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RESEARCH ARTICLE

POLICY ON COUNTY GOVERNMENT FINANCIAL MANAGEMENT SYSTEMS: - ACASE OF TRANS-NZOIA COUNTY.

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Abstract

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Since the inception of county governments in 2013, there have been frequent reports on the loss of funds by the Government Auditor General. Many of the county governments are incapacitated in paying the contractors and suppliers hence leading to many of them being prosecuted for not honoring their financial obligations. At the adoption of county governance structure in Kenya, the fundamental objective was to manage the county resources with the aim of reaching the citizens for projects development. This is why the World Bank and the International Development Research Centre (IDRC) sponsored the study in the Counties of Makueni, Kajiado, Nakuru, Baringo, Kakamega and West Pokot. The main purpose of devolution was that development was to be decentralized for the common citizen to realize physical development. The purpose of the study was to investigate the function of the county government policy on financial management systems. The objectives of the study were; determine the financial auditing process on county government expenditure, establish if the financial management procedures are adhered to and establish the adequacy of staff that undertakes financial management in the county government. The researcher used descriptive research method and employed descriptive research design. The researcher applied purposive and convenience sampling techniques to collect the data from the respondents. The target population was 600 people whose sample size was 200 respondents, the researcher used questionnaires and interview schedules to collect information from the respondents after conducting a pilot study on five respondents in the study field. The data was analyst descriptively which provided in-depth information for the study in relationship with the objectives of the study. The analysis of the study was done by the computer through the process of SPSS. The conclusion was that the county government was to involve the stakeholders in policy formulation and implementation on the utilization of the county government funds. The study recommends that the professionals be employed to handle matters that concern the management of county resources under the control of the internal auditors.

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Introduction: -

The creation of the constitution of Kenya 2010, (Article 124(1) brought about the County Public Accounts and Audit Committee (CPAIC) to oversee the financial management in the devolved systems of governments. This process seams not to be taking place hence leading to chaos in many counties in the country. The overall complain is over the stalled projects and yet funds might have been disbursed but mismanagement might have resulted into many activities not having taken place. Irrespective of the parliamentary committee existing pursuant to the standing order 214 of the senate of exercising oversight over national revenue allocation to counties to: asses reports provided by the auditor general on financial management of county government; and to exercise oversight over county public accounts and investments, the EACC has not successfully prosecuted any county leadership management for mismanagement of resources.

The sessional committee report on county public accounts and investments(2018) came up with the following findings: Flagrant Noncompliance and Adherence to Relevant Laws: where Counties are flouting various pieces of legislation on public finance management and Public Procurement and Asset Disposal Act, the Public Finance Management (County Governments) Regulations, 2015, the County Governments Acts, various circulars from statutory bodies such as Salaries and Remuneration Commission, the defunct transition Authority, the Income Tax Act among others with respect to various facets in relation to set down procedures and regulations, During the period under review, FY 2013/14 to FY 2015/16, a number of County Governments did not settle bills amounting to Ksh. 62.8 billion in FY 2013/14, Ksh. 108.9 billion in FY 2014/15 and Ksh. 74.9 billion in 2015/16 deductions-Staff related arrears or outstanding loans. The Pending Bills are rolled and spill over to successive financial year, in other words, they are instead carried forward to succeeding financial years. Irregular Procurement of Goods and Services, Under Reporting/Collection of County Revenue, Irregularities in Compensation to Employees, Incomplete & Non-Utilized Projects, Weak Internal Control Environment, Lack of Assets and Liabilities Register, Persistent Weak Human Resource Management, Nugatory Public Participation Payments, Weak Budgetary Control and Performance, Poor Book Keeping, Failure to establish Internal Audit Committees, Slight Improvement in Financial Operations and Management.

Financial management in an institution is an area of decision making and harmonizing the financial resources and the organizational enterprises for the achievement of the anticipated goals operational of activities in an organization responsibility of the management is to effectively utilize the funds necessary for the smooth operations. The effective use of the allocated funds will always provide the required development; financial management provides good production, proper economic order quantity, discount factor, time value for the money and proper donor attraction. Proper financial management approach measures the scope of financial management in various fields which include essential part of finance. A Finance manager is a very important person in an organization such as the county government. He is the custodian of the public utility funds, He plays an important role in the field of finance function thus, must have the entire knowledge in the area of accounting, finance, economics and management. His position is highly critical and analytical to solve the various problems related to finance. This is highly unheard of in many county governments in Kenya. According to the public finance act, no. 18 (2012) the accounting office shall ensure that the draft estimates related to the department are prepared in conformity with the constitution, the act and regulation, The accounting office is responsible for all services which can be responsibly be foreseen to be included in the estimates and are within the capacity of the national government entity during the financial year, he should make sure that the estimates prepared are complete and accurate in relationship to the goals to be achieved by the government. The estimates are to be framed with the economy and efficiency and hence be submitted to the county secretary for approval which in turn is taken to the county government for implementation, The national government is to make a follow up of the funds disbursed to the counties to assess the efficiency in the utilization of the funds on the anticipated development projects.

