Justification for a Devolved Systems of Government: Corporate Governance and Financial Management Issues in Kenya

Fred. C. Obande Buluma
Lecturer School of Business, Laikipia University- Kenya

Monicah Njambi M.Obande
MBA candidate: Egerton University- Kenya

Abstract
Devolution which entailed the ceding of power by a legislated act from a Central Government to the county Governments is Kenya's historical constitutional transformative aspect from the year 2010 to today. It is considered as a panacea to the public finance management issues that have dodged the country since independence in 1963. Since then the country has experienced persistent corporate governance and financial management problems both at Central and local Government levels. Critical of these was when some powers of revenue collection and expenditure among others were transferred to the 47 Counties. Each of these Counties formed the County Governments comprising of the County Assemblies and County Executives with powers to legislate, and executive powers to Implement the Laws and policies respectively. The main objective of this study was to investigate the relationship between Corporate Governance practices and financial performance of Local Authorities in Kenya prior to devolution. Using the agency and stewardship theories, this study examined the corporate governance issues in the county's local authorities. An exploratory survey was used in a case study since Local Authorities were single tiered and operates under cap. 265. Laws of Kenya. Primary data was analysed using a regression and correlation analysis and an equation that expressed the relationship between the dependent variable and independent variables established. This study found that Local Authority studied had huge debts, operated on huge bank overdrafts and generally practiced poor finance management practices. The study also found a strong relationship between CEO Authority, Transparency and Accountability, Partisan Politics, Skills levels, Debt burden and Performance of local authority and poor corporate governance practices. Generally, governance issues provided major causes of poor financial performance and a key justification to the amendment of the Local Government Act cap 265, creating devolved systems of governance which changed the structures and functions of Local Authorities.
Keywords: Corporate Governance, Financial performance, Devolution, Agency, Stewardship.

1. INTRODUCTION

Kenya's Local Government Act of 1977 provided for strong central government regulation and oversight on the local authorities. This Act prescribed many functions to the municipalities on the basis of the approval of the Minister of Local Government or other ministers purposely to regulate the functions in question. In essence the Local Government Act obliged the local authorities to undertake only few functions in service provision. However, over the years the service delivery in almost all of the local authorities significantly deteriorated to the lowest ebb where most of the most basic services like water and health, could not be provided at all. In most cases the Central government was forced to fill in the gaps in service delivery when it came to water and health services for instance.

The structures and functions of Local Authorities in Kenya included different types of LAs political systems. Local Government elections and membership provided both permissive and mandatory functions of LAs and defined the Powers which were vested in the Mayors / Chairpersons and Town Clerks. The Local Government system in Kenya was then divided into four categories, namely; Cities, Municipalities, Counties and Towns councils. LAs were structured and categorized on the basis of their population sizes. LAs were run on a committee based systems with two structures responsible for decision making powers which were vested in the Mayor or Chairperson and the Administrative structure headed by the Town Clerk/ County Clerk.

Studies on Corporate Governance are enormous yet a number of questions still remain to be answered as to how it works. Even before devolution, many Governments, industries, Corporations and private companies all over the world ought to have improved their performances. On the contrary, up to this moment it still remains difficult to define the concept of Corporate Governance in a universally acceptable way because definitions vary from country to country based on culture, legal systems and historical developments. This is not an exception to Kenya where this study was conducted. However, a number of researchers seem to agree that what drives the passion for 'good' governance lays in a theory about corporate behaviour including a set of beliefs about human behaviour. Though the dominant philosophical base behind institutions and financial performance lies in the agency theory from which a wide range of definitions of the concept of corporate governance exists. However, a number of empirical studies concur that Corporate Governance underscores the importance of authority, transparency, accountability, stewardship, leadership, direction, resources control and management which should be exercised in the process of managing organizations.

1.1: Corporate Governance policies in Kenya

Governance refers to the manner in which power is exercised in the management of economic and social resources for sustainable investments and has assumed critical importance in current era of cross border investment. Hebb and Wójick. (2004) found corporate governance as a vital ingredient in the maintenance of a dynamic balance between the need for order and equality. There is a general agreement that good corporate governance seeks to promote: efficiency, effectiveness, bring about sustainability of investments, improve welfare of society and create more wealth and create more employment opportunities. A number of authors on corporate governance agree that most of the solutions to emerging social, economic and political challenges can be provided in a responsive, accountable and legitimate manner as long as the corporate are governed with integrity. Governance considers transparency, recognition and protection of stakeholder rights as an all inclusive approach based on democratic ideals, legitimate representation and participation.

