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REVENUE ADMINISTRATION STRATEGIES AND FINANCIAL PERFORMANCE OF COUNTY GOVERNMENT OF KISUMU, KENYA

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Abstract

According to the Kenyan governing law inaugurated in 2010, devolved governments shall have reliable financial resources to enable them deliver effectively and efficiently on their constitutionally enshrined mandate. It empowers county governments to impose various taxes. Despite the dictates of the constitution, county governments have perennially recorded financial under-performance in regard to revenue inflow. Shortfalls in revenue realization hamper budget execution. Kisumu County is one of the devolved 47 Kenyan counties whose highest annual revenue collection stands at 64.7% for all its financial statements under review since its inception in the year 2013. Increasing cost of governance and decreasing revenue inflow necessitates the need to research on revenue administration strategies and financial performance aspect of revenue collection. The intention of the study was to examine the influence of Integrated Financial Management Information System, revenue diversification, internal control and employee motivation on financial performance of Kisumu County. The engaged target population was 49, comprising of senior revenue administration officers who were drawn from each of the seven sub-counties. Data collection was through questionnaire with the help of seven research assistants. Descriptive statistics assisted in quantitative analysis. Qualitative data was analysed through application of content analysis. Pearson correlation analysis model was applied to assess the associations and the relationship between dependent variables and independent variable. MS-Excel and SPSS aided the data analysis. The study found out that full usage of Integrated Financial Management Information System, revenue diversification; internal control and employee motivation have strong influence on performance of revenue collection of the County Government of Kisumu. The study recommends complete rollout of other modules of IFMIS. Standby technical team to speedily address technical challenges during revenue collection. Strategies to exhaustively tap and expand revenue sources should be in place. Internal control should be enhanced to reduce risk of revenue collection leakage. Employee motivation should also be given preferential consideration for increased financial performance.

Keywords: County government, Revenue collection, IFMIS, Revenue diversification, Internal control, Motivation, Tax

1. Introduction

World Bank (2006) advocates for dual pattern of judicial framework, stipulating that the closer the government to the people the more effective it becomes. Similarly, citizens should have the democratic and legal right to vote out for the type and quantity of public utilities they desire.

These principles imply that decision making should be entrusted to the people charged with the lowest level of government closest to the people. Developing nations all over the world are on the path of fiscal decentralisation and reforms shaping devolved forms of governance for effective service delivery, economic growth and enhanced government transparency (Nyanumba, 2010). The constitution of Kenya 2010 allows the establishment of forty-seven regional governments with the aim of devolving responsibility to the lowest level of government to give various local communities chance to make and administer decisions that best address their needs through their legislative representatives serving in various constitutionally predetermined elective positions. The statute further provide that the decentralised government shall be anchored on the principles of democratic principles, segregation of power, and sufficient reliable sources of income to achieve effective governance and service delivery.

The capacity of the devolved governments to achieve its goal depend on the strength of its own source revenue. The degree of a decentralised government to raise revenue within is paramount for the implementation of the government budget. The rising cost of governance together with the decreasing income has prompted multiple decentralised governments in Nigeria to design and develop revenue base expansion measures (Akubo et al, 2016). However, the revenue receipts of most devolved governments in Nigeria is far below the target, all other things being equal. The effect of underperformance in revenue collection creates a huge budget deficit, the most single devastating challenge threatening sound governance in decentralised governments in Nigeria (Onwe,2014). Statutory allocations from central government are not sufficient to finance local governments budget. To be able to function optimally, decentralised governments have to raise the additional required revenue, which by implication is to maximise its internal revenue generation (Aloysiuss & Fabianu, 2015). According to Akubo, Oluremi, Zekeri and Ombugu (2016) internal revenue is the revenue that the decentralised government legally collect from the residents within the area of its governance.

Kisumu County is one of the forty-seven counties legally established by the current constitution of Kenya. To enhance effective governance, it has seven established administrative regions called sub-counties. Each of the seven sub-counties; Seme, Nyando, Muhoroni, Nyakach, Kisumu East, West and Centra and each represent a constituency. The provision of the supreme law of Kenya 2010 and the act of parliament grant authority to county governments to levy and collect taxes. Kisumu county government is empowered by the constitution like other county governments to collect revenue from taxes, user fee and charges (CRA, 2017). The ability of governments to provide adequate services ultimately depends on revenue availability (Chernic et al, 2011). All levels of government require sufficient revenue to discharge off their expanded expenditure budget in order to bestow upon their citizens’ prosperity and to reduce the escalating poverty (Ejoh, 2016).

Revenue for county government consists of transfer from the National Government, internally generated revenue (IGR), funds from development partners and borrowings. IGR is also referred as own-source or local revenue and it includes market fees, parking fees, advertisement fees, business permit charges, and rent from county government houses (ICPAK, 2017). Although both equitable share and the expenditure of decentralised government level have been on the rise,

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the own source-revenue performance of the county government has lagged behind. The huge shortfall in meeting own source revenue target poses a financial risk to county government (CRA, 2017). In such situations it is critical for county government to formulate and implement financial management strategies that will best ensure revenue received is balance against expenditure so that the government is not exposed to the risk of defaulting on their obligations (Hanif, 2014). Progress towards achievement of this aspiration depends in part on the extent to which county governments can raise their own revenue to supplement disbursements from the national government to finance their development projects (Developmental Initiatives, 2018).

