World Journal of Innovative Research (WJIR)
ISSN: 2454-8236, Volume-7, Issue-5, November 2019 Pages 81-87

Effects of Corruption Awareness and Government Regulations on Performance of Counties in Kenya

Rerimoi K. David, James Nganga

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

Index Terms— **Corruption Awareness, Government Policies and Performance Of Counties.**

I. Introduction

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

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

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

In the public service in Kenya, the main county source of finances include transfers from nationally collected revenues, borrowing which is subject to condition like borrowing only to finance the development while short term borrowing that must not exceed 5% of the latest audited revenues receipts and its use restricted to management of cash flows. County own revenues from source such as local sources from County taxes and fees on service rendered Brown (2011). The monies raised are then applied in main county government expenditure sectors such as: agriculture and rural development, trade and tourism industry, environment, water and sanitation, early childhood education and development, and any other devolved county functions. The main expenditure areas mentioned arise from the general classifications expenditure areas in the medium term expenditure framework (MTEF) according to what the ministries do.

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In Counties, the budget implementation period or the financial years run from 1stJuly to 31st June. This is to try and bring to table how many has been used or allocation of money to prevent loss of funds. During this period a laid down medium term expenditure framework budget cycle is followed in the preparation and implementation of national budget (Freeman, 2016). The Ministries undertake the Ministerial Expenditure Review to analyze the ministerial past expenditure against the ministry's priorities as outlined in the Kenya's Vision 2030 or corresponding medium term plan. The analysis of the review sets the bench marks for the subsequent budget year and the other two forward years' activities and the resources required to successfully undertaking the planned activities

A. Statement of the Problem

County Governments have been facing a lot of challenges and accusation on loss of funds. Low awareness by communities and fund managers of their roles and responsibilities in the management of the funds has contributed to poor performance, and total failure in some cases. Poor participation, particularly for marginalized groups, results in twisted prioritization of projects and exclusion. No mechanisms exist to deal with projects such as roads, water systems, agricultural projects and schools that may cut across constituencies entailing shared benefits. No clear mechanisms exist to avert duplication of functions and committees to vet how funds from the county government have been used.

Despite the perceived development anticipated with devolution, little can be seen in terms of successfully completed project by most counties in the country. UasinGishu County specifically was reported to have only spent 11% against its 52% estimated development budget in 2014/2015 financial year (auditor's report 2014/2015). This raised concerns by stakeholders including residents who complained on little development agenda by the county government. Some of the county funded project consequently stalled and some have taken longer to complete with contractors blaming slow disbursement of funds. The concept of financial accountability at the county level relating to such project was questioned as funds released for project have been a big challenge despite the money seemingly being budgeted was a times unavailable.Over the years the public sector has been experiencing massive corruption and fraud related cases where public funds end up in the hands of corrupt individuals (Adari, 2007). More often than not, such lost funds are never recovered despite having litigations against the perpetrators. Public organizations in Kenya are faced with risks emanating from internal controls weaknesses which more often than not result to financial losses for the organizations (Njoroge, 2003). Weak internal controls also provide avenues for fraud in these organizations (Wagacha, and Ngugi, 2009).

B . Objectives of the Study

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

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

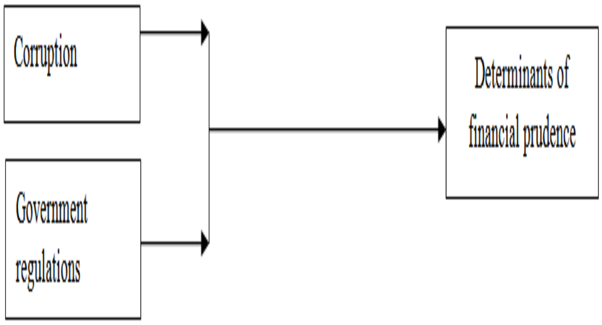
II. LITERATURE REVIEW

A. Theoretical Review

The study was based on resource dependency theory According to the resource dependency theory, directors bring resources such as information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty which in turn reduces the transaction cost and the potential of linking the organization with the external networks. This provides opportunity to gather more information and even skills in various specialties.Lawrence and Lorsch (1967) linked the resource dependency theory as an environmental influence on corporate governance and they argued that successful organizations possess internal structures that match external environmental demand.