Kenya's major problem affecting good governance has been identified by the government as corruption which is seen as the single greatest obstacle to economic and social development in the country and has been justified by the new constitutional dispensation. Corruption has been identified as key to undermining not only investment growth but also development. It has been responsible for distorting the rule of law and weakening the institutional foundation on which proper governance and economic growth depends. Seen in this regard, good governance is always seen as an important factor in not only eradicating poverty but also in attracting investments anywhere and promote development. In agreement was Knoepfel (2007) who argued that good corporate governance at the company level is the obvious starting point for international Emerging Markets investors. David Minja (2010) asserted that unethical practices in organizations and at the political levels have been widely reported in the wake of many high-profile management and financial scandals all over the world.

Kenya Government has over the years tried to not only control but to eradicate corruption through an act that has culminated into the formation of the Kenya Anti-Corruption Commission although the results have since showed little improvement. The blame has been on the political leadership and executives seen to have failed to provide moral leadership. Corruption still remains a disappointment to the citizenry responsible for not meeting most of the national goals. Corporate governance is now part of Kenya's policy agenda and is now incorporated in many institutions operating guidelines. However, strengthening institutional frameworks is always advocated as the only way to improve the corporate governance mechanisms of any country. Javid and Iqbal (2009) argued that having strong institutional framework was important in the management of corporations. Rais and Saeed (2005) observed that the acceptance of Corporate Governance Code helps to improve overall structure of institutions and their operational environment by ensuring transparency and accountability in their reporting framework. This notwithstanding, why the Kenya's anti corruption institution failed to deal with the governance issues of the local authorities before devolution was worth examining.

1.2- Problem Statement

The idea of devolution in Kenya is as old as the country's independence and has always been considered by the political class as a panacea to governance problems for both central and local governments' in the country. Kenya is now in a new constitutional transformation where devolved governments are expected to efficiently deliver services in both transparency and accountability manner. The main objective of this study was to examine whether or not the amendment of the Local Government Act cap 265, creating devolved systems of governance which changed the structures and functions of Local Authorities was justified. The Key question was whether governance issues contributed to the creation of devolved governments under the consequent county government act of 2012..

1.3- Significance of the Study the importance of this study was to provide evidence and importance of the corporate governance issues in national development in the 21st century. It also provides the important indicators of poor corporate governance and identifies causes of poor delivery of services consequently resulting into agency problems.

2.1: Theoretical background

2.1.1: Corporate Governance

Cadbury (1992) defined corporate governance as "the system by which institutions are directed and controlled". It is designed to ensure that the institution's board of directors carry out their duties and responsibilities successfully in the company for a good relationship with its shareholders and other stakeholder groups. It is also defined as a "process through which shareholders induce management to act in their interests, enhancing a degree of investor confidence that is necessary for an effective functioning of the capital markets." (Rezaee 2009).

Corporate Governance also refers to the manner in which power is exercised in the management of economic and social resources for sustainable investments, efficient service delivery and has assumed critical importance in current era of management of public affairs. Hebb and Wójick. (2005) found corporate governance as a vital ingredient in the maintenance of a dynamic balance between the need for order and equality. In investment decisions, good corporate governance seeks to promote: efficiency, effectiveness, bring about sustainability of investments, improve welfare of society and create more wealth and employment. They argued that solutions to emerging challenges can be provided in a responsive, accountable and legitimate manner as long as corporate are governed with integrity. Governance considers transparency, recognition and protection of stakeholder rights as an all inclusive approach based on democratic ideals, legitimate representation and participation.

2.1.2: Agency theory

Agency theory explores the relationship between the ownership and management structure of firms or organizations. In such a separation, the agency model applies to align the goals of the management with that of the owners. In the LA setting this theory defines the relationship between the principals who are citizens in the LA and agents who are the politically elected executives or directors and managers in a given LA. Under this theory, principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clark, 2004). The Agency theory is based on the premise that employees or managers in organizations are individualistic and self-interested bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976). The agents are expected to act and make decisions in the principal's interest but on the contrary, may not necessarily make decisions in the best interests of the principals (Padilla, 2002). The agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits.

Studies on agency theory indicate that agency loss can be minimized only when the principal and the agent share common interests which imply that both the principal and the agent should either desire the same outcome. Based on these expectations, the principal is expected to be knowledgeable about the consequences of the agent's activities and if either of these situations is nonexistent then an agency loss is likely to arise.