1.1 Integrated Financial Information System (IFMIS)

IFMI is a developed information system applicable in managing financial resources of both levels of government, national and county governments. Its core objective is to be an engine of transparency and accountability. IFMIS is a multidisciplinary designed to monitor and report financial and non-financial information of the government to facilitate prompt decision making. When fully implemented it is able to execute budgeting, human capital management, pay roll processing, financial reporting, procurement operations and management of performance indicators (EYGM Limited, 2015). Chado (2015) highlights that IFMIS assist managers to secure accountability in allocation of public resources and application of the same to optimise service delivery to the maximum benefit to the citizenry. Enhanced monitoring of financial transactions through IFMIS facilitates financial managers to uphold the desired integrity in all aspect of financial cycle execution.

1.2 Revenue Diversification

Revenue diversification as a strategy derives its prominence from Adams Smith canon of tax diversification and also from the portfolio theory. The devolution of power from federal governments have transferred added responsibility to local governments to deliver enhanced services to the local electorate. The increased responsibility has necessitated expansion of budget. The overwhelming need of devolved government to raise sufficient income from various sources is of extreme consideration (Carroll, 2009). The need has created increased demand on local governments to diversify internal revenue sources and a more concerted effort to innovate and tap as maximum revenue as possible from the sources (Akubo et al, 2016). Carrol (2009) perceives that revenue diversification is often championed as a fundamental principle behind effective fiscal management. The basic objective of diversified revenue structure in this case is to reduce revenue variability on the overall sources of revenue. The strategy acts as a cushion to the governments against fluctuating revenue inflow. Revenue is considered stable when it maintains consistency over a considerable period of time (Hanif, 2014).

Revenue diversification is often strategy engaged in raising revenue when budget expands. It is also instrumental when sustaining revenue stability is a central consideration in an environment of risk and eminent uncertainty (Park & Park, 2018). Carroll (2009) adds that revenue diversification is a critical means of achieving canon of equity and adequate tax system. This is practical due to opportunity of securing revenue from as many citizens as possible. Carrol &Johnson (2010) point out that revenue diversification is associated with two compelling components: existence of multiple revenue sources and a balance of productivity among the

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revenue sources in relation to revenue received from each. Hanif (2014) asserts that the secret of stable revenue inflow is a function of multiplicity of revenue sources and a balance of percentage of revenue received from each source. Diversification of revenue as a strategy is also an attempt to reduce non-systematic risk associated with revenue sources which can be termed as tax portfolio. When the unsystematic financial risk is minimised, revenue variability is also controlled. Revenue stability remain achievable even when unsystematic risk is linked to loss of revenue from any single tax due to economic downturn, legal factors, or politically instigated actions (Ejoh et al, 2016).

1.3 Internal Control

Operational systems and procedures designed to ensure integrity in the financial statements, efficiency in operation and compliance to the governing laws and regulations of the industry where an entity is subject to (Sagwa, 2013). According to Abbas & Ibal (2012) internal control system is an obligatory requirement which helps the management to meet their obligations of corporate governance and other legislation. It requires the directors and senior management to maintain an effective control over the resources and procedures of work within the organisation. An effective process of internal control system avails to the management all the possibilities to prevent, detect and react against all the associated risks either from human behaviour or business operations. Internal control environment has been hailed as the propelling force behind all other aspects of internal control. The absence or weak form of control environment pronounces the collapse of internal control in an organisation, exposing it to all forms of risks (Wang, 2010). Internal control procedures should be treated as a continuous process so that any flaw can be prevented when found (Abbas & Iabal, 2012).

1.4 Employee Motivation

According to Osabiya (2015) motivation is force within a person engaged by an employer propelling the individual to put concerted effort to realise expectation or meet a particular need. Dobre (2013) has it that the human capital of an organisations ranks highest as the most valuable asset. It is an asset comprising of individuals who have needs to be satisfied and behaviour patterns that must be subject to control if they are to innovative and efficiently invest in an organisation for its growth, prosperity and development.

The successful organisations have been linked to managers' endowments to provide and sustain conducive, elevating and motivating environment to all employees. All organisations have been trapped in a highly competitive environment and to be able to exhibit growth and success, companies irrespective of size and market share prioritises retaining the most competent employees. This is an acknowledgement of their important role in spurring organisational to the next level of success. In order to maintain high performance companies should create strong, positive and superior relationship with its employees and direct them towards task fulfilment. However, Unsatisfied and unmotivated employee undermine the achievement of the set goals of an organisation. (Dobre, 2013).

When the success or failure of any organisation is subjected to scrutiny, employees' motivation reign supreme in the discourse. This is recognition of the fundamental role of motivation in enhancing the employee commitment, productivity and performance. Employee's motivation is

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directly associated to employee commitment, productivity and business profits. Motivated employees demonstrate high level of productivity, commitment and satisfaction in their jobs (Nizam & Shah, 2015). According to Mullins (2005) cited by Osabiya (2015) the most compelling reason behind decline in productivity is poor working morale. This is noted by lack of team work, low motivation, poor sense of belonging and people feeling undervalued and poorly rewarded. Osabiya (2015) further indicates that unsatisfied employee produces unsatisfactory results; therefore, it becomes very essential for managers to be responsive to the needs of their employees to ensure that they do not become dissatisfied with their jobs.

