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FINANCE

FINANCIAL RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COUNTY GOVERNMENTS IN EASTERN REGION, KENYA

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ABSTRACT

Purpose of the study: The purpose of the study was to assess the effect of financial risk management on financial performance of County Governments in Eastern Region, Kenya.

Statement of the problem: Financial risk management measures have been put in place to impact financial performance in Kenyan County Governments but despite that, they still experience cases of; incomplete records, lack of active audit units, non-adherence to the Public Finance Act, and approved budgets which has adversely affected the larger Kenyan economy due to budget misuse.

Methodology: The study adopted positivism philosophy and descriptive research design. The target population consisted of three (3) County Governments in Eastern Kenya namely Meru, Tharaka Nithi and Embu Counties. The target respondents were 60 finance officers working in four (4) departments in the Ministry of Finance and Economic Planning namely, Budgeting, Economic Planning, Monitoring, and Evaluation, Auditing and Accounting Services and Financial Reporting departments. A sample of forty-eight (48) respondents (finance officers) were selected using purposive sampling. The study utilized primary data which was collected and gathered using questionnaires. Data analysis was done using descriptive statistics (means and standard deviations) and multiple linear regression analysis with the aid of SPSS version 23. Hypothesis testing was carried out at 0.05 significance level.

Findings: The study found that risk governance, risk assessment and internal control systems had a positive and significant effect on financial performance whereas risk response strategies have a negative but significant effect. The study also found the moderating effect of inflation on the relationship between financial risk management on financial performance to be insignificant.

Conclusion: The study concludes that increasing risk board independence would positively increase budget utilization because independent and best policies for the benefit of counties in regard to budget utilization would be developed and implemented.

Recommendations: The study recommends that county governments should ensure the risk handling unit is independent, well equipped with up-to-date technology and well-staffed to ensure risks are easily assessed and seamlessly addressed to enhance effective financial performance. County governments should always undertake cost-benefit analysis before they embrace any particular risk response.

Keywords: *Financial risk management, risk governance, risk assessment, internal control systems, risk response strategies, financial performance*

INTRODUCTION

Since 2013 when the forty-seven (47) Kenyan devolved units began their operations following the proclamation of the 2010 constitution, there has been tremendous economic growth despite the many challenges due to substantial funds allocated to the Counties together with the accumulation of political power (Khaunya & Wawire, 2015). According to the Public Finance Management Act of (2012), each public entity is required to establish an audit department whose aim is to provide expert assessment on the activities of the organization in relation to; financial commentary, top management undertakings, risk management approaches and overall executive supervisory role. The devolved governments in Kenya brought services closer to the people, something that had not been experienced before as services were rendered only by the national government which made it even a bit more difficult due to increased bureaucracy. With the creation of County Governments, citizens have been receiving better services as the unit serves its people on a need basis in line with the county priorities and needs (Wagana et al., 2017).

Cannon and Ali (2018) argue that despite continuous funding of the devolved units and the existence of the County Government Public Finance Act of 2012 that guide on the usage of the funds in the Counties, still there have been several negative issues. Cases of misuse, wastage, embezzlement, fraud, and theft of county government funds have been rampant thus affecting service delivery to the citizens (Ngigi & Busolo 2019). Many reports by the Auditor General on the financial performance of different county governments in different years show many cases of unsupported expenditure, balance variances, poor budgetary control and performance, unavailability of robust risk management policy, inaccuracies in financial statements, and poor internal controls.

According to auditor general reports on the devolved units financial performance for the 2015–2016 financial year, the county of Vihiga had budgeted Ksh 3.2 billion but only spent Ksh 2, 439, 803, 534, with roughly Ksh. 1, 908, 942 and Ksh 530, 860, 810 going for recurrent and development votes, respectively. Despite the county government spending Ksh 740,600 on training staff, the expenditure could not be vouched for because the IFMIS was not reliably operated during the period. A total of Ksh 206, 907, 801 seems to have been paid without any payment vouchers, which the report attributes to a lack of audit trail and some circumstances. (Auditor, 2018).

