents' opinion	SD	D	N	A	SA	Mean	Stdev
The county has adequately implemented any inspection plans to reduce the inherent risks which are periodically revised.	0.0	6.1	33.0	45.2	15.7	4	1
There exists a County Risk Management committee in the organization	2.6	11.3	20.9	29.6	35.7	4	1
Risks identified are reviewed and decisions taken on the same by a County Risk Management committee	4.3	7.8	20.9	37.4	29.6	4	1
Recommendations by the County Risk Management committee are reported directly to chief officer and CEC finance and the audit and risk sub-committee of the board	5.2	5.2	19.2	40.0	30.4	4	1
County executive uses instruments for risk transfer or sharing with other organizations (e.g., insurance companies)	3.5	3.5	23.5	34.8	34.8	4	1

In the table: SD, strongly disagree; D, disagree; N, neutral; A, agree; SA, strongly agree; Stdev, standard deviation

The results as shown in Table 1 indicates that the majority (46.1%) of the respondents strongly agreed that their counties had a well-documented policy on risk management, 27.8% agreed, 18.30% were neutral while 2.6% and 5.2% disagreed and strongly disagreed respectively. The majority (33%) of the respondent agreed that their counties regularly update risk registers, 25% strongly agreed, 30.4% were neutral, 7% disagreed and 4.4% strongly disagreed. Most (44.4%) of the respondents agreed that management encourages reporting of events to identify the risks, 32.2% strongly agreed, while 16.5% were neutral. A few 2.6% and 4.3% disagreed and strongly disagreed, respectively. As to whether the county has a monitoring system that identifies potential risks, most (36.5%) of the respondents agreed that the county has a monitoring system that identifies potential risks, 28.7% strongly agreed while 22.6% were neutral. The result agrees with the findings of (Deakin, 1998) that management of local revenue analysis needs to pay attention to total risks and is related to concepts of efficiency and effectiveness.

Under risk evaluation, the study sought to investigate if the counties had adequate capacity to risk assessment if there was a risk review process and if the county executive adequately evaluates and records the risks when making important decisions. Also, the study sought to establish if the county executive effectively communicated risks to employees and other stakeholders. The results as shown in Table 1 indicates that the majority (38%) of the respondents agreed that their counties had adequate capacity to perform risk assessment, 20% strongly agreed, 33% were neutral while 5.2% disagreed and 3.5% strongly disagreed.

Further opinion on whether the county has a risk review process after implementation of the mitigation measures/control for identification of risks, the majority (44.4%) of the respondent agreed that their counties had a risk review process after implementation of the mitigation with 22.6% strongly agreeing while 25.2 % were neutral. The rest 4.3% disagreed and 3.5% strongly disagreed. On the opinion whether county executive effectively communicates risks to the employees and the stakeholders, most (36.5%) of the respondents agreed that county executive effectively communicated risks to employees and stakeholders, 19.1% strongly agreed, 33.9% were neutral while 8.7% disagreed and 3.5% strongly disagreed. Finally, opinion on whether the county executive adequately evaluates and records the risk when

making important decisions (launch of county projects and development of strategic plans), most (37.4%) of the respondents agreed that the county executive adequately evaluates and records the risk when making important decisions, 19.2% strongly agreed, 33.9% were neutral and 4.3% disagreed while 5.2% strongly disagreed. The results support the finding by Khan and Ahmed, (2001) that the survival and success of the management of local revenue in counties depends critically on the efficiency of managing these risks.

Respondents' opinion on whether the counties have adequately implemented any inspection plans to reduce the inherent risks and if those plans are periodically revised, 45.2% of respondents agreed while 15.7% strongly agreed.33% of the respondent were neutral while 6.1% disagreed. As to whether there exists a county Risk Management committee in the county, 35.7% of the respondent strongly agreed, 29.6% agreed, 20.9% were neutral while 11.3% disagreed and 2.6% strongly disagreed. Further opinion on whether risks identified are reviewed and decisions taken on the same by the County Risk Management committee, 37.4% of the respondents agreed, 29.6% disagreed, 20.9% were neutral while 7.8% disagreed and 4.3% strongly disagreed.