2. Statement of the Problem

For each of the financial years under review as table 2.1 show since inception of county governments in Kenya in 2013, financial underperformance in respect to revenue collection has been one of the key challenges facing the county governments in execution of their budgets. Performance of county government in this regard indicates that they have performed poorly against their own revenue collection target. Their actual revenue remained volatile not only missing target but often less revenue is being collected in subsequent years (CRA,2017).

According to Controller of Budget (2018) for instance, in the FY 2017/2018 aggregate revenue raised by county governments from own sources amounted to Kshs.39.49 billion. The amount accounted for 66% of the annual revenue collection target of Kshs.49.22 billion. Kisumu County own source revenue collected in the same financial period amounted to 874.9 million, a decline of 12.5% in comparison to Kshs.1 billion receipted in similar period in the FY 2016/2017 accounting to 76.2% of their own source revenue collection projection of 1.15 billion. This low underperformance of local revenue collection continues even after revision of revenue collection target of Kisumu County being scaled downwards from Kshs.1.585 billion to 1.15 billion. Thus FY 2017/2018 local revenue collected represents 55.2 percent of 2016/2017 local revenue collection target.

Table 2.1 Performance of Revenue Collection of Kisumu County

Financial Year	2019/18 Ksh(000)	2018/17 Ksh. (000)	2017/2016 Ksh. (000)	2016/2015 Ksh. (000)	2015/2014 Ksh. (000)	2014/2013 Ksh. (000)
Revenue collection Target	1380000	1,585,000	1,585,000	1,870,000	1,500,000	1,740,000
Actual Revenue Collection	842820	874,900	1,004,000	978,890	970,900	621,180
Financial Performance	61%	55.2%	63%	52.2%	64.7%	35.7%

Source: COB Annual County Governments Budget Implementation Review Reports for the Financial Years (FY 2014-2019)

Consecutive poor financial generation over the years necessitates this study to unearth methods of achieving financial objective in regard to revenue collection.

Studies have been done but none has been found to effectively address the need of county governments to meet their revenue generation targets. Studies regarding revenue collection in Kenya have been anchored on former local governments and municipalities which became obsolete with promulgation of 2010 constitution. Toro me (2013) having considered the performance of service delivery in relation to revenue collection recommend that local authorities need to put more effort to ensure optimal revenue collection and administration is improved to provide quality service to the people further emphasize the need for the investigation.

3 Related literature

3.1 IFMIS

Rotich (2018) study was on consideration of information communication technology and revenue collection in the County Government of Nairobi, Kenya. Research design applied was descriptive. The study targeted a population of forty-six individuals who were identified and sampled from eight departments. Data collection was through use of questionnaire. The research revelations were several: information communication technology (ICT) policies improve revenue collection, make collection of revenue easier and increase the level of revenue collection productivity. It provides timely information; reduce cost of revenue collection and seals loopholes for corruption. Employees' perception on the use of ICT for revenue collection in county governments contributes significantly in the overall revenue collection in the county. The study further revealed that ICT provide complete information, traceability of transactions, secures information and uphold accuracy of information for better decision making.

Simiyu (2018) researched on IFMIS application and financial management practices in Kilifi County Government. Exploration of the effect of IFMIS in managing of public finance in Kilifi County was the guiding study concern. Pegging the study on descriptive research design, questionnaire was employed in collection of data from the field. Secondary data was sourced from county financial reports and Kenya government treasury. Simiyu analysed data both qualitatively and quantitatively specifically using multilinear regression model. The finding on effectiveness of IFMIS on accounts receivable shows that it improves significantly public financial management accuracy, promptness, relevance and authenticity. In relation to effectiveness on accounts payable, IFMIS was able to significantly reduce financial malpractices in Kilifi County. The study also reveals that organisational self-regulatory systems such as tracking of financial events, availability of information costing analysis and disclosure positively influenced and enhanced sound financial practices in the county.

3.2 Revenue Diversification and Financial Performance

Hassan (2017) studied income diversification and profitability of banks under the regulation of NSE. Adopting descriptive research design, the focus of the investigation was to find out the effects of income diversification on the profit generation of listed banks with NSE. The listed

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eleven commercial banks with NSE for the years 2012 to 2016 was the target population. The audited financial statements for the period under study became the source of secondary data. Data analysis was through multiple regression analysis. The discovery from the study affirm that multiple sources of income has insignificant negative effect on the profitability of commercial banks. Size positively and significantly influences financial performance of banks. Thus managers intending to increase profitability of their banks will give increase in size a preferential consideration. The contribution of high liquidity on profitability was found to be negative. The implication of this finding is that higher liquidity ratio will negatively affect the financial performance of the bank. Bank managers need to maintain the liquidity of banks at optimal point in order to maximise profitability. Capital adequacy ratio was discovered to have a significant positive influence on bank profitability. This imply that banks ought to maintain high capital adequacy ratio in order to sustain high financial performance.

Nyongesa (2014) study was an exploration of strategies county government of Mombasa has put in place to raise revenues. The researcher applied a case study research design. Data collection was through questionnaire administered during face to face interview of the target population of twenty-two head of department with authority to incur expenditure. Data was analysed using qualitative content analysis. Nyongesa found that county government of Mombasa adopt several revenue collection strategies including outsourcing of services to cheaper service providers, introduction of new rates for small business that evaded tax prior to the county government establishment, strategies to improve voluntary compliance, effective enforcement of tax laws, review of organisation structures, implementation of modern and innovative human resource management practices.