Background:-

Financial management in a public organization is an integral part of overall management. It concerns the duties and responsibilities of the financial managers in in public institutions (Paramasivan and Subramanian 2014). A good institutional manager must possess the principles of management, thus planning, organizing, leading, controlling, staffing, coordinating and directing activities in an organization. A manager's primary challenge is to solve challenges creatively but withdrawing from a variety of academic disciplines and to help respond to the challenges of creative problem solving in order to be able to manage the institutional activities. The public organizations face economic, social, and environmental challenges that need to be attended to by the manager in relationship to financial challenges. Principles of management in an organization are specifically concerned with organizational level outcomes such as economic, social or environmental performance, innovation or ability to change and adopt. However, County governments at various levels have not changed and adopted the dynamics of various departments in the organization. The role of individual level performance draws the county governments back due to lack of monitoring and evaluation of various activities that take place in their governments in relationship to other counties.

In contrast, organizational citizen behavior can be understood as the organizational behavior that are beneficial and are discretionary and not directly or explicitly recognized by the organizational system (LEXINGTON 1988). A good manager must therefore possess the big five personality traits in order for him or her be able to manage a public organization. This includes, openness, conscientiousness, extraversion, agreeableness and neuroticism, He is in most cases to use the common sense in streamlining the organizational structure for the achievement of the set goals. Management skills require a greater focus on processes, results, and the people around him. The skills include leadership, team building, financial acumen, accountability and sharing responsibility for the performance of others, this act of management seem to be lacking in Trans-Nzoia County. Being a manager does not necessarily mean that one has more power or freedom to act the way he or she should do. The Manager should have increased formal authority, access and status that does not necessarily equate to power or influence. They should rely on cooperation and agreement with others within and the outside of the government.

Statement of the problem

County governments are facing national crisis from all corners of the country due to the management of county resources especially the financial management. This is in tandem with the national with the Auditor Generals reports. Many hospitals in the country are experiencing frequent strikes and sit-ins, an indication that there might be shortage of drugs, lack of staff salaries. Hospital maintenance procedures and the many cases of people sharing a single bed are much realized. Many contracted infrastructures are stalled and communication network systems appear not to be functioning. This has prompted the researcher to investigate the policy on county government financial management systems

Purpose of the study

The purpose of the study is to establish the application of the national government and the county government policy on financial management systems. The study will also find out the procurement and tendering processes by the county government on various contracts.

Objectives of the Study: -

1. To establish the adherence to financial management policy in county governments
2. To determine the county government spending process on various projects
3. To establish the mechanisms that county government use in auditing the books of accounts
4. To establish the process that the county government uses in awarding tenders.

Research questions

1. What is the extent to which county governments adheres to financial management policy?
2. What is the county government spending process on various projects?
3. What are the mechanisms that county government uses in auditing the books of accounts?
4. What is the process that the county government uses in awarding tenders?

Significance of the study

The study would be of great assistance to scholars in providing new ideas on Policy implementation for proper financial management in the County Government in Trans-Nzoia County. The Study will purposely aim at generating new knowledge on the utilization of the funds provided to public secondary for service delivery for performance. It is also hoped that the study will assist the academic leaders, principals, teachers and the education officers to review and operationalize the financial auditing policies for effective performance in Secondary schools in West Pokot County. The study will aim at unearthing the reasons as to why most Counties do not put into implementation the financial management policies hence poor operational performance in the Counties. It is also hoped that the study will assist the national government to streamline the auditing of the operations in the devolved governments. The study will also assist in reviewing the existing County Government financial policies on financial management, designing programmes and management strategies for effective and efficient service delivery that would enhance performance in schools.