The importance of financial risk management in today's business landscape cannot be overstated. As Mader (2018) points out, failing to adequately address financial risks can lead to an accumulation of customer claims. This situation can exacerbate financial management challenges, creating a feedback loop where each issue compounds the next. In essence, without a robust approach to managing financial risks, businesses may find themselves in a precarious position, with escalating problems that can threaten their stability and longevity. Managers' risky behaviors have an impact on the efficiency of managing various risks. Having a solid financial risk management strategy in place can help businesses better manage their finances and lower their risk exposure (Ramos et al., 2020). It is believed that senior decision makers' calculative culture and their measured attitudes about financial risk management models are correlated with the choice of specific risk tools. Companies that have put in existence reliable financial risk management systems tend to outperform their rivals in the years following the occurrence of the financial risks for which they are preparing.

Financial risk management, according to Jorion and Khoury (1996), is the process of controlling how much a firm is exposed to financial risks, to protect the financial returns from investments. There are several facets associated with the management of financial risk. Stein and Wiedemann (2016) explains risk governance as the process of applying different corporate governance characteristics to facilitate realization and management of financial risks. It incorporates a framework for decision-making as well as a plausible model of operation to make it easy to realize any probable financial risk and help arrest it before damage is caused (Lundqvist, 2015). Risk governance is measured in terms of board independence, risk disclosure, and risk handling unit.

Chen et al. (2016) denotes that risk assessment involves determining events that might lead to financial loss in an organization. It is a beacon of overall risk management as it is not possible to manage risks when events that cause them are not known (Aven, 2016). To facilitate its success, risk assessment is measured in terms of, scope, complexity, and exposure level. According to Gerrit and Mohammad (2019), internal control systems involve continuous aspects that organizations utilize to ensure that various events are undertaken in a timely, and responsible way. These systems are assessed in relation to; risk control environment, compliance, information and communication. According to Zhang (2016), risk response strategies involve coming up with options and determining viable actions that aid in threat reduction. Risk response strategies are measured in terms of risk mitigation, risk acceptance, and risk transfer.

Financial performance, according to Knight and Bertoneche (2000), is an organization's capacity to generate sustainable profits over the long term to maintain operations. In the public sector, financial performance is primarily measured through budget utilization. According to Ruth (2016), budget utilization relates to the attribute whereby all government-planned activities are delivered and their responsiveness provides a result for reporting at the end of the period of implementation. Budgets are drafted, implemented, and reviewed yearly. Successful budget utilization means effective service delivery to the taxpayers. Budget utilization is calculated as; Actual Expenditure divided by Total Budget Amount. Despite the value it brings, budget utilization is usually affected by various factors including structural problems, the inexistence of effective monitoring and evaluation, centralized allocation of budget, and employee competency (Zewdu & Birhamu, 2022). Kathungu (2016) denotes that in Kenyan County governments, budgetary utilization involves; budgeted and actual county expenditure, budgeted and actual devolved unit revenues, county resources and poverty index.

STATEMENT OF THE PROBLEM

Since the promulgation of new constitution, county governments have experienced tremendous developments but this has not been without a myriad of challenges. Despite the positive effect of devolution, 2021 report by The Kenya County Budget Transparency Survey documents that semi-arid counties of Meru, Tharaka-Nithi, and Embu ranked below their counterparts in the arid areas. The three counties scored an E, with Isiolo also scoring an E despite low revenues, Marsabit scored C, and both Kitui and Makueni scored B with Machakos scoring D (IBP, 2022). According to Auditor general reports, ineffectiveness of financial risk management was due to cases of; incomplete records, lack of active audit units, non-adherence to the Public Finance Act, and approved budgets which adversely affect the larger Kenyan economy due to budget misuse. As a result, Meru County's comparison of budgeted and actual amounts showed an unexplained variance of Kshs.2, 687, 199 while in Tharaka Nithi County, there was an under-expenditure of Kshs.33, 975, 047 relating to 7% of the budget. In Embu County, the auditor general report showed an under-expenditure of Kshs.121, 738, 409 resulting in 16% of the budget (Auditor General, 2022). All these limitations to budget utilization may have affected the planned activities thus negatively impacting service delivery.