3.3 Internal Control and Financial Performance

Kipchumba (2018) focussed his study on internal controls and management of financial resources in the county government of Uasin Gishu, Kenya. The intention of study was to discover the relationship existing between internal control and financial management. The nature of his study was descriptive design. The target population was 175 head of departments of finance, internal audit and procurement officers. Primary data sources were used along with secondary data. Collection of data was through questionnaire. The data analysis was through inferential statistics with aid of SPSS. The research findings indicate that internal audit has significant positive relationship on financial management. Positive change in internal control lead to increased financial management (FM). Reporting and information communication both has significant relationship on FM. On risk assessment, a unit increase translates to a decrease in FM. This implies that risk assessment is essential but on its own cannot improve FM.

Wairimu (2018) research objective on the work titled internal control and utilisation of financial resources by state corporations in Nakuru County Kenya, was to explore the effect of internal control on the allocation of corporate finances. Guided by descriptive research design, data collection was through questionnaires from the target population of twenty-six state corporations whose operations are based in Nakuru. The respondents were fifty-two head of internal audit and chief accountants working for those corporations. Employing Inferential and descriptive statistics in the data analysis, the research findings revealed that internal control influences positively

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allocation of financial resources at the disposal of the named state owned firms within the scope of the study. The components of internal control, corporate governance and internal audit function greatly impacted positively utilisation of financial resources.

2.3.4 Employee Motivation and Financial Performance

Mumbi and Makari (2015) investigated influence of motivation on performance of ministries in Kenya. The study singled out the ministry of Agriculture, Livestock and Fisheries. The intention of the researchers was to find out the connection between employees' motivation and performance of government ministries in Kenya. Descriptive research design guided the study. Data was collected by use of structured questionnaire from target population of one hundred and ten. The data was analysed by use of analysis of variance. The findings indicate that career development affects organisational development. It empowers the organisation to strike a balance between the individual career aspirations and the organisations human resource requirements. In- house training received by employees' prompt commitment to the organisation and bring a positive change in regard to performance. Thus effective training of employees improves their performance. Compensation contributes positively to the success of the organisation in regard to performance. The recommendation of the study is that employees' compensation ought to be in accordance to their output levels and their unique skills they possess. Promotion and reward should also be included as a means enhancing organisation performance through increased output of motivated employees working for the organisation. The performance appraisal not only revealed areas of further improvement but also increased productivity of the technical staff and created a feeling of usefulness among them.

Nguyen (2017) considered employee motivation on organisational effectiveness. The study design was descriptive in nature. The population of 3230 Vaasa University of Applied Sciences students were the target population. Questionnaire distributed through online platform were used to capture the data and the same was analysed quantitatively. Findings from the study indicate that compensation, professional growth and work life balance are key motivators of the employees. Flexibility of work and good relationship with supervisors and colleague, job rotation, improved management style and effective communication within the organisation improves the employee motivational level.

Waiyaki (2017) focus of the study was motivation and employee performance: taking a case of PAM Golding Properties Limited (PGP) Nairobi. Adopting descriptive research design, the intention of the study was to establish the connection between motivation and the output of the employees. Self-administered questionnaires were used to capture data from fifty employees. SPSS aided the analysis of data. Motivational goal setting was used to motivate employees. However extended findings indicate that regular training and mentorship programmes for employees to achieve their goals were absent. In addition, uncompetitive compensation makes employees dissatisfied. Like other study finding competitive remuneration was found to be a premium motivating factor for employees. Inequitable and unfair reward programmes were found to be counter-productive strategies in increasing employees output.

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Nwannebuife (2017) sought to discover the effect of employee motivation on organisational productivity (a case of May & Bakr plc, Oita, Ogun State Nigeria). The study was an examination of employee motivation and organisational productivity. Descriptive research, causal research design and survey method were engaged in the study. The researcher sampled 217 from a population of 475 employees. Structured questionnaire administered for data collection. Multiple regression model was then employed in data analysis. It was discovered that a variation in productivity of up to 38.8 percent can be linked to employee motivation. Training and development, compensation, employees' relationship with managers and employees were also found to have a significant effect on workers' effectiveness.