Agency theory was relevant for this study as corporate governance and socially responsible management decisions advocate for ethics in management and decision making where higher risks, such as increased litigation and regulation must be reduced. As a tool for the development of a positive finance theory of the firm or organizations, agency theory was important as it helped in generating predictions that are wildly at variance with what one could actually observe in the behavior of individuals and in the structure of organizations in this case that of the LAs. The significance of the Agency theory in this study was that it highlighted the key issues that guide management decisions in the LAs. Aduda et al (2013) found that the key issues in agency theory centre upon whether adequate market mechanisms existed to compel managers' act in ways that could maximize the utility of a firm's owners if ownership and control are separated. Applicable to LAs this study provided key issues that the agency theory provides even in a political decisions making and service delivery to its constituents which the study put in the mirror..

2.1.3: Stewardship theory

A steward was defined by Davis; Schoorman & Donaldson (1997) as one who protects and maximizes shareholders wealth through firm performance and by so doing, the steward's utility functions are maximized. Unlike agency theory, stewardship theory assumed that managers are stewards whose behaviours are aligned with the objectives of their principals. The theory considered the different forms of motivation for managers as drawn from organizational theory. In that context managers are expected to be loyal to their organizations and should be interested in achieving high performance under the dominant motive that directs managers to accomplish their job. Specifically, managers are expected to be motivated by a need to achieve, gain intrinsic satisfaction through successfully performing an inherently challenging work, exercise responsibility and authority, and thereby gain recognition from peers and bosses which was a form of non-financial motivation. Applicable to this study, this would justify ones re-election in the Las which were actually political establishments. The theory emphasizes the need for corporate governance issues in any organization which should be structured to achieve harmonization and efficiency. According to this theory, it's the responsibility of top management as stewards to integrate organizations structures and goals to realize the expected efficiency in this case good service delivery in organizations.

Michael K. McCuddy & Wendy L. Pirie (2007) found that there was need for the merger of spirituality, stewardship, and financial decision-making to achieve efficiency. The practical implications of this were that, it would enable managers to base their decisions on internalized spiritual and stewardship values. The study recommended that managers should never lose sight of such values or else their decisions would be grounded and end up in a cycle of "irrational exuberance". Daily et al. (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors should be inclined to operate towards maximizing financial performance.

2.2: Literature review

2.2.1: Partisan or Non-partisan relationship in Local Authorities

Packel (2008) argued that there exists a relationship between political party competition and local government performance. This argument focused on partisan systems compared with non-partisan systems. This study was found very useful understanding the relationship between party politics and governance in Kenya's LAs. The fact is that Kenya partisan politics played a critical role in LA elections because it defined the direction of major operational and management decisions before devolution. Olowu (2005) posits that Local Government management positions in African countries pertained to ultimate benefits on which there would be no division along party lines. Therefore the inclusion of a number of political parties at the LA level risked making policies to be skewed towards patronage and clienteles' instead of focusing on an entire population and long-term benefits (Packel 2008). Lankina (2007) found that elected political officials were focused on securing re-election or delivering benefits to their narrow client base, rather than delivering policies that benefited the entire community in the long run. It was common understanding in the country that party politics made party officials to be more concerned with taking measures of ensuring their promotion and advancement within the internal party structure, rather than pursuing policies that would benefit the community. On the contrary, countries like Ghana and Uganda have outlawed political parties and local elections are based only on merit and not party affiliation as the basis of representation (Crook 1999; Francis and James 2003). Whether such a system would have improved services before devolution is worth establishing in Kenya's cultural context.

2.2.2: Kenya's Local Council Oversight Control.

The relationship between elected local councillors and executives was based on budget planning, execution, monitoring and evaluation. Local Councillors (LCs) were responsible to overseeing the local government's executive branch functions during the entire public financial management process and provide local executives with constant feedback. For this process to be successful a link was established between planning and budgeting. The LAs budgets reflected planning and showed a relationship between planned and executed budgets. Budget execution performance required production of policy-oriented budgets which were expected to be outcome-oriented to qualify such budgeting as responsive to the demands and preferences of local citizens. A number of factors interfered with the oversight responsibility of local councillors critical of which was the status of Local Councillors. Whereas the executive positions were full time, Local Councillors positions were political, low paying and generally part time in management functions of the LAs.