Extensive empirical research has been carried out regarding financial risk management in relation to financial performance. Mbaru (2022) examined how Mombasa and Kilifi counties' financial performance was impacted by risk governance and management, and he found a strong correlation between the two. The study also found out the need for counties to have clear rules and processes to help in reducing aspects of conflicts of interest thus enhancing financial success. However, the research used census method which is subject to many errors. In Machakos County, Mutisya (2020) evaluated the effect of mechanisms of managing risks on the financial performance of youth projects and discovered that risk management strategies significantly influenced the success of youth initiatives. However, the research employed simple stratified random sampling which is difficult to select the appropriate strata to be used as the sample. In addition, Dorozik et al. (2020) study looked at how risk assessment and management affected public institutions' financial performance and found that risk management improved public institutions' performance.

In addition, there have been increased cases of embezzlement, wastage, looting, and loss of taxpayer money as cited by Ngigi and Busolo (2019). According to the 2022 Auditor General Report, only eleven (11) counties received an unqualified opinion with the remaining thirty-six (36) receiving other opinions. That was a similar situation for other audits in the preceding years.

Data from the World Bank report (2019) on Kenya's devolution revealed that county governments lacked the capability and knowledge to ensure that resources were effectively utilized in support of shared prosperity and enhancement of service delivery to the citizens. Most of the problems facing County governments include delays in financial reporting, delays in the release of funds by the national government, and misuse of resources. Budget utilization in its entirety is still a problem for counties. Some of the decisions made so far have not done a lot in solving the problem. Therefore, this study sought to close the knowledge gap that exists by assessing the effect of financial risk management on financial performance of County Governments in Eastern Region, Kenya.

RESEARCH OBJECTIVES

i. To determine the effect of risk governance on financial performance of County Governments in Eastern Region, Kenya.

ii. To assess the effect of risk assessment on financial performance of County Governments in Eastern Region, Kenya.

iii. To evaluate the effect of internal control systems on financial performance of County Governments in Eastern Region, Kenya.

iv. To establish the effect of risk response strategies on financial performance of County Governments in Eastern Region, Kenya.

v. To determine the moderating effect of inflation on the relationship between financial risk management and financial performance of County Governments in Eastern Region, Kenya.

RESEARCH HYPOTHESES

The study tested the following null hypotheses:

H_{01} Risk governance has no significant effect on financial performance of County Governments in Eastern Region, Kenya.

H_{02} Risk assessment has no significant effect on financial performance of County Governments in Eastern Region, Kenya.

H03 Internal control systems have no significant effect on financial performance of County Governments in Eastern Region, Kenya.

H04 Risk response strategies have no significant effect on financial performance of County Governments in Eastern Region, Kenya.

H05 Inflation has no significant moderating effect on the relationship between financial risk management and financial performance of County Governments in Eastern Region, Kenya.

THEORETICAL REVIEW

The theories anchoring the study were agency theory, fraud triangle theory, and stewardship theory. Jensen and Meckling (1976) are the proponents of agency theory. They postulated a connection between principal and agent. It relates to a contract between one or more persons who are the principals of the organization and another person (agent) to undertake various functions including the authority to make decisions on their behalf (Naciti et al., 2021). The delegation of the decision-making authority makes the nature of agency theory more practical. This theory is relevant to the study in that, risk assessment involves the devolved units putting in place measures and processes to ensure financial risks are identified and analyzed to minimize or ensure they don’t arise altogether. This great connection ensures both county managers and their agents endorse projects that bring the greatest value to the citizens with a low-risk chance of failing.