1.4 Conceptual Framework

Revenue Administration **Financial Performance**

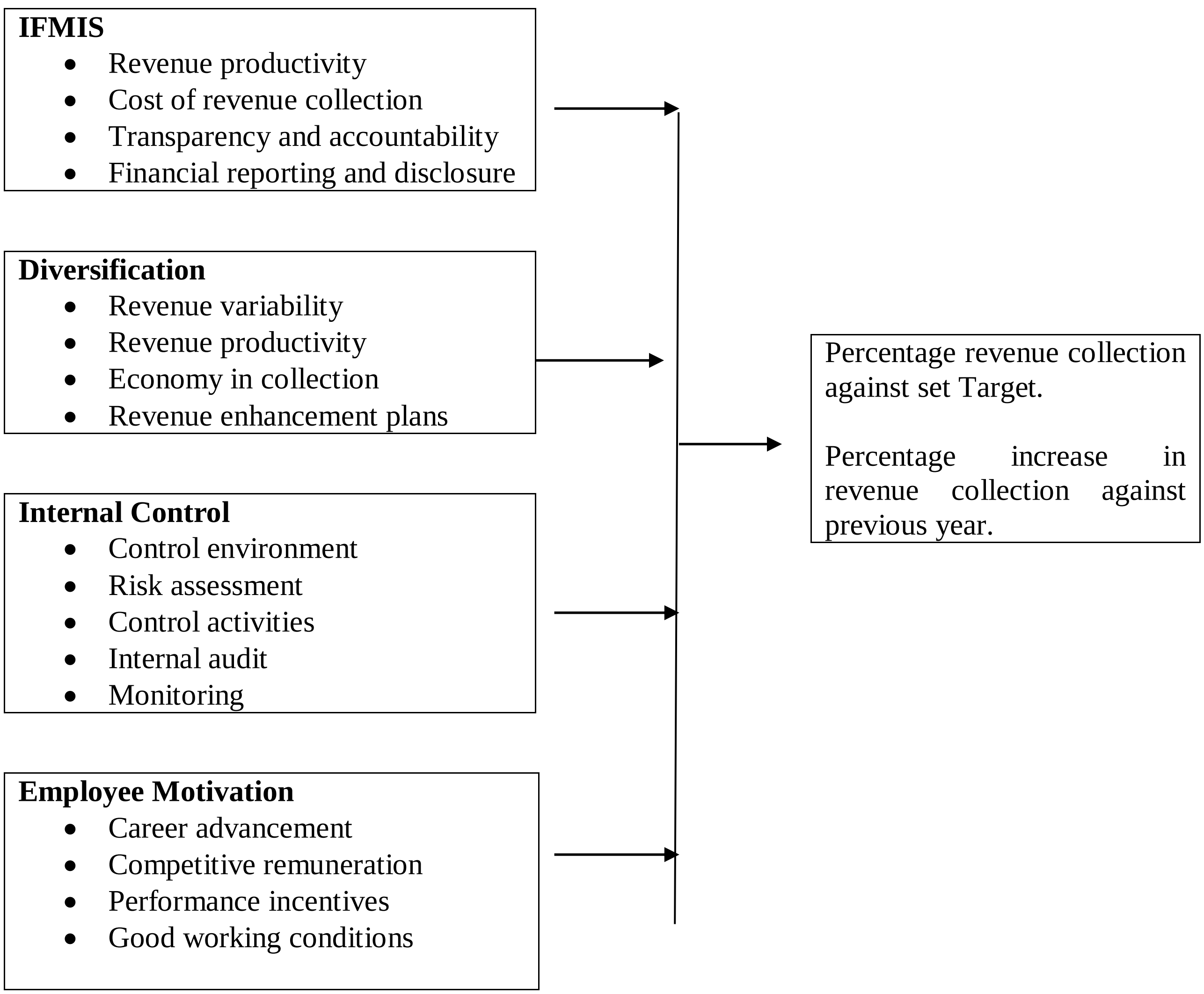

Figure 1.4. The conceptual framework.

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1.5 Study questions

- How does the IFMIS influence revenue performance of County Government of Kisumu?
- How does revenue diversification influence revenue performance of County Government of Kisumu?
- How does internal control influence revenue performance of County Government of Kisumu?
- What is the effect of employee motivation on revenue performance of Kisumu County Government?

2. Research Methodology

Descriptive research design was adopted in this study. Descriptive research was chosen due to its inherent strength in accurate presentation and reporting of situations and phenomenon. Data was collected from senior revenue administration officers ranging from various superintends, supervisors, section heads, sub-counties revenue officers and the directorate. The officers were stationed among the sub-counties as displayed in table 3.2.1 below. Seme and Kisumu West is administratively combined in regard to revenue collection. The target population adds up to forty- nine.

Table 2.1. Target Population

Clusters	Kisumu cental	Kisumu East	Kisumu west&Seme	Muhoroni	Nyakach	Nyando	Total
Target Population	11	12	6	5	6	9	49

Source: Kisumu County, (2019)

The study engaged purposive sampling and census technique to single out the participants across the sub-counties within Kisumu County. The population was divided into six clusters, each cluster representing a sub-county of Kisumu County. The sampling criteria chosen permits the researcher to use own discretion in selection of elements best suitable to address research questions and objectives (Sanders et al,2009). Only the senior revenue officers were chosen and engaged in the study. They were favoured because of their experience, level of education and professional expertise empowering them to comprehend, understand and interpret the content of the questionnaire unlike the junior officers. The data was obtained from the respondents through the use of questionnaires.

The aspects of descriptive statistics like means, standard deviations and frequency distribution were employed in data analysis. Content analysis was central in analysis of qualitative data. Descriptive statistics is preferred because it is able to define variables both quantitatively and qualitatively. Pearson correlation analysis was used as the inferential statistics, which tested the variables associations and their relationships. According to Somekh and Lewin (2011), Pearson correlation coefficient (r) communicate the extent of linear associations between dual variables,

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in other words the strength of their variation. MS-excel office application and SPSS were used to aid in data analysis process. The Pearson formula of correlation coefficient(r) is given as:

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{[n\Sigma x^2 \ - \ (\Sigma x)\ ^2\ [n\Sigma y^2 \ - \ (\Sigma y)^2]}}$$

Where:

n..........number of pairs of scores, **y**…. financial performance (dependent variable)

x……. each of the independent variable at a time (IFMIS, Revenue diversification,

Internal control and Employee motivation)

Σxy…sum of the products of paired scores, **(Σx)**…sum of x scores, **(Σy)**…sum of y scores.