2.2.3: Board and Staff Skill Levels

Directors' understanding and efficiency is heavily conditioned by their experiences of working on particular boards. There is no doubt that in most cases the level of training among board members and managers should have a strong influence on the performance of the firm or organization. Lybaert (1998) found that better performance of any Director was due to the proven positive relation of higher levels of education among entrepreneurs and their willingness to use external information, develop networks, make use of consultants or develop more detailed accounting and monitoring. On the contrary Powell (2000) found that there may even be a negative effect on firm performance as a result of the occupational and professional affiliations of highly qualified managers if it encouraged application of increased agency behaviour.

2.2.4: Audit Committee

Md.Mohiuddin (2010) found that the overall effectiveness of Audit Committees depends on a number of factors which include; the level of domination and more so if the domination is by executive directors; the committee members expertise in terms of qualification and experience; the amount of time devoted to the committee's affairs; the independence of the committee members and how they are remunerated for the time and effort devoted for their service and, their role in financial reporting, external auditing and internal auditing. Studies related to Audit Committees have enlisted different findings. For example while Brown and Caylor (2006) found a positive relationship between dividend yield & independent audit committees and at the same time found no relationship between independent audit committee & performance of a firm. Uzun et al. (2004) found that high audit committee independence resulted into a lower chance of fraud, reduces agency cost and at the same time improves overall performance.

2.2.5: Local Government Financial Discretion and Accountability

Two major studies on the relationship between financial discretion and accountability can be attributed to the following researchers.

Langlois et, al.(1998) posited that sound financial management systems are powerful instruments for preventing, discovering, or facilitating the punishment of fraud and corruption. Important elements include the organization and staffing of the local revenue administration, the effectiveness of the auditing systems and the realism of budgets

Bird, (2000) found that local government financial performance was linked to the scope and nature of fiscal decentralization. If a local government was denied the fiscal instruments to make use of their political autonomy, decentralization it would be doomed. Fiscal decentralization has the ability to rearrange roles and responsibilities among different levels of a local government. This is where some power is transferred from central to local governments for fiscal decision-making powers. These rules regulated local government actions in four areas: expenditure assignment, revenue assignment, intergovernmental transfers, and sub-national borrowing

2.2.6: Structure and Powers of Local Authorities in Kenya

The structures and functions of Local Authorities were defined by Local Government Act. Elections provided managers to perform mandatory functions. Key managers were Mayors elected from among the Local councillors / Chairpersons and Town Clerks who were civil servants. The Local Government system in Kenya was divided into four categories and these were the Cities, Municipalities, Counties and Towns councils. The structure of the different LAs was related to their sizes and the categories. LAs were run on a committee based systems whereby in each LA there were two structures thus the decision making structure headed by the Mayor or Chairperson and the Administrative structure headed by the Town Clerk/ County Clerk.

2.2.7: Sources of Local Authorities Revenues;

The country's local authorities collected revenue from different taxes, fees and charges. They also received additional financial resources from the central government through the Local Authorities Transfer Fund (LATF), grants and the Road Maintenance Levy Fund (RMLF). They also had a right through acts of parliament subject to the approval of the ministry of local government to raise income from other sources. These acts of parliament included the Local Government Act, the Rating Act, the Valuation for Rating Act and the Regional Assembly Act. There were no sources of revenue required or reserved exclusively for specific types of local authorities, but some general patterns emerged in the process. Overall LAs had two main sources of revenue, namely grants from the central government and revenue from local sources. These included and were not limited to: Local Authority Transfer fund (LATF). In 1998 the Kenyan government established the Local Authority Transfer Fund (LATF). Through the LATF the government allocated 5 % of the national personal income tax to all local authorities in Kenya. These allocations, although general grants, come with certain performance conditions, which had considerably increased the willingness of local authorities to deliver on the basic requirements of accountability: production of budgets and accounts, information about debtors and creditors and display of information about resource availability and use. Others were the Roads Maintenance Levy Fund (RMLF), Contribution in Lieu of Rates (CILOR), Property rates, Single Business Permit(SBP), Vehicle parking, Plot rents, Water and Sewerage fees (mostly privatized), Cess receipts, Game park fees, and House rents. Of all these, LATF was the main source of LAs revenue.

From 2001/2002 the requirement for LAFT funding had been that the local authorities provide: a statement of receipts, payments and balances, and an abstract of accounts, a statement of debtors and creditors, a revenue enhancement plan (REP) and a Local Authority Service Delivery Action Plan identifying and prioritising local expenditures, prepared following a participatory planning with citizens' of the area. Road Maintenance Levy Fund (RMLF). The sources and proportions of local authorities' own source revenues vary between the different types of local authorities. The county councils in the rural areas are more dependent on LATF transfers than urban councils.