Cressey (1953) is the proponent of fraud triangle theory. The key aspects of the theory are; the perception of pressure, perception of the opportunity, and perception of the rationalization. Cressey claims that fraudsters are motivated by three things. These are the possible thoughts as the three sides of a triangle: perception of the pressure, perception of the opportunity, and perception of the rationalization. Cressy elaborates by saying that every fraud executor faces pressure of some kind, whether it be professional or personal. This theory is relevant to the study in that, internal control systems involve putting in place effective measures that ensure financial risks are managed environment thus reducing any loss from arising.

Davis, Schoorman and Donaldson (1997) are the proponents of stewardship theory. The key aspects of the theory are principles of accountability, responsibility, ownership, and reward. According to the theory, to maximize organizational earnings, a steward makes sure that the owner’s investments are properly safeguarded (Torfing & Bentzen, 2020). The ability of the firm’s management to match its goals with the organizational aims and goals is the main emphasis of stewardship theory. The success of the organization influences the stewards' motivation and sense of satisfaction (Chrisman, 2019). This theory links risk governance and financial performance in such a way that, if the county elected leaders and managers do what is right and are alive to the fact that various risks can arise that might hinder the prudent use of public resources, then it leads to effective financial performance in the county governments.

EMPIRICAL REVIEW

Mbaru (2022) assessed the role that risks governance played in the financial success of Mombasa and Kilifi counties and established a substantial positive connection between the risk governance and financial success. Reviewed studies (Kelvin, 2017) made similar findings in relation to governance in Makueni county construction projects. The study targeted eighty-five (85) staff members working in eleven (11) departments in both Mombasa and Kilifi counties. The study found out that the larger the board the higher the success and vice versa. Also, the findings portrayed that there was need for counties to have clear rules and processes to help in reducing aspects of conflicts of interest thus enhancing financial success. The study resolved that there was necessity for operative protocols development to enhance audit reports sharing and debating by the county leadership thus aiding in financial performance success of the counties (Mbaru, 2022). However, However, the study used census technique which is prone to many errors.

Onsindu et al. (2022) appraised the effect of risk valuation and monitoring activities on the financial success of county governments and found out that risk assessment had a great influence on how the county government revenues are managed and performance. The study which involved all County Chief Officers from all counties guided by COSO (1992) integrated framework whose data was analyzed using descriptive statistics concluded that County governments make more of an effort to incorporate these factors to enhance their systems of revenue management, which allow budget aspects to be financed effectively for improved results. However, the study focused more on losses and failure to meet targets and not on the overall impact on financial success. Another study in the public sector by Dorozik et al. (2020) also established similar findings that the assessment of risks had a positive effect on public institutions’ results. The study found that score-based assessment was the best internal control mechanism that would be used to assess and prioritize risks by organizations in Poland. The study was guided by the EU accession agreement. However, the study used only secondary data which may not answer and address specific questions as well as the needs of the researcher.

Ahmed and Nganga (2019) found out that elements of internal control significantly affected the financial results of County Governments in the Coastal Region. The study also found that there was an increased need for the county governments to always ensure that various components of internal controls were evaluated and monitored to ensure risks are addressed since they influenced financial results. Reviewed studies by (Kisanyanya, 2018; Lagat & Okelo, 2016) also had similar findings. The research target population entailed 30 workers from 5 divisions spread across 4 Counties in Kenya's coastline region. To examine the data, inferential as well as descriptive statistics were employed. The report suggested that executives employ cost-effective techniques for rapid risk detection and adequate risk reduction to avoid a negative impact on the Counties' financial results (Ahmed & Nganga, 2019). However, the proxies used for the study were audit role, cash management, risk management, and financial reporting while the study's proxies are; risk Control environment, compliance, Information and communication.