Literature Review

Public finance management is not complete without application of the set laws, systems and process that are used by different nations and Counties for success, to mobilize revenue, allocate public funds, undertake public spending and account for funds (Andrew Lawson, 2015). It consists of the broad set functions in an organization and not only on financial management but it encompasses a cycle of six phases, being policy design including external and internal audit and evaluation of the county activities and resource utilization. The operations of an organization require engagement in public financial management cycle that ensures effective operations and transparency with preservation of accountability (DFID, 2015)

Public financial management with strong system is an essential aspect of an organization framework for effective county development. It effectively delivers public services that are closely associated with mitigation of poverty and promotes social-economic development of the county whose strong transparency, accountability systems tend to deliver services more effectively and equitably regulates commodity markets more effectively and fairly for its industrial products. It is through good financial management policy that the county government can realize development outcomes. The county government can improve statehood if the ability to collect tax is fairly done and spending is done responsibly. These are fundamentals characteristics of inclusive state organizations which generate trust, promote innovative and creativity energies and allow society to flourish (Acemogly & Robinson, 2012). The improvement of the of the effectiveness of FMP system, can provide a wide spread and long-lasting benefits and this may help reinforce wider societal shifts towards strong inclusive organizations, strong states, reduced poverty, great gender equality, and balanced growth (Ramkumar, V. & Shapro, I. 2010). The finance management policy is embedded on the process of budget cycle in any organization or institution. The annual budget cycle is to ensure that public expenditure is well planned, executed and accounted for (Rebecca Simson, Natasha Sharma &Imran Aziz, 2011). It is important to bear in mind that revenue management in an organization closely interacts with expenditure management especially when the determinants of the overall budget and management of cash flow is being adhered to in relationship to the policy guidelines. This may work well if the Budget for the whole year is prepared in which the government, including oversight legislature, plans for use in accordance with the stipulated policy. The budget execution is to be operational after the approval where spending agencies and the ministry for finance embarks on its implementation using the allocated resources on specific items as planned (Allan, R. & Tommasi, D. 2001). However, many Cuties hardly follow their annual budget accordingly as required by the financial management policy hence the stalling of many projects.

Review of Theories

The review will focus on the following three theories that will be applied in the study: theory of financial control, Agency theory and Expectation theory.

Theory of Financial Control

Theory of financial control Laughin, (1980) focuses on financial controls for various organizations naturally on firms to be viewed latitudinal in several areas of management. This in regards with the way human beings' functions on what is needed to accomplish through various organizations in both activities and outcome. It also targets the structures of the organization and activities that are taking place and how various transactions of different departments operate. The other activity is the process of the control systems of recurring and process applied to relate present and future functions for resources on both external and internal phenomena. The financial control tools in this process are crucial in an individual organization's perspective and overall social-economic systems. The last area explains the specific process of an individual organization in accomplishing both internal and external issues that initiates organization's development. This theory inspires organizational management by stating that the structure and financial control system works together (Joshi, et al. 2003). The financial control theory to organization relates the current study due to its assistance in the better understanding of the intricacies surrounding organizational financial management systems are the annual budgets, execution, evaluation and auditing.

Agency Theory

The agency theory was launched in economics by Jensen and Meckling (1976). The theory has been incorporated in the world view of managers hence becoming a powerful model. It is built on the block as a particular social interaction process whose relationship is sighted as a contractor under which one person engages to the other person to perform some activities on self-behalf which includes delegation of decision-making authority to agents for whom efforts generates disutility, force and conduct opportunistically to the expense of the principals' and agent's interest. The theory gives suggestion that a firm or organization can be viewed as a nexus of contracts between resource holders', a relationship agent that can come up whenever individuals known as principals engage one or more additional individuals (agents) to perform some duties and hence delegate decision-making power to agents. The major agency interaction in business is the one that is between stockholders and managers and in between debt-holders and stockholders. The agency theory consists of several implications that incorporate governance and ethics texts. As the agency appears, it tends to give rise to agency costs, as expenses incurred to assist in sustaining effective agency relationship such as offering management performance bonuses to encourage managers to act in the shareholders' interests. According to the theory, a dominant model in the financial economics is widely disused in business ethics in an organization.

Expectancy Theory

Expectancy theory Victor Vroom, (1932) theory (1964) has a few assumptions that, combination of forces in individuals and environment determine behavior; individuals can decide upon their own behavior in an organization at least in two occasions, thus, membership and performance. Those different individuals have different needs and goals and behavior is a result of a conscious choice between alternatives where choices focus on minimizing pain and maximizing gain. There is a relationship between effort and performance and good performance result in desired outcomes.

Adherence to financial management policy in county governments

Financial management policies in counties include financial responsibilities whereby the board of trustee formulates financial policies and operations are reviewed and activities done on periodic basis. The board delegates oversight responsibility to the centre manager and the external book keeper. The centre manager like the county governor acts as a fiscal agent who implements all the financial policies and procedures. In conjunction with the book keeper, he is responsible for the coordination of annual budget presentation and quarterly update reports. He approves revenue and expenditure objectives in accordance with the board's approved long-term plans and manage the day today trust funds. The responsibility is very important in the county government by ensuring that there is accounting accuracy, records of finance, internal controls, financial statement preparation, approval and bank reconciliation is reviewed.