Σx^2…. sum of squared x scores, **(Σy)**…sum of squared y scores, **r**…. correlation coefficient

3. Findings

3.1 Integrated Financial Management Information System on Financial Performance

In order to achieve the study objective, the participants were required to indicate whether the IFMIS was fully operational in the administration of revenue in the county. It was realized from the analysis that 45% of the respondents showed that IFMIS was not fully in use in the administration of revenue while 37% accepted that it was fully in use but cited several challenges that were being experienced such as network failure, mechanical problems, inadequate system security and absence of training. These challenges were in most cases hindering the operation of IFMIS. Lastly, 18 % of the respondents were not sure whether the system was fully in operation or not.

The respondents were further tasked to rate the extent to which the various statements given in table 3.1 influenced financial performance using a 5- Likert scale. The mean responses and the standard deviations are presented in table 3.1. The disagreeing scores has been set to infer a variable with a mean score ranging between 0.0 to 2.5, neutral scores between 2.5 to 3.4 and the scores of both agreeing and strongly agreeing to range from 3.5 to 5.0 on a Likert scale. A standard deviation of greater than 1.0 suggest that there is a very significant difference on the effect of the study variables among the participants.

Table 3.1 IFMIS and Financial Performance

IFMIS				
	N	Mean	Std. Deviation	Variance
IFMIS improves revenue collection	40	2.90	1.257	1.579
IFMIS guard against leakages of revenue collection	40	2.72	1.219	1.487
IFMIS enhance transparency and accountability	40	2.60	1.105	1.221
IFMIS reduce cost of revenue collection	40	2.63	1.170	1.369
IFMIS enhance financial reporting and disclosure	40	3.80	.966	.933
Valid N	40			

Source: Research Data (2019)

According to the study revelations, most of the respondents accepted that IFMIS enhance financial reporting and disclosure as indicated by the mean and standard deviation (M=3.80; SD=0.966), suggesting that IFMIS affect financial performance significantly. Others indicated that IFMIS had low influence on revenue collection (M=2.9), IFMIS did not guard against leakage of revenue collection (M=2.72), IFMIS had low significance in enhancing transparency and accountability (M=2.60) and finally IFMIS had low significance in reducing the cost of revenue (M=2.63). The overall mean score (2.93) indicate that IFMIS had a low influence on the financial performance in the county with a standard deviation (1.1434) showing that there was a lot of disparity among the respondents on how IFMIS influence the financial performance in the county. This could be linked to the high number of the respondents (45%) who had earlier stated that IFMIS was not fully operational in the administration of the revenue in Kisumu County.

3.2 Revenue Diversification and Financial Performance

Revenue diversification strategy and its influence on financial performance of County Government of Kisumu was the second objective of the study sought to assess. The researcher first inquired whether the county government have access to diverse sources of revenues. All the respondents agreed that the county had numerous sources of revenue, among them being revenues collected from the business permits, market fees, parking fees, advertisements, rents among others.

This implies that the county government had numerous sources of revenue indicating that there is high potential for it to significantly influence financial performance. This agrees with Nyongesa (2014) who argues that adopting several revenue collection strategies, county governments are

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able to increase their financial performance. The researcher pressed further in order to assess the extent to which revenue diversification strategy shaped financial performance of Kisumu County. The findings outcomes are presented in table 3.2 in form of mean responses, standard deviations and variances.

Table 3.2 Revenue Diversification and Financial Performance

Diverse revenue sources				
	N	Mean	Std. Deviation	Variance
Multiple revenue sources decrease revenue variability	40	2.93	1.289	1.661
Revenue sources are economical to collect	40	3.55	1.001	1.003
Plans exist to expand revenue sources	40	3.85	1.027	1.054
Responsiveness of revenue source to prevailing economic conditions	40	3.23	1.310	1.717
Revenue sources are productive	40	3.57	1.035	1.071
Valid N	40			

Source: Research Data (2019)

The findings reveal that revenue sources were economical to collect and plans were in place to expand revenue sources with a mean of (M= 3.55 and M=3.85) and standard deviations of (S=1.001 and S=1.027) respectively. The revenue sources being economical to collect, and the existence of plans to expand revenue sources had a significance effect on revenue accruing to the County Government. In addition, the investigation also showed that the revenue sources were productive as well portrayed by the mean score of M=3.57. Others indicated that multiple revenue sources and responsiveness of revenue sources to prevailing economic conditions with means of 2.93 and 3.23 respectively had less or little effect on revenue variability.

3.3 Internal Control and Financial Performance

Internal control strategy and its effects on financial performance was another investigated central research objective. The respondents were asked to rate how internal control was being achieved in the county. Table 3.3 is a presentation of the findings.