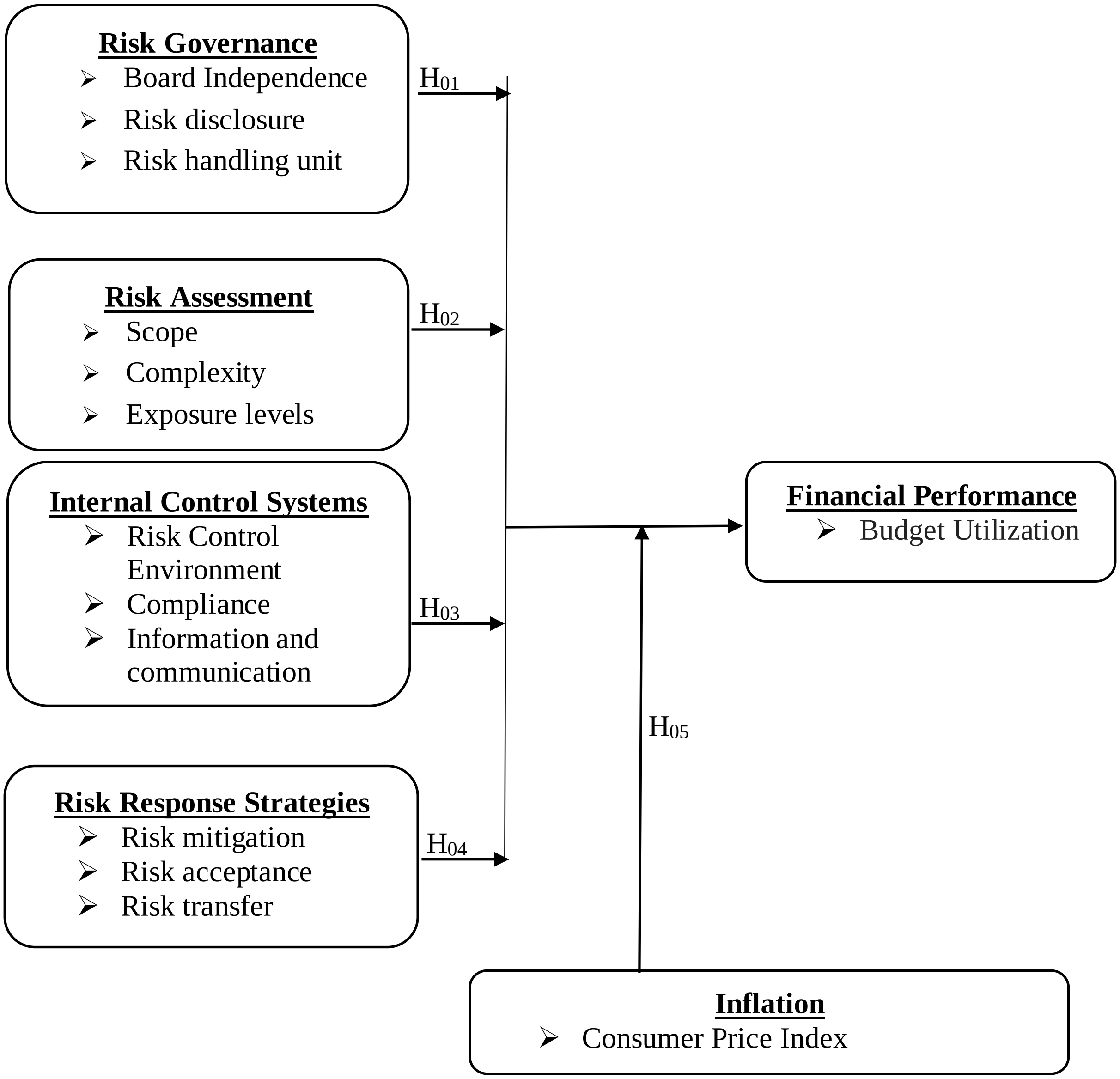
According to Mutisya (2020), techniques of managing risks had a substantial impact on the success of youth projects in Machakos County. The study which involved 250 youth projects and a sample of 122 respondents sampled using a stratified sampling design found risk avoidance as the strategy with the highest influence. Similar reviewed studies by Markova et al. (2018) had similar findings. Data was analyzed using SPSS with the research recommending that greater analysis of youth initiatives in Kenya's government sector's other counties be done (Mutisya, 2020). The study sampling design, however, was not effective because it makes it difficult to select the appropriate strata to be used as the sample.