Opinion on whether recommendations by the County Risk Management committee are reported directly to chief officers and the audit and risk sub-committee of the board, 40% of the respondents agreed, 30.4% strongly agreed, 19.2% were neutral while an equal response 5.2% disagreed and strongly disagreed. Finally, regarding opinion on whether county executive uses instruments for risk transfer or sharing with other organizations (e.g. insurance companies), an equal response of 34.4% agreed and strongly agreed while 23.5% were neutral and an equal response of 3.5% strongly disagreed and agreed respectively. The result support the findings Thornton (2004) who observed that in recent years, stakeholders' expectations from internal risk assessment have changed significantly. The focus has now moved from compliance and revenue management to facilitating counties to proactively identify, assess and control risks. The result also concurs with the findings of Akkizidis and Khandelwal, (2007) that good risk management is highly relevant in providing better returns to the shareholders.

Monitoring Activities on the Management of Local Revenues

Table 2: Respondents' opinion on internal audit function

Respondents' opinion	SD	D	N	A	SA	Mean	Stdev
The county has a functional internal audit unit/department	0.0	0.9	0.9	19.1	79.1	5	1
The timing of the audit in this county is appropriate.	0.9	9.6	18.3	43.5	27.8	4	1
The internal audit unit in the county has developed an internal audit manual that guides audit operations such as planning, implementation, monitoring, and evaluation.	0.0	2.6	13.9	45.2	38.3	4	1
The audit is always completed on a timely basis.	3.5	22.6	25.2	29.6	19.1	3	1
Internal audit findings are reported directly to top county management and the audit and risk sub-committee of the service board.	0.9	1.7	2.6	51.3	43.5	4	1

Respondents' opinion	SD	D	N	A	SA	Mean	Stdev
A majority of the audit team members in the county are registered members of ICPAK or professional organizations internationally recognized.	0.0	1.7	11.3	52.2	34.8	4	1
The internal audit unit in the county plays a major role in fraud detection and prevention	0.9	4.3	15.7	57.4	21.7	4	1
Recommendations of the internal audit unit are taken very seriously in the county	0.9	2.6	16.5	53.9	26.1	4	1
The internal auditor(s) demonstrate professionalism and an objective approach.	0.9	0.9	11.3	68.7	18.3	4	1
The audit department provides the county management with assurance that there are no major weaknesses and/or major internal control weakness are reported.	0.9	1.7	13.9	66.1	17.4	4	1
The internal audit department reports functionally to the county audit committee of the Board	0.9	5.2	5.2	47.8	40.9	4	1
The internal audit department conducts its work independent of the county management	4.3	3.5	16.5	52.2	23.5	4	1
The head of the Internal audit function is a member of the county service board team and reports to the county executive	6.1	0.9	6.1	41.7	45.2	4	1

The result as shown in Table 2, indicated that the majority (79.1%) of the respondents strongly agreed that the county has a functional internal audit department, 19.1% agreed while an equal 0.9% of the respondents disagreed and took a neutral stand respectively. Most (43.5%) of the respondents agreed that the timing of audit was appropriate, 27.8% strongly agreed while 18.3% were neutral. Only 9.6% and 0.9% of the respondents disagreed and strongly disagreed respectively. As to the internal audit unit, 45.2% of the respondents agreed that internal audit unit in the county has developed an internal audit manual that guides audit operations such as planning, implementation, monitoring, and evaluation, 38.3% strongly agreed while 2.6% disagreed and 13.9% were neutral. Opinion on whether the audit is always completed on a timely basis, the results were 29.6% of the respondent agreed the audit is always completed on a timely basis,19.1% strongly agreed, 25.2% were neutral, 22.6% disagreed while 3.5% strongly disagreed. The result indicates that most of county have an effective internal audit function that plays the role of monitoring and evaluating organization activities, an indication of good internal control system. The result agrees with the findings of Nawhera (2012) that internal audit function has positive effect on performance in terms of monitoring and advisory services.

The result indicates that majority (51.3%) of the respondent agreed that internal audit findings are reported directly to the county top management and the audit and risk subcommittee of the board while 43.5% strongly agreed and 2.6% were neutral. Only 1.7% of

the respondents disagreed while 0.9% strongly disagreed. The result indicated that most (52.2%) of the respondents agreed that the majority of the audit team members in the county governments are registered members of ICPAK or other professional organizations internationally recognized, while 34.8% strongly agreed and 11.3% were neutral. A few (1.7%) of the respondent disagreed. Most (57.4%) of the respondents agreed that internal audit department in the county plays a major role in fraud detection and prevention, while 21.7% strongly agreed and 15.7% remained neutral. Only 4.3% and 0.9 % disagreed and strongly disagreed. The majority (53.9%) of the respondents agreed that the audit recommendations are taken very seriously in the county while 26.1% strongly agreed and 16.5% were neutral. Most (68.7%) of the respondents agreed that the internal auditor demonstrates professionalism and objective approach in executing their duties, 18.3% strongly agreed, 11.3% were neutral while an equal 0.90% of the respondents disagreed and strongly disagreed.