- The study was also basedon institutional theory. The theory focuses on the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemes; rules, norms, and routines as authoritative guidelines for social behavior (Scott, 2004). Different components of institutional theory explain how these elements are created and adapted over time. The main idea of institutional theory is that the organizations are exposed and linked to external environment accordingly; governance should ensure that, there is a clear link between the organizations and environment based on organizations goals and objectives. Governance should have an effective influence and involvement in formalizing and identifying corporate goals. The theory explains the deeper and more resilient aspects of social structure, processes, schemes, rules, norms and routines that have become established as authoritative guidelines for social behavior. It looks at how these elements are created, diffused, adopted and adapted over space and time, and how they fall into decline and disuse.

B. Conceptual Framework



C. Corruption and Financial Prudence

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

Ahmed (2016) on the Treasury Single Account (TSA) as an Instrument of Financial Prudence and Management found that In Nigeria, it is common to find multiple bank accounts in commercial banks belonging to different ministries/agencies, with idle cash deposits sitting there. Many developing and low-income countries have fragmented government banking arrangements that hinder effective cash management and financial prudence. The primary objective of a TSA is to ensure effective aggregate control over government cash balances. The consolidation of cash resources through a TSA arrangement is meant to optimize government cash management.

It avoids borrowing and paying additional interest charges to finance the expenditures of some agencies while other agencies keep idle balances in their bank accounts. Effective aggregate control of cash is also a key element in monetary and budget management. Other objectives of a TSA include: reliable and efficient budget execution by minimizing transaction costs; monitoring (and thereby controlling the delay in) the remittance of government revenues (both tax and nontax) by the collecting banks; effective reconciliation between banking and accounting data; efficient control and monitoring of funds allocated to various government agencies; and facilitating better coordination with the monetary policy implementation. Any TSA has at least two central attributes. Firstly, it is a unified arrangement, which enhances the fungibility of the government's cash resources, and implies that no other government agency should be allowed to operate bank accounts without the oversight of the treasury; and secondly, it is comprehensive, encompassing all government cash, both budgetary and extra- budgetary activities in the Government.

Rono (2017) on the contribution of internal control systems towards sustainable financial prudence in public universities in Kenya found that strengthening internal control systems in public universities was likely to result in enhanced sustainable financial prudence ($r= 0.609$; $p< 0.05$). Moreover, the study indicated that 37.0% of sustainable financial prudence in local public universities could have been attributed to internal control systems.

D. Government Regulations and Financial Prudence

Ekpo (2016) on the effect of financial regulations on fiscal management in Nigeria, the study used parametric tests comprising mean score, standard deviation and Z-testare used to analyze data. From the results, public servants, particularly political office holders pay inadequate attention to financial regulations in their official duties: public funds are appropriated with impunity; contracting and procurement procedures are largely circumvented, internal audit functions of checks and balances are undermined, while the use of accounting manual appears relatively unpopular.

Immaculate (2016) on factors affecting finance management in devolved units in Kenya.(A case study of Kwale County Government). Found that, Records have shown a large number of the devolved units are yet to develop and implement effective finance management, yet these attracts benefits to both the devolved units and the members of public. Hence the development of this research paper to highlight on the best practices. It must be appreciated that the issue of finance management is very sensitive to the members of the public because it affects the living standards of the community members. This is because resources that are well utilized and distributed would be of much benefit to the public.

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

Panday (2004), states that central issue of financial policy is the wise use of funds and the central process involved is a rational merging of alternatives potential sources so as to achieve the broad financial goals which an enterprise sets for itself. This implies that financial manager in his or her new role is concerned with the efficient allocation of funds. Financial management contributes a lot in achieving the firm's long- run objectives.