The accounts practicing, payroll input and payroll processing and VAT are strictly adhered to. The cash receipts input journal entries for general ledger and bank reconciliation are to be worked upon by the book keeper.

The delay in appointing the following responsible persons in counties seems to be a ploy to opening loopholes for mismanagement of finance in most counties in the county: - the centre chairman, the business Development team Leader and the financial Administrator. The policies are very clear on members of the board of trustees being prohibited from activities that might present conflicts of interest but they hardly take in. Instead, many are contracted on various county projects using other peoples' names or companies and yet the companies are theirs. These are some of the means of fleecing county government funds. The boards of trustees are to audit financial statements of the counties periodically at the request of any funding providers (National government). Auditing of financial records need to be conducted by an independent firm with Certified Public Accountants (CPA). The implementation of the auditing is to be overseen by the Chairman of internal and external book keeper. The representative of the audit firm needs to be invited to attend annual presentation of the audited accounts. In case of any discrepancies, they need to be reported to the Administrator who in turn reports to the manager and manager to report to the Board of trust.

County government spending process on various projects

The National Assembly and Budget making has progressively increased its role in the approved and oversight of the Budget that consists of Budget that consists of expenditure allocations to the national government departments, approval of taxes and other revenue including, loans for the purpose of funding development projects (National Assembly and Budget, 2010). The National Assembly Article 95 sets out the functions in the Budget as: determining the allocation of national revenue between National and County governments, appropriating funds for expenditure and other state organs, and exercising oversight over national revenue and expenditure constitution of Kenya, 2010. The revenue allocation is done through the approval of Bills highlighted in Article 218 of the constitution, namely the Division of revenue Bill and County allocation of revenue Bill, subject to Article 202 on conditional and unconditional grants, the criteria for revenue sharing in Article 203 and recommendations of the commission of revenue allocation. The Division of revenue Bill is the instrument for sharing of the revenue raised by national government, primarily from ordinary taxes, between the national government and county governments.

The Division takes into account the criteria in Article 203(1) which includes consideration to fund national interests, debt payments, national governments expenditure, development needs of counties, financing of county functions, among others. The Counties receive 15% of the total budget every year, raised nationally through revenue collection on the basis of audited accounts of revenue approved by National Assembly. However, it seems that the county governments do not remit collection of tax revenue to the national government. This poses a challenge to the national government on tax collection and distribution of the same to the county government. This is justified by the national government refusing to increase the county revenue disbursement of 35% percent till the tax collection is accounted for. The Auditor general's questionable reports on county expenditures that do not have support documents raises speculations and yet county governments have no funds for development with stalled projects.

Mechanisms that county government use in auditing the books of accounts

Auditing of public sector entities is governed by the international standards of supreme Audit Institution (ISSAI) development by International Organizations (INTOSA) in Vienna Austria (Fredrick Oluoch, 2018). The Professional Standards and guidelines for auditing are essential the credibility, quality and professionalism of public sector auditing. The ISSAI aims at promoting independent and effective auditing institutions (CAPK, 2018). The often success of the auditing profession depends entirely on its response to auditing challenges. Bromwich and Hopwood, 1982: 21) has clarified the nature of these challenges by exploring the possible responses. The fundamental questions about why and where auditor's authority and power in the society reside and how this location changes overtime were explored. The office of the Auditor General being an independent body or office created under Article 229 of (2010), change with the primary oversight role ensuring that accountability within the three arms of government (Legislature, judiciary and the executive as well as the commissions and executive) as well as the commissions and independent offices Article 229 (4), though clearly explains.

Process that the county government uses in awarding tenders.