The results were that; the majority (66%) of the respondents agreed that internal audit department provides assurance that major weakness are reported, 17.4% strongly agreed, 13.9% neutral, 1.7% disagreed and 0.9% strongly disagreed. The results agree with the findings by Corama, Fergusona and Moroney (2006) that organizations with effective and efficient internal audit function are able to detect fraud more than those that have not such a function within their organizations. The result confirms that county governments have internal audit function that play the role of fraud detection, prevention and control, an indication of good internal control system through monitoring.

The majority (47.8%) of the respondents agreed that county internal audit department reports functionally to the county audit committee of the board, 40.9% strongly agreed and 0.9% strongly disagreed while an equal of 5.2% of respondents disagreed and remained neutral respectively. The majority (52.2%) of the respondents agreed that audit department conducts its work independent of the county management, 23.5% strongly agreed while 16.5% were neutral. 3.5% and 4.3% of the respondent disagreed and strongly disagreed respectively. Finally, 45% of respondents strongly agreed that the head of the internal audit function is a member of the county service board team in the county, 41.7% agreed, 6.1% were neutral while 0.9% and 6.1% disagreed and strongly disagreed respectively.

The results agree with the finding by Meletta (2004) that county audit committees and management teams are now looking for improvement opportunities within the county audit department and internal audit leaders are searching for new ways to manage ongoing management of local revenue. It also agrees with the findings by Al Matarneh (2011) that internal audit encompasses oversight activities through monitoring taken by the county assembly and audit committees to make sure that the local revenue management reporting process is credible. The findings show that counties have internal county audit department which play the role of independent and objective assurance. All counties must have a functional internal audit department charged with responsibility of providing the county management with reassurance that internal control systems are adequate and quality of services is in place (PFM act 2013). Most counties have functional internal audit departments charged with responsibility of providing the county management with reassurance that internal control systems are adequate and quality of services is in place (Institute of Internal Audit, 2009).

Management of Local Revenues

Table 3: Respondents on management of local revenues

Respondents' opinion	SD	D	N	A	SA	Mean	Stdev

There is accurate reporting of revenues collected	1.7	11.3	15.7	34.8	36.5	4	1
There is timely reporting of revenues collected	0.9	12.2	24.3	34.8	27.8	4	1
Revenues are banked immediately they are collected	1.7	17.4	35.7	19.1	26.1	4	1

Over the course of seven years, respondents' opinions on how county governments in Kenya handle local money have consistently risen, with 36.5 percent strongly agreeing, 34.8 percent agreeing, and 15.7 percent having no view. Consistency and equilibrium Only 11.3% agreed with the statement, while 1.7% objected and 0.4% strongly disagreed. Thirty-four percent of respondents agreed, followed by twenty-seven percent who strongly agreed, that the reported growth in revenues over the past seven years is correct. Only about 0.9% of respondents strongly disagreed, while 12.2% disagreed and 24.3% were unsure. 26% of respondents strongly agreed, 19.1% agreed, and the remainder 35.7% were indifferent to the question of whether or not funds collected during the last seven years have been reported on time. Maintaining an equilibrium In contrast, 17.4% of respondents disagreed and 1.7% strongly disagreed. Most respondents (44.3%) agreed that counties bank the income they get immediately, with 21.8% strongly agreeing and 28.7% being neutral. Only 2.6% opposed or strongly disagreed. Further, when asked if they thought debt finance in the company had been continuously reducing over the past decade, the majority of respondents (35.7%) said no, while 26.1% said yes and 11.3% strongly disagreed. A fair scale There were 19.1% agnostics and 7.8% staunch dissenters among those who responded.

Regression Analysis

The study carried out regression analysis to establish the statistical significant relationship between the independent variables notably, internal risk assessment and internal monitoring activities on the dependent variable which was the management of local revenue by the county governments in Kenya.

Risk Assessment on the Management of Local Revenues

This null hypothesis was that, H_0: There is no significant relationship between risk assessment control and management of local revenues by county governments in Kenya.

Table 4 presents the regression model on risk assessment versus management of local revenue. As presented in the table, R^2 is 0.308 and R is 0.555 at 0.05 significance level. The low R^2 indicates that 30.2% of the variation on the management of local revenue is influenced by risk assessment. This implies that there exists a positive significant relationship between risk assessment management of local revenue.