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Table 3.3: Internal Control

	N	Minimum	Maximum	Mean	Std. Deviation
Internal audit function enhances revenue collection	40	1	5	3.68	.888
Policies exist to control resource wastages and corruption	40	1	5	3.23	1.271
Audit committees take active interest in internal control	40	1	5	3.27	1.176
Environment exist prompting capacity development on risks and control issues	40	1	5	2.95	1.085
Strategies of dealing with identified risks exist	40	1	5	3.27	1.219
Internal audit cost is balanced against benefits and risks designed to manage	40	1	5	3.32	1.071
There are measures to ensure expected revenue are all collected	40	1	5	3.42	1.010
Valid N	40				

Source: Research Data (2019)

The findings indicate that Kisumu County heavily relied on internal control. Internal audit function enhance revenue collection as indicated by the mean and standard deviation (M=3.68; and S=0.888). There were inadequate or sub-optimally enforced policies and regulations in controlling resources wastages and corruption (M=3.23, SD=1.27), the internal audit committee took insufficient interest in internal control (M=3.27, SD=1.17) and there were no definite strategies by senior management in dealing with the risks identified (M=3.27, SD=1.219). Some of the participants showed that the cost of internal audit was not balanced against the benefits (M=3.32, SD=1.07) and finally there were no conclusive measures in place to ensure that all the expected revenues were collected (M= 3.42, SD=1.010). This point out that the internal control strategy implementation scored low in the revenue administration hence could have been one of the major drivers of financial underperformance in the county.

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3.4 Employee Motivation and Financial Performance

The researcher sought to establish if there was employee motivation among the revenue officers in the county. The participants were tasked to rate the extent to which they agreed with several aspects of employee motivation. The means and standard deviations calculated are presented in table 3.4.

Table 3.4 Employee Motivation

	N	Mean	Std. Deviation	Variance
Opportunities for career advancement	40	2.87	1.137	1.292
Good working environment	40	2.92	1.095	1.199
Competitive remuneration	40	3.10	1.057	1.118
Realistic assigned revenue collection target	40	2.85	1.189	1.413
Appreciations in form of incentives for performance above assigned target	40	2.78	1.143	1.307
Valid N	40			

Source: Research Data (2019)

From the findings, all the tested aspects show that employee motivation was at very low point among the revenue administration officers. Most respondents indicated that they have no opportunities for career advancement indicated by a mean and standard deviation (M=2.87; SD=1.137), they did not have good working conditions (M=2.92; SD= 1.095) and competitive remuneration was not offered to the revenue officers (M=3.1; SD=1.057). The revenue officers were also not assigned realistic revenue collection target (M= 2.85; SD=1.189). This could account for the reason the county government for a long period of time has had a low performance against the set target in revenue collections. Lastly the study established that there were no any forms of incentives for the revenue officers who met their revenue collection targets. This was reflected by a mean value of 2.780 and standard deviation value of 1.143.

3.5 Revenue Administration Strategies and Financial Performance

The driving intent of the investigation was to establish the association existing between revenue administration strategies and performance of revenue collection. Through the use of questionnaires, the respondents were required to rate the degree to which they perceived IFMIS, revenue diversification, internal control and employee motivation led to performance of revenue collection. Obtained responses, means and standard deviations are tabulated in table 3.5.

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Table 3.5 Revenue Administration Strategies and Financial Performance.

Strategies on financial performance					
	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
IFMIS and Financial Performance	40	4.20	.153	.966	.933
Revenue Diversification and Financial Performance	40	4.40	.142	.900	.810
Internal Control and Financial Performance	40	4.38	.155	.979	.958
Employee Motivation and Financial Performance	40	4.10	.155	.982	.964
Valid N	40				

Source: Research Data (2019)

The research results indicated that larger proportion of the respondents agreed strongly that revenue administration strategies have a major impact on performance of revenue collection in the County Government of Kisumu as represented by a mean value of more than 4.00. Full implementation of IFMIS ensures existence of guard against revenue leakage, enhances transparency and accountability, reduces the cost of revenue collection and enhances financial reporting and disclosure hence increasing the financial performance. Having multiple sources of revenue, revenue sources being responsive to prevailing economic conditions and the sources being productive improves the financial performance. Regular internal audit, monitoring of revenue collection process and putting in place various policies and regulations in controlling resources wastages and corruption ensure that the revenue collected is accurately directed and managed to serve the interests of the populations in the county. Lastly employee motivation plays very important role in ensuring that the employees exert continued determination to attain their revenue collection targets, which in turn lead to a positive significant increase in the revenue collected in the county.

4.6 Inferential Analysis

The aim of the investigation exercise was to determine quantitatively the degree to which the independent variables (IFMIS, revenue diversification, internal control and employee motivation) and the dependent variable (financial performance) are correlated. The Pearson's correlation coefficient was employed in data analysis. It is a measure applied in statistics to determine the degree of linear relationship existing between any dual data. According to Somekh & Lewin (2011), the correlation coefficient **(r)** is of the range of -1 and +1. A positive value of **r** shows that the correlation is positive. Positive correlation implies that the scores on

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both variables increases or decreases together in the same direction. When **r** is negative then the correlation is negative. This indicate that the values of the two variables increases or decreases together but in the opposite direction; that is as the value of the other variable increases the other variable decreases. A zero value of **r** is a representation of a nil association between two variables. The Pearson's correlations coefficients existing between variables under investigation were calculated by the aid of SPSS and the values are in accordance to table 3.6