Ngobolya (2008), In Financial Management and Control hand book, asserts that the management of learning institutions is accountable to parents, students, government and donors as appropriate for the use of institutions resources. According to GOK (2015), the Public Procurement Regulation (2006), Public Finance Management Act (2012) and Public Finance Management Regulation (2015) apply and guide public entities which include government ministries, government agencies, government schools, public universities, state Corporations as well as counties and county enterprises. The main objectives for implementation of the financial guidelines is to maximize economy, promote competition, improve financial prudence, promote integrity and responsibility of public finance, enhance transparency and accountability, restore confidence in the procurement process and facilitate the promotion of the local industry and spur economic development.

E. Empirical Review

According to Langseth (2006), there is no single, comprehensive, universally accepted definition of corruption because attempts to define it have faced legal, criminological, and political problems. Nevertheless, Transparency International (TI) published a report in 1995 which has defined a standard corruption as an "abuse of public office for private gain". According to TI, any act that produces public damage in any public institution is defined as "corruption", if the purpose is to promote personal or group undue advantages. However, this definition has been strongly critiqued for viewing corruption in a limited way as only happening in the public sector, while it occurs in other sectors as well (Klitgaard, 1988; Mbaku, 2007). To put corruption in its right context, abuse of power can be for the benefit of one's party, class, tribe, race, family, friends, or country as opposed to just one's private gain (Mbaku, 2007).

Corruption is generally considered as unethical, although people may disagree on the norms that determine whether someone or an organization is corrupt (de Graaf, 2007). Some actions may be justified according to the customs of the organizations while others may not depend on a particular organization. b) Corruption is context-based. Corruption varies in each culture (Luo, 2005; Andersson& Heywood, 2008) and it is manifested differently in various cultural settings (Collier, 2002). In some cultures there is no distinction between private and public life, and private appropriation of the acts is not regarded as morally wrong or banned (de-Graaf, 2007).

The person engaging in corrupt practices must be in a position of power created by market imperfections, or in an organizational position that grants them discretionary power (Vian, 2008; Luo, 2005). Gibelman&Gelman (2004) in their study found that all donor agencies had some experience with corrupt practices and that substantial numbers of those activities involved top managers who had access to power and funds. However, staff who may not be in position of absolute power in the organization, may still have access to power that manages the service recipients (Holloway, 2001).

Wanyama (2010) posits that the principle provisions of the Act and the Regulations have inherent weakness prone to abuses by procuring entities and do not envisage contemporary market realities. Kenyanya et al (2010), also argues that though development of mechanism for contract administration and appeals was hailed as a positive move, institutional capacity in procuring entities and procurement markets are the weakest. However PPOA (2007) reveals that the strongest points of the reforms have been the delegation of the procurement decisions which have been fully achieved. The report adds that the responsibility of procurement have been fully left to the tender committees and units of the procuring entities. According to the Kenya Public Procurement and Oversight Authority (PPOA) (2007), unethical practices in public procurement are non-enforcement of law, lack of transparency and accountability, breakdown or erosion of values and norms, weak management systems, procedures and practices, lack of professional integrity, greed and abuse of discretionary power.

F. Summary of Reviewed Literature

Legislators make decisions on their own on how and where to spend public money in their constituencies, there is a conflict of interest. Usually the immediate personal interests of individual legislators in providing benefits to their constituents are mediated by normal legislative process, in which the particular interests of each legislator compete with those of others. Majority of the members of the management team are appointed on recommendations of the councilor or Member of Parliament. Also most of the management team are chosen due to the ability to persuade or political affiliation to the local political leaders. It was also agreed among the respondents with a mean of 3.674 that local politics on the project influenced actual road construction to a great extent.