Table 4: Correlations of risk assessment and management of local revenue

		Management of local revenue	Risk assessment
Management of local revenue	Pearson correlation	1	0.555**
	Sig. (2-tailed)		0.000
	N	42	42
Risk assessment	Pearson correlation	0.555**	1
	Sig. (2-tailed)	0.000	
	N	42	42

**. Correlation is significant at the 0.01 level (2-tailed)
R = 0.555; R2 = 0.308; Adjusted R2 = 0.302; Std error of estimate = 4.75792

ANOVA results as shown in Table 5confirms that the model fit is appropriate for this data since p-value of 0.000 which is less than 0.05. This implies that there is a significant positive relationship between risk assessment and management of local revenue.

Table 5: ANOVA for risk assessment and management of local revenue

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1141.151	1	1141.151	50.409	.000[a]
	Residual	2558.077	41	22.638		
	Total	**3699.228**	**42**			

a. Predictors: (Constant), risk assessment

b. Dependent variable: management of local revenue

The results further indicate that risk assessment control has positive and significant effects on management of Local Revenue (Table 6). The fitted model is: Y = 8.992 +0.341*X2. This implies that a unit change in risk assessment will increase Management of local revenue by the rate of 0.341. Even when risk assessment function is non-existence, management of local revenue is still positive at 8.992 indicating that there are other drivers of local revenue.

Table 6: Risk assessment and management of local revenue

Model	Unstandardized coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Constant	8.992	1.335		6.733	0.000
Risk assessment	0.341	0.048	0.555	7.100	0.000

a: Dependent variable: management of local revenue

Monitoring Activities and Management Local Revenue

The null hypothesis was; H_0: There is no significant relationship between monitoring activities and management of local revenues by county governments in Kenya. Regression analysis was conducted to determine the significance relationship of monitoring activities and management of local revenues by county governments in Kenya.

Table 7 presents the regression model on internal monitoring activities versus management of local revenues. As presented in the table, R^2 is 0.116 and R is 0.341at 0.05 significance level. The low value of R^2 indicates that only 10.8% of the variation on management of local revenue is influenced by internal monitoring activities. This implies that there exists a positive significant relationship between monitoring activities and management of local revenue.

Table 7: Correlations of internal audit function and financial performance

		Management of local revenue	Monitoring activities
Management of local revenue	Pearson correlation	1	0.341**
	Sig. (2-tailed)		0.000
	N	42	42
Monitoring activities	Pearson correlation	0.341**	1
	Sig. (2-tailed)	0.000	
	N	42	42

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

$R = 0.341^a$; $R^2 = 0.116$; Adjusted $R^2 = 0.108$; Std. error of the estimate = 5.37969

ANOVA results as shown in Table 8 confirms that the model fit is appropriate for this data since p-value of 0.000 which is less than 0.05. This implies that there is a significant positive relationship between monitoring activities and management of local revenue.

Table 8: ANOVA for monitoring activities

Model	Sum of squares	df	Mean square	F	Sig.
Regression	428.893	1	428.893	14.820	0.000[a]
Residual	3270.334	41	28.941		
Total	**3699.228**	**42**			

a. Predictors: (Constant), internal audit function
b. Dependent Variable: Management of Local Revenue

The results further indicate that monitoring activities has positive and significant effects on Management of Local Revenue (Table 9). The fitted model is: Y = 9.813 +0.260*X5. This implies that a unit change in monitoring activities will increase management of local revenue by the rate of 0.260. Even when monitoring activities is non-existence, management of local revenue is still positive at 9.813 indicating that there are other drivers of local revenue including internal control environment, risk management, control activities and information communication.

Table 9: monitoring activities and management of local revenue

Model	Unstandardized coefficients		Standardized coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	9.813	2.169		4.525	0.000
Monitoring Activities	0.260	0.067	0.341	3.850	0.000

a: Dependent variable: management of local revue

Conclusions

In this study, the role of internal control systems, which the county governments of Kenya are able to cultivate to improve their effective administration of local income, is investigated. As a result, the scope of identifying methods that will promote effective management of local revenues by county governments in Kenya, such as risk assessment and monitoring activities, has been expanded as a result of the findings of this study. Therefore, in order to achieve efficient administration of local resources, the county governments of Kenya need to make investments in the establishment of robust internal control systems. The model can be used by county governments in Kenya to focus on key aspects of internal control systems that could result in effective management of local revenues. Risk assessment play a significant role in effective management of local revenues and hence county governments in Kenya should entrench risk assessment and strong monitoring strategies to better effective management of local revenues.