Public procurement systems contribute to or constitute economic development of many countries in the world (PPOA, 2012). The public procurement is a process through which government meets development requirements in the provision of physical infrastructure and supply of essential public utilities (2010). Since the launch of the public procurement and disposal Act (2005) in 2007, policies with legal framework relating to procurement and asset disposal was put into implementations in the nation, In accordance with the constitution of Kenya promulgation in 2010, it was envisaged that most of the activities would be conducted at the national and others in the 47 counties. With the powers bestowed to the Minister for Finance by section 140 of the public procurement and disposal Act, 2007, it was conceptualized by the Minister (2013) and gazette the procurement and disposal, county governments regulations, through legal notice No. 60 to operationalize the application of procurement and disposal Act 2005 in the County, governments, promote local industry and support social-economic development in the counties. In reference to these, nothing seems to be unheard of in Trans-Nzoia County. The regulations are also to be put into utilization when procuring goods, services and works and disposing assets in County Government, Assembly, City, Urban area or County service delivery co-coordinating with the National Government. Though the regulations are very clear and states that the institutions that deal with procurement and disposal of items are independent, this seems to be hardly happening from the national government which might be the main source of corruption that leads to major projects not being completed. The objectives of the public procurement system are to provide efficiency and effectiveness, value for money, timeliness in project completion, open to system, create positive completion, open to outside participants who might provide quality service, provide remedies in activity control and provide transparency and accountability bin service delivery. If this were operational, why a shock of 95 Billion scandal at Kenya Pipeline (2015) and could not be realized Weele, Arjan J. Van (2010). This is the justification that there is a problem with the procurement procedures from the National to the devolved Government. In accordance with the World Bank Group's (2007) country assessment report, the quality of service in the Kenya Public Sector was very low prior to 2003 due to inadequate, accountability and responsibility, as well as poor governance. Poor management of the public assets led to an almost total collapse of infrastructure decline in productivity (Kenya National Bureau of statistics, 2010). The poor service delivery was also due to unclear direction and non-existence strategic plans. Lack of accountability was caused by organizational culture characteristics by negative values among staff (Republic of Kenya, 2006).

Research Methodology and Design:-

The study employed descriptive research design that provided comprehensive description of the ideas, perception and beliefs of individual respondents at a time. The study was conducted in Trans-Nzoia County where the target population 100 people whose sample study consisted of 30 respondents who consisted of internal Auditors, administrators, accountants and Finance officers in the County. The researcher applied purposive and convenience sampling techniques in data collection whereby purposive met the officers who had knowledge of county finance processes and convenience was used by meeting respondents by accident to collect concrete and reliable information in financial utilization. The structured interview schedule and questionnaires were executed in collection of data with observation of research ethics on given data by respondents. The validity and reliability of the research instruments was done through the pilot study and were deemed suitable Cronbach's that come above 0.7 which was a>0.7). The summary of the data was conducted through descriptive statistics in percentages and frequencies as well as the central tendencies measure and dispersion. Inferential analysis was conducted under Pearson's correlation analysis to provide direction and the power of underlying association between the financial and management control variables.

Findings and Discussion:-

The findings indicated that the policies were not being fully engaged due to dominance of some part representation opposing any Bill that could be proposed for county development for personal interests. The delay in appointments of the public service Boards to implement or oversee the policy strategies were being purposefully delayed as a ploy to enable the machineries appoint their own people who could not keep on correcting the wrong. The findings also revealed that the Board of Trustees who was to audit the financial statements of the counties periodically was hardly doing so. The implementation that was to be overseen by the Chairman of the internal and external book Keeper was never reported to the administration on the financial status of the County. The findings also indicated that revenue collections by the County Government were not fully disbursed to the National Government as required by law. This made it hard for the national government to share their revenue raised by the national government. It also made it impossible for national government to raise the disbursement from 316Billion to 336 Billion to be shared to 47 Counties. The study found that the auditing of books of accounts, though being done, it was not to the international standards. This was why the Auditor General could be able to unearth a lot of rot among the many counties through the process of tendering. The findings revealed that the procurement process was the tunnel through which a lot of funds were disappearing in the name of tendering. It revealed that some tenders were being awarded to contractors who were not skilled in their specific areas of operations, hence leaving many projects incomplete or stalled. The study revealed that Counties including Trans-Nzoia did not have financial strategic plan that could enhance proper financial utilization and financial strategic systems.

Recommendations: -

The research concluded that the County Government should be conducting internal auditing quarterly to enhance the proper financial management process. The ministry of finance should formulate the national procurement body that will be able to work in conjunction with the County procurement body to reduce financial misappropriation and proper planning for completion of County projects. The following recommendations were made by the researcher:

1. The tough fine is set up for the corrupt officers whose fine should exceed the amount of money misappropriated.
2. The Auditor General be mandated to be prompting the County Government in providing agent financial Audit.
3. The public service Board should be to the overseer of the County projects development and be empowered to watch over Audit reports.
4. The Governor's role should only be to deal with the expenditure documents under the management of the county Assembly.
5. Monitoring and Benchmarking be intensified within the Country among various Counties but not outside the Country.
6. A neutral body be set up that specifically deal with the tendering and procurement process independently and not be interfered with.

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