Internal politics influence the Kenyan business climate High- level corruption is pervasive. Politically motivated appointments to ministries, parastatals, and financial institutions, including the Central Bank of Kenya, often render these institutions less effective. Tenders are often awarded on the basis of political connections. The movement began in mid-1999 a process of reform meant to improve governance. This included the appointment to key senior civil service position of reformers dedicated to good governance. These appointments were welcomed by donor countries and resulted in the disbursement of some donor and International Financial Institutions (1FI) funds previously held in abeyance.

G. Research Gaps

Wanyama (2010) posits that the principle provisions of the Act and the Regulations have inherent weakness prone to abuses by procuring entities and do not envisage contemporary market realities. However this findings contrast those of (Wakiriba, Ngahu&Wagoki, 2014) whom found that public entities are established and run using the tax-payers' money. As such, therefore, taxpayers have a right to demand efficient management of finances in the public sector (Macharia, 2012). It is posited by Murray (2011) that legislators have a personal interest in the way the CDF money is spent in their respective constituencies. The rationale is to support their reelection prospects. He argues that this not an illegitimate interest given that the legislators' job of representation is to make decisions that serve the interests of their constituents and, therefore, win approval from likely supporters in order to help secure their reelection. This studies contrast those of Gachango (2014) on the effect of financial literacy on personal financial management practices: A case of employees in finance and banking institutions in Kenya.

The study found that personal financial management practices is greatly affected by personal financial literacy levels and also to some extent, level of education, which was a proxy for other cognitive factors affecting personal financial management practices. The study reveals that employees of financial institutions are no better than other people with their personal financial management practices despite their great exposure to financial literacy.

III. METHODOLOGY

The study adopted a descriptive design. Descriptive research design was preferred for this study because the researcher painted a picture with his own words. This research design was found to be most appropriate because of data collection using questionnaire and secondary data (Mugenda, 2003). The target population of the study was three counties (Baringo, ElgeyoMarakwet and Laikipia County Governments). Since the population was small, a census was used and thus no sampling was conducted. The main research instruments that were used in the study were designed questionnaires. Primary data was collected using questionnaires. The questionnaires consisted of both open ended and closed ended questions. Open ended questions gave the respondents allowance to freely respond to the questions without any limit and give their alternatives. The respondents of the study included 190 respondents covering 56 staff from Accounting and Treasury Services, 33 from Economic Planning and Budget, 38 from Supply Chain Management, 37 from Revenue and Resource Mobilization and 26 from Audit and Risk Assurance departments respectively of the 3 counties. A brief introduction was made to the respondents before administering the questionnaires with the aim of explaining the questionnaires. Confidentiality was assured to the respondents through the letters of transmittal that was attached to the questionnaires.Secondary data was collected over a period of 5-years (2014-2018). The study collected secondary data on receipts, expenditure as well as the surplus. This information was used to measure performance of counties. Pilot study was conducted in Baringo County in order to compare the results.The data collected was later analyzed with aid of the statistical package for social science (SPSS) Computer software from windows. Both qualitative and quantitative data were analyzed. Before carrying out regression analysis, the researcher conducted normality tests, multicollinearity test and heteroskedasticity tests.F-statistics was used to determine the overall significance of the regression model. The coefficient of determination R squared of the regression analysis was used to determine the proportionate change in the study variables.

IV. RESULTS

A. *Response Rate*

The study distributed 190 questionnaires were issued to the respondents drawn from Accounting and Treasury Services, from Economic Planning and Budget, Supply Chain Management, Revenue and Resource Mobilization and Audit and Risk Assurance departments of 3 Counties. From these questionnaires, 149 of them were completely filled and returned.

B. *Years of Experience*

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

Source; Research Data (2019)

From the results majority of the respondents (66.4%) had worked for a period of 11-15 years, 17.4% for 5-10 years and 16.1% for over 15 years. This shows that generally, respondents of the study had accumulated significant level of experience which enhanced their knowledge on corruption awareness, government policies and financial literacy and performance as sought by the study.