It is important to note that the revenue sources varied between the different types of Local Authorities. City and Municipal councils got their major sources of income from property rates, vehicle parking and single business permit. County councils were more dependent on LATF transfers than urban councils. The county councils' revenue sources differed significantly among different county councils.

2.2.8: Expenditure

Most of the local authorities' expenditure was used for recurrent expenditure. The Local Government Act prescribed that local authorities prepare a budget for a financial year, which had to be submitted to the Minister of Local Government for the Minister's approval. The Minister would from time to time exempt any local authority or class of local authorities from that requirement of obtaining the Minister's approval for the budget which was divided as follows:

1)	Personnel costs	48.5%
2)	Operations	25.5%
3)	Civic Expenditure	6.5%
4)	Maintenance	5.7%
5)	Other	13.8%

2.2.9: Importance of Local Authority Budgets, Accounting and Auditing

The annual budget guided the operations of the local Authorities and the accounting showed the actual financial transactions that occurred during the period. Budgeting and accounting are tools that were used to assess the governance and accountability status of local authorities. How well these tools are used indicate the efficiency and effectiveness of the local authority or otherwise.

3.0: Research Methodology

3.1 Research design

An exploratory survey was used in this study. The design was appropriate since the study was concerned with defined problem with definite objectives.

3.2. Data Collection procedure and Instruments

The study used primary data collected by administering the questionnaire to the respondents. For the purposes of data consistence the study used purposive sampling. The method applied also reduced the level of bias from the respondents which might have been caused by the researcher's presence.

3.3: Research variables

The study identified independent variables namely; CEO Authority, Debt burden, Partisan Politics, Skills levels and Transparency & Accountability. The dependent variable was performance of the local authority.

3.4. Data Analysis

Regression and correlation analysis were used to come up with the equation expressing the relationship between the dependent variable and independent variables. Since the independent variables were more than one a multiple linear regression equation was developed. Correlation analysis was used to check on the overall strength of the established regression equation and the statistical significance of the independent variables in the model.

$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \boldsymbol{\varepsilon}$

- $\mathbf{X_1}$ = CEO Authority.
- $\mathbf{X_2}$= Transparency & Accountability.
- $\mathbf{X_3}$= Partisan Politics.
- $\mathbf{X_4}$= Skills levels.
- $\mathbf{X_5}$= Debt burden.

ε is error term

4.0: Analysis Results and Interpretations

4.1: Correlation analysis

Predictor variables are said to be correlated if the coefficient of correlations between them is greater than 0.5, (existence of multicollinearity). As shown in table 1, none of the predictor variables had coefficient of correlation between themselves more than 0.5 hence all of them were included in the model.

Table 1: Pearson Correlation coefficients

	Performance of local authority	CEO Authority.	Transparency & Accountability	Partisan Politics	Skills levels.	Debt burden.
Performance of local authority	1.000					
CEO Authority	.369	1.000				
Transparency & Accountability	.436	-.286	1.000			
Partisan Politics	-.486	-.386	-.226	1.000		
Skills levels.	.602	-.246	.329	.363	1.000	
Debt burden.	.559	-.424	.345	.487	.334	1.000

4.2: Goodness of fit/Strength of the model

The coefficient of determination (R^2) equals 0.73. This shows that CEO Authority, Transparency & Accountability, Partisan Politics, Skills levels, Debt burden explain 73 percent of the total variation in performance of local authorities, leaving only 27 percent unexplained. The P- value of 0.000 implies that the model of local authority performance is significant at the 5 percent significance level.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F
1	.853(a)	.728	.723	611.080	.728	128.633	5	48	.000

Predictors: (Constant), CEO Authority, Transparency & Accountability, Partisan Politics, Skills levels, Debt burden.

Dependent Variables: Performance of local authority

4.2.1: Regression Model

The coefficients in Table 3: below were used to write the regression equation for the Performance of local authority as shown.

$Y = 0.864 + 0.762X_1 + 0.469X_2 + 0.397X_3 + 0.425X_4 + 0.644X_5$

Elasticity

X_1= 0.762, shows that one unit change in CEO Authority results in 0.762 units increase in Performance of local authority other variables held constant.

X_2= 0.469, shows that one unit change in Transparency & Accountability results in 0.469 units increase in Performance of local authority other variables held constant.