Table 4.6 Correlation Analysis Results

Correlations						
		Financial Performance	IFMIS	Revenue Diversification	Internal Control	Employee Motivation
Financial Performance	Pearson Correlation	1	.750**	.774**	.776**	.769**
			.000	.000	.000	.000
	N	40	40	40	40	40
IFMIS	Pearson Correlation	.750**	1	.879**	.911**	.951**
		.000		.000	.000	.000
	N	40	40	40	40	40
Revenue Diversification	Pearson Correlation	.774**	.879**	1	.900**	.882**
		.000	.000		.000	.000
	N	40	40	40	40	40
Internal Control	Pearson Correlation	.776**	.911**	.900**	1	.883**
		.000	.000	.000		.000
	N	40	40	40	40	40
Employee Motivation	Pearson Correlation	.769**	.951**	.882**	.883**	1
		.000	.000	.000	.000	
	N	40	40	40	40	40

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

Source: Research Data (2019)

Statistical analysis presented in the table form demonstrate that IFMIS implementation has a high positive correlation (Pearson correlation coefficient =0.750) thus influence financial performance. Similarly, revenue diversification, internal control and employee motivation also have linear positive correlation on financial performance (Pearson Correlation Coefficient=0.774, 0.776 and 0.769) respectively. The correlation matrix implies that fully implementation of IFMIS, diversifying revenue sources, having strong internal control and motivating employees have strong influence on financial performance as revealed by their high positive correlations with the dependent variable. This imply that an increase of a unit value of each of the independent variables leads to increase in the annual revenue collection.

4. Discussion

The findings from the research showed that IFMIS enhanced financial reporting and disclosure of information in the county. Positive correlation between implementation of IFMIS and financial performance was found to exist. However, IFMIS was not fully operational in the administration of revenue in the county. It did not lead to improved revenue collection and neither did it guard against its leakages. Furthermore, it did not enhance transparency and accountability in the administration of revenue collection in the county government.

Even though there are numerous revenue sources for the county government, its financial performance was still far from encouraging. The revenue sources were economical to collect, there were plans to expand revenue sources, and the revenue sources were productive. On the contrary, the revenue sources were found not to be responsive to prevailing economic conditions. Diverse revenue sources enabled the county government to dig from various sources and reduce the risks of relying on few or limited revenue sources, though could not meet its targets. Without the diverse revenue sources, the county government could be registering high variability the current revenue collection levels. There was positive correlation between revenue diversification and performance of revenue collection.

Internal control is yet to fully realise revenue administration objectives. Uncertainties exist on full implementation of policies and regulations that could control resource wastages and corruption. There was also limited environment that could prompt capacity development on risk and control issues. Minimal strategies exist where senior management deals with significant risks that had been identified. There were further insufficient strategies or measures to ensure that the expected revenues were all collected. Although there was regular internal audit and monitoring on revenue collection, there was reduced regular review on the implementation of the internal control and that control awareness was not actively promoted in the revenue collection department. Existence of positive correlation between internal control and financial performance was noted after the analysis.

It was finally observed that the county government lack continually concerted effort and strategies to motivate the revenue officers in order to enhance their performance in relation to realisation of set targets. Employee motivations in terms of opportunities for career advancement, proper working environment, realistic targets being assigned and incentives were limited, absent or at time if available did not meet the accepted standards. Positive correlation between the employee motivation and financial performance was noted.

5. Conclusion and Recommendations

Complete roll out of revenue collection functionalities or modules of IFMIS is strongly encouraged. The county government should make ready at all-time a technical team that is responsible for maintenance of revenue collection information system to ensure that any breakdowns associated with mechanical problems or network challenges are addressed as soon as they are reported. The internal audit team should be enabled so that they actively conduct real time information technology audits with the aim of reducing risk of revenue leakages and variance of revenue collected and reported. It will also enhance transparency and accountability required in administration of revenue. The county government should further ensure that the revenue officers and other personnel working under the revenue collection docket are fully trained on operation of IFMIS and also regular in-service training done to boost the skills required among the employees.

Though the county government have diverse revenue sources, measures should be laid down to ensure that the revenue collection officers are facilitated to enable them exhaustively tap the sources. With diverse sources but not being able to meet the revenue targets implies that not all these sources are fully exploited. Measures should also be put in place to expand the revenue sources so as to meet the ever increasing demands of financial resources.

Internal control had multiple challenges as identified by the study. The county government should enhance enforcement of policies and regulations to ensure that there is complete closure of possible openings for resources wastages through corruption or misapplication. The internal audit committees should have enhanced active interest in internal control and create an environment that can easily prompt capacity development on risks and control issues. There is need for those charged with governance develop and update strategies for handling significant risks that come to attention and also ensure that the cost of internal audit is balanced against the benefits including the risks it is designed to measure and avert. The county government ought to draw various measures to ensure that there is regular review on the implementation of the internal control and also create control awareness among the staff members of the revenue collection department.

Enhanced employee motivation strategies be assigned prominence attention. This is because most studies agree that employees' motivation enhance performance of entities. The county government should draw and implement measures that will make it possible for the employees who surpass their revenue collection targets are rewarded in form of incentives and other forms of appreciations. The county government should also make available opportunities for career progression and advancement. Good working environment and assignment of realistic revenue collection targets should be a normal experience. Revenue employees should be effectively supervised so that the set targets may be achieved.

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