C. *Corruption*

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

Source; Research Data (2019)

From the finding majority of the statements had value of means above 3.5; this shows that in general, respondents agreed on the provided statements under corruption as a determinant of performance of counties. Respondents highly agreed on the statement that corruption was rampant in counties (M=4.17) resulting into loss of funds that would have been used to fund projects (M=4.11). Respondents also agreed that money is lost in most counties on account of corruption particularly among the leadership. Thus, it can be deduced that corruption is a key determinant of performance of counties.

D.

E. Government Regulations

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

Source; Research Data (2019)

From the findings the adherence to government regulations ranged from moderate to some great extent. In general, respondents agreed on government regulation as a determinant of performance of their county. Respondents highly agreed on the statement that finance management was very sensitive to the members of the public (M=3.95) and that a fairly tax compliant institution does encourage taxpayers' responsiveness (M=3.79). However, respondents were not sure whether public servants paid inadequate attention to financial regulations in their official duties (M=3.49). Therefore, it can be summed up that government regulation is a determinant of performance of counties.

F. Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Corruption	.722	1.386
Government Regulations	.599	1.669

a. Dependent Variable: Performance

Source; Research Data (2019)

From the findings all the variables had VIF values below 1-10; this implies that there was no multicollinearity.

G. Correlation Results

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

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

Source; Research Data (2019)

The results in Table 4.9 show that corruption (r=-0.537, p<0.05) has a negative and significant relationship with performance of counties. Government regulations (r=0.304, p<0.05) has a positive and significant relationship with performance of counties.

H. Regression Coefficients and Significance

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

a. Dependent Variable: Performance

$$Y = 6.942 - .415X_1 + .147X_2$$

Where Y is = Performance
X_1 = Corruption Awareness
X_2= Government Policy

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

I. Discussion of the Findings

Corruption has a negative and significant relationship with performance of counties. The negative relationship between corruption and performance of counties imply that corruption slows down performance and future development. The finding is supported by Wanjau, Muiruri and Ayodo (2012) who noted that in Kenya, corruption has resulted into wastage and extravagant spending, and especially, the loss of resources through possible fraud, irregularity or improper spending. Corruption is rampant in most of the counties which results into loss of funds and thus poor performance of the counties in Kenya. Money is lost in most counties on account of corruption particularly among the leadership.

Government regulations have a postive and significant relationship and effect on performance. In Kenya, these government regulations largely include Public Procurement Regulation (2006), Public Finance Management Act (2012) and Public Finance Management Regulation (2015). According to According to GOK (2015), these regulations play an important role in guiding and regulating the operations of public sector entities including the counties. Finance management is very sensitive to the members of the public. The finding is in line with Immaculate (2016) who noted

that the issues of financial management is so sensitive to members of the public since it has a direct influence in their standards of living. A fairly tax compliant institution does encourage taxpayers' responsiveness. The finding is supported by Baurer (2015) who indicated that fairly tax compliant entities makes the tax payers to be more responsive while limiting the number of tax evaders.

V. CONCLUSION & RECOMMENDATION

A. Conclusion

The study results concluded that Corruption has a negative relationship with performance of counties. Corruption has significant effect on performance of counties. Corruption is rampant in most of the counties which results into loss of funds and thus poor performance of the counties in Kenya. Money is lost in most counties on account of corruption particularly among the leadership. The study further concluded that government regulations have a positive relationship with performance. Government regulations have significant effect on performance. Finance management is very sensitive to the members of the public. A fairly tax compliant institution does encourage taxpayers' responsiveness. It is not clear whether public servants pay inadequate attention to financial regulations in their official duties.

B. Recommendation

Based on the conclusions of the study recommends that policy makers and agencies like the Ethics and Anti-Corruption Commission (EACC) should enhance its active role in fighting corruption among counties in Kenya. There should be strict regulations and rules that all people implicated with corruption should face including jail terms. The judicial system in Kenya has an important role in fighting corruption as far as hearing and determination of the reported cases of corruption is concerned. Measures should be adopted among all counties in Kenya that make it hard for official to engage in corrupt dealings. These include strengthening the systems of internal controls that are in place in all counties in Kenya. .

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