In addition, Macharia (2017) also found that there existed a substantial connection and positive correlation between strategies of managing risk and the success of construction projects in public secondary schools in Murang'a County. Similar reviewed studies by Kibera and Muturi (2018) had similar findings. The research was carried out in secondary schools in Murang'a County and purposive sampling was used for sample selection. Inferential as well as descriptive statistics were employed in the analysis. The study concluded that additional research should be carried out in public secondary schools, colleges, and universities in various Counties to evaluate the effect of managing risks on the success of construction projects in the education sectors (Macharia, 2017). However, despite the findings, the study did not focus on the moderating role played by public institution size in the form of capitation.

CONCEPTUAL FRAMEWORK

Independent Variable **Dependent Variable**

Financial Risk Management


Risk Governance
Board Independence
Risk disclosure
Risk handling unit
H01
Risk Assessment
Scope
Complexity
Exposure levels
H02
Internal Control Systems
Risk Control Environment
Compliance
Information and communication
H03
Risk Response Strategies
Risk mitigation
Risk acceptance
Risk transfer
H04
Financial Performance
Budget Utilization
H05
Inflation
Consumer Price Index

Moderating Variable

Figure 1: Conceptual Framework

Source: Researcher (2024)

RESEARCH METHODOLOGY

Tamminen and Poucher (2020) denote that research philosophies entail various systems and assumptions of beliefs in relation to the development and advancement of knowledge. It involves the beliefs on how a particular data phenomenon is supposed to be gathered and analyzed as well as how best it should be used (Risjord, 2022). This particular study adopted the positivism philosophy which is pegged on the notion that the only possible way in which valid knowledge can be obtained is only through the scientific method. For the purpose of establishing a connection and causality, explanatory research design was applied in the study. Specifically, the researcher was able to determine the degree of the cause-effect relationship. This design found out the reason for events thus established the cause-effect association. The study involved both primary and secondary data. Primary data collected was cleaned, reviewed and edited to ensure any errors that might have been made by the respondents were eliminated. Descriptive statistics (means and standard deviations) were used in data analysis in addition to multiple linear regression analysis. SPSS version 23 aided in data analysis. A multiple linear regression model was applied.

RESULTS AND DISCUSSIONS

The results and findings below indicate the amount of variation that occurs to the independent variable due to variations in the independent variables. The study aim was to look at how risk governance, risk assessment, internal control systems, and risk response strategies affected the financial performance. The outcomes are as presented in table below.

Table 1: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.934[a]	.873	.858	.227341

a. Predictors: (Constant), Risk governance, risk assessment, internal control systems, risk response strategies

Source: Researcher (2024)

The outcome in table above displays R which is correlation co-efficient at 0.934. It depicts that there exists strong positive association between risk governance, risk assessment, internal control systems, and risk response strategies and financial performance. Therefore, when all the variables are assessed together, they are related directly to the financial performance. The coefficient of determination in the table explains the 87.3% proportion of variance in financial performance predicted by risk governance, risk assessment, internal control systems, and risk response strategies. The adjusted R^2 indicates that risk governance, risk assessment, internal control systems, and risk response strategies explain 85.8% of financial performance. The remaining 14.2% is explained by other things that are not under study.

Table 2: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	12.415	4	3.104	60.053	.000[b]
Residual	1.809	35	.052		
Total	14.224	39			

a. Dependent Variable: financial performance
b. Predictors: (Constant), Risk governance , Risk assessment, Internal control systems, Risk response strategies

Source: Researcher (2024)

The results in the table above indicates that the model was significantly statistical and was a valid fit for the data (f = 60.053, $p < 0.05$). These findings prove that risk governance, risk assessment, internal control systems, and risk response strategies were good predictor of the financial performance of the Kenyan county governments studied. The F calculated value from table above was high compared to the f-critical table indicating that the dependent variables had a significant impact on financial performance.