X_3= 0.397, shows that one unit change in Partisan Politics results in 0.397 units increase in Performance of local authority other variables held constant.

X_4= 0.425, shows that one unit change in Skills levels results in 0.425 units increase in Performance of local authority other variables held constant.

X_5= 0.644, shows that one unit change in Debt burden results in 0.644 units increase in Performance of local authority other variables held constant.

Table 3: Coefficients of regression equation

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
(Constant)		.864	.380		1.948	.061
CEO Authority	X_1	.762	.126	.500	4.543	.000
Transparency & Accountability	X_2	.469	.128	.076	3.039	.003
Partisan Politics	X_3	.397	.211	.347	2.355	.000
Skills levels.	X_4	.425	.290	.222	-1.464	.000
Debt burden.	X_5	.644	.202	522	-3.183	.000

Dependent Variable: implementation of corporate strategy

Individual statistical significance

Hypothesis statement 1:

CEO authority does influence financial performance of a Local Authority.

Hypothesis statement 2:

Transparency and Accountability has impact on the financial performance of a local authority.

Hypothesis statement 3:

Party representation influences the financial performance in a local authority.

Hypothesis statement 4:

Skills levels affect the financial management of a local authority.

Hypothesis statement 5:

Debt burden affects the financial performance of a local authority.

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Table 4: Hypothesis testing

Hypothesis	**Sig Value**	**P-Value**	**Conclusion**
H_1: There is no significant relationship between CEO authority and financial performance of a Local Authority H_{1a}: There is a significant relationship between CEO authority and financial performance of a Local Authority.	.05	.000	Reject H_1
H_2: There is no significant relationship between Transparency and Accountability and the financial performance of a local authority H_{2a}: There is a significant relationship between Transparency and Accountability and the financial performance of a local authority	.05	.003	Reject H_1
H_3: There is no significant relationship between Party representation and financial performance in a local authority H_{3a}: There is a significant relationship between Party representation and the financial performance in a local authority	.05	.000	Reject H_1
H_4: There is no significant relationship between Skills levels and the financial performance of a local authority H_{4a}: There is a significant relationship between Skills levels affect the financial performance of a local authority	.05	.000	Accept H_1
H_5: There is no significant relationship between Debt burden and the financial performance of a local authority H_{5a}: There is a significant relationship between Debt burden affect the financial performance of a local authority	.05	.000	

All p-values were less than 0.05, thus CEO Authority, Transparency & Accountability, Partisan Politics, and Skills levels, Debt burden could be used in predicting the financial Performance of local authority

5: Conclusion

The study used regression analysis to forecast the Performance of local authority. Forecasting model was developed and then they were tested for accuracy in obtaining predictions. One major finding of the study is that there is a strong relationship between CEO Authority, Transparency & Accountability, Partisan Politics, Skills levels, Debt burden and Performance of local authority. This is demonstrated in the part of the analysis where the proportion of R^2 is high. The usage of the model developed to forecast the Performance of local authority is therefore recommended. The models do not take into account things like the changing environment. The state of the technology is changing together with the economic and political conditions. The model may fail to forecast accurately because of change in the business environment during the test period.

Key challenges that faced the LAs included unclear mandate, limited capacity, weak finances and little downward accountability. Lack of political will to change things in local government, rotation of staff is influencing commitment and responsibility, and the Ministry of Local Government is under-resourced to play an effective regulatory and supportive role to LAs; Urban informal settlements have been and continue to expand; local regulations affecting businesses and households need to be rationalized to facilitate local business development and service delivery and improvement of services in several infrastructure sectors entails adoption of sector-specific reforms.

For example the provision of health and education services is usually only the task of the larger municipalities. The services provided by the rural local authorities mainly include, and are often at best limited to, the maintenance of rural access roads, establishment and maintenance of public markets, bus parks and slaughter houses, housing and implementation of social welfare programmes, including support to and burial of destitute people

The reasons for the poor state of service delivery by the local authorities had been identified as failure by the local authorities to plan and cater for a large populations residing in the respective municipal areas. Coupled by the high population growth rates and the expansion in commerce and industrial development, the local government capability to provide services was insufficient. All these was attributed to poor resource base, mismanagement, weak technical and institutional capacity to increase service coverage, and lack of planning and foresight.

Finance is critical to the operation of any local government due to a wide range of services they deliver. The financial issues affecting local governments in turn affect all the people therein in terms of the services they receive and the taxes or charges they pay. This is the key reason why there is an increased need for and value of financial managers in any political dispensation.

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