Recommendations

The county governments in Kenya should exert collective efforts in identifying the ideal mix of effective and efficient internal control systems that matches their needs and invest in them. The county governments in Kenya should embrace enterprise risk assessment and good monitoring activities to maximize on the financial benefits of internal control systems. The control systems should regularly be evaluated by the internal audit department to provide counties with assurance on the adequacy and effectiveness of mitigation controls that counties have put in place.

REFERENCES

Akkizidis & Khandelwal. (2007). *Financial Risk Management for Islamic Banking and Finance*.

Alchian, A.A. & Demsetz, H. (1972). Production, information costs and economic organization. *American Economic Review, 62,*772-795.

Amudo, A., & Inanga, E. L. (2009). Evaluation of internal control systems: A Case study from commercial banks in Uganda. *International Research Journal of Finance and Economics,* 3, 124 –144.

Bowrin, A. K. (2004). Internal control in Trinidad and Tobago religious organizations, *Accounting, Auditing and Accountability Journal,* 17 (1), 121-152.

Cohen, J. Krishnamoorthy, G. Wright, A. (2002). Corporate governance and audit process. *Mid-Year auditing conference*, LA.

Committee of sponsoring organisations of the tread-way commission (COSO, 1992). *Internal control-integrated framework.* USA: AICPA. P 157

Corama, P; C. Fergusona & R. Moroney. (2006). The value of Internal Audit in Fraud Detection. *Journal of Accounting and Finance, Vol. 48*(4):543-59.

Christopher, Gerrit Sarens, Philomena Leung, (2009) "A critical analysis of the independence of the internal audit function: evidence from Australia", *Accounting, Auditing & Accountability Journal, Vol. 22* Issue: 2, pp.200-220.

Crutchley, E. C., Jensin, R. M., & Marshall, B. B. (2007). Climate for Scandal; Corporate Environments that Contribute to Accounting Fraud". *The Financial Review, 42:53*-73.

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory or agency theory: CEO Governance and Shareholder Returns. *Academy of Management Review, 20*, (1), 65.

Freeman, R. E. (1984) Strategic management: A Stakeholder Approach. Pitman, London.

Gupta, P. P. (2006). Control framework and management reporting on internal Control over financial reporting survey & analysis of implementation practice. *Institute of management accountant,* Washington DC, USA.

Hair, J. F., Anderson, R. E., Tatham, R. L., & Black, W. C. (1998). *Multivariate data analysis.*5th Ed. Upper Saddle River, NJ: Prentice Hall.

Jensen, M.C. & Meckling, W. (1976). Theory of the Firm: Managerial behaviour, Agency Costs and Ownership Structure. *Journal of Financial Economics, 3*, 305-360.

Kaongo, J.D. (2015). *Assessing Local Revenue in Tanzania Local Government, a Case of Kinondoni Municipal Council.* (University of Nairobi).

Magara, C. N. (2013). *Effect of internal controls on financial performance of deposit taking savings and credit cooperative societies in Kenya.* (University of Nairobi).

Muio, A. K. (2012). *The Impact of internal control systems on the financial performance of private hospitals in Nairobi.* (University of Nairobi).

Muthusi, D.M. (2017). *Internal control and financial performance of commercial bank in Kenya.* (Kenyatta University).

Mwachiro D.B, (2013). *Effects of internal controls on revenue collection: a case of Kenya revenue authority.* (University of Nairobi)

Nawhera, M. (2012). *The Internal Audit Function and Financial Performance: a case of national social security fund in Uganda.* (Makerere University).

Noorve, L. (2006). *Evaluation of the effectiveness of internal control over financial reporting.* (University of Tartu).

Nyaata, M.M. (2017). *Effects of internal control on revenue management in Kakamega County.* (Masinde Muliro University of Science & Technology).

Office of the Controller of Budget (OCOB, 2016). County budget implementation review report for the first half of the FY 2015-2016.

Rezaee, Z. E., & Sharbatoghlie, A. (2001). *Continuous Auditing:* The Audit of the Future

Sarens, G. & Beelde, I. D. (2006). Internal auditors' perception about their role in risk management: A comparison between US and Belgian companies, *Managerial Auditing Journal,* 21 (1), 61-80.