Table 3: Coefficients

	Unstandardized Coefficient		Standardized Coefficient		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1 (Constant)	- .355	.254		-1.397	0.171
Risk governance	.517	.181	.453	2.864	0.007
Risk assessment	.226	.073	.244	3.115	0.004
Internal Control Systems	.608	.166	.534	3.665	0.001
Risk response Strategies	-.257	.124	-.229	-2.070	0.046

a. Dependent Variable: financial performance

b. Predictors: (Constant), Risk governance , Risk assessment, Internal control systems, Risk response strategies

Source: Researcher (2024)

From the results in the table above the unstandardized co-efficient derived from the regression model was as follows;

$$\mathbf{Y = - 0.355 + 0.517X_1 + 0.226X_2 + 0.608X_3 - 0.257X_4 + \varepsilon}$$

The value of the financial performance of county governments in Kenya's Eastern Region is -0.355, based on the regression equation provided above, with all four variables (risk governance, risk assessment, internal control systems, and risk response plans) held constant. Furthermore, the findings indicate that risk governance significantly and favorably impacted financial performance (β = 0.517). According to the findings, financial performance would grow by 0.517 for every unit increase in risk governance and vice versa. Furthermore, the findings indicate that the financial performance was positively and significantly impacted by risk assessment (β = 0.226). According to the findings, there would be a 0.226 improvement in financial performance for every unit increase in risk assessment, and vice versa. Additionally, the findings show that internal control systems significantly and favorably impacted financial performance (β = 0.608). According to the findings, county governments in Kenya's Eastern Region would see a 0.608 improvement in their financial performance for every unit increase in internal control systems. Furthermore, it is shown from the data that risk response strategies significantly and negatively impacted the financial performance (β = - 0.257). According to the findings, financial performance would decline by 0.257 for every unit increase in risk response strategies and vice versa.

The first specific objective was to determine the effect of risk governance on financial performance of County Governments in Eastern Region, Kenya. The null hypothesis that posits that risk governance has no significant effect on financial performance was formulated and examined. Table 3 results indicated that their relationship had a P-value of 0.007. Thus, at significance level of 0.05, it prompted rejection of the null hypothesis. This suggests that risk governance and financial performance have a positive and significant relationship. The second specific objective of the study was to determine the effect of risk assessment on financial performance of County Governments in Eastern Region, Kenya. The null hypothesis that posits that risk assessment has no significant effect on financial performance of County Governments in Eastern Region, Kenya was formulated and examined. Table 3 results indicated that their relationship had a P-value of 0.004. Thus, at significance level of 0.05, it prompted rejection of the null hypothesis. This suggests that risk assessment and financial performance have a positive and significant relationship.

The third specific objective was to evaluate the effect of internal control systems on financial performance of County Governments in Eastern Region, Kenya. The null hypothesis that internal control systems have no significant effect on financial performance of County Governments in Eastern Region, Kenya was formulated and examined. Table 3 results indicated that the relationship had a P-value of 0.001. Thus, at significance level of 0.05, it prompted rejection of the null hypothesis.. This suggests that there is a strong and positive relationship between financial success and internal control systems. The fourth specific objective was to establish the effect of risk response strategies on financial performance of County Governments in Eastern Region, Kenya. The null hypothesis that risk response strategies have no significant effect on financial performance of County Governments in Eastern Region, Kenya was formulated and examined. Table 3 results indicated that the relationship had a P-value of 0.046. Thus, at significance level of 0.05, it prompted rejection of the null hypothesis.. This suggests that risk response strategies and financial performance have a negative but significant relationship.

Table 4: Moderation Test Results ($r^2$2)

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.937[a]	.877	.859	.226806

a. Predictors: (Constant), Inflation, Risk governance, Risk assessment, Internal Control systems, Risk response strategies

Source: Researcher (2024)

Table 5: Moderation Test Results ($r^2 3$)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944[a]	.891	.859	.227154

a. Predictors: (Constant), Risk response strategies * inflation, Risk assessment, Internal control systems, Inflation, Risk governance, Risk response strategies, Risk assessment * inflation, Internal control systems * inflation, Risk governance * inflation

Source: Researcher (2024)

The fifth objective was to determine the moderating effect of inflation on the relationship between financial risk management and financial performance of County Governments in Eastern Region, Kenya. The null hypothesis that inflation has no significant moderating effect on the relationship between financial risk management and financial performance was formulated and examined. The test for mediation was undertaken utilizing Whisman and McClelland (2005) method. The test as per the results in table 4 and 5 supported the null hypothesis. Hence, the difference between the two squared multiple correlation increment was less than zero (0). Thus, inflation did not significantly affect the relationship between risk governance, risk assessment, internal control systems, and risk response strategies and the financial performance of devolved units in Eastern Region, Kenya.

CONCLUSIONS

The study concluded that risk governance plays a critical role in influencing the financial performance of County Governments in Eastern Region, Kenya. Analyzing the scope and coming up with an informed framework would lead to effective risk assessment. Furthermore, internal control systems influence the financial performance of County Governments in Eastern Region, Kenya and risk control environment determines the overall nature of handling risks in the counties and its review and handling determines the success of the financial performance. Similarly, compliance, which is the backbone of financial risk management is crucial since the measures exists to protect and alleviate the counties from financial losses and as such, if they are followed to the latter, then budget utilization can be realized to the core. Furthermore, reasonable amount of money and response on priority basis need to be embraced so that the risk response strategies bear the greatest value and enhance effective financial performance in the County Governments in Eastern Region, Kenya.

RECOMMENDATIONS

Based on the study analysis and results, various recommendations can be derived. First, the county governments should ensure that the risk handling unit is independent, well equipped with up-to-date technology and well-staffed to ensure risks are easily assessed and seamlessly addressed to enhance effective financial performance. With a risk handling department that is self-sufficient, it means that the time it takes to implement its plans is short. That has a high chance of ensuring that once risks are identified, they are addressed before they cause losses within the county governments.

In addition, county governments should have timely internal control systems to ensure monitoring as well as compliance with all risk management policies. These systems will ensure the scope of the risk assessment and management is widened since the slight risks will be identified in real time. This recommendation also calls for continuous review of the tools to ensure they are at par with the changing nature of risk management practices as well as the operating environment. This would require integration of accounting and finance departments software's to ensure their operations are well monitored and their work is in accordance with the key performance indicators expected in their financial operations.

Moreover, county governments should collaborate with multinational organizations and developed countries to keep them updated on the emerging trends on risk management. This should also entail continuous benchmarks to ensure all gaps are well sealed. With the collaboration, it will aid in cost-saving. This will not only lead to effective financial performance but also ensure less time is spent by counties in risk management as all risks will be managed in a more robust manner. The study also concludes that county governments should ensure integrity and ethical values are inculcated in their performance and operational culture. All employees should be held accountable whenever it is found out that they in one way or the other attempted fraud or tried to infiltrate the system with unrealistic commands with the potential to cause financial losses. Code of conduct for all employees should be developed and that every individual should be liable for all their pursuit. Similarly, robust procedures should be put in place to ensure processes are easily monitored and deviations addressed to put the counties within their operational framework.

Another recommendation is that the county governments should ensure continuous communication with the investors, development partners and other financiers regarding the counties monetary events and their impacts both inside and outside the financial reports. Similarly, the counties should give the employees an avenue to give their opinions regarding the risk management practices within the county government. This would ensure risks are tackled in a more diverse and robust manner and everyone would be encouraged in pursuit of risk-free counties thus fostering effective financial performance. Finally, county governments should always undertake cost-benefit analysis before they embrace any particular risk response. This would ensure they undertake a response that offers maximum benefit with low cost. Investing blindly in a particular risk response can be expensive to the extent of deviating further from the effective utilization of the county budget, a problem that the risk responses are supposed to cure. Thus, incorporating experts and doing benchmarks would be critical in making informed decisions which in turn would lead to effective financial performance in counties.

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