
PUBLIC FINANCIAL MANAGEMENT ON BUDGET IMPLEMENTATION IN THE PUBLIC SECTOR IN KENYA

ADAN Ibrahim Ali

Abstract

In Kenya there exist gaps that have been identified after the development of the new constitution that introduced the devolved system of government which limits the effectiveness of budget implementation. The specific objectives were to assess the effect of legislative oversight and auditing practices on budget implementation in the Ministry of Devolution and ASAL. A descriptive research design was preferred in this study and the population of interest was 154 employees in the finance, planning and accounting departments. Stratified random sampling technique was used to come up with 62 respondents. The study utilized primary data in form of questionnaires and a pilot study to test reliability and validity of the questionnaire was conducted from 16 individuals. Analysis was done quantitatively by use of descriptive statistics and inferential statistics. The study concluded that Parliament plays a key oversight role at the ministry of Devolution and ASAL. The internal control mechanisms enhance budget implementation the ministry of devolution. Effective oversight and audit leads to effective financial decision at the ministry of Devolution and ASAL. The study recommends that government should therefore ensure that parliament is timely in the performance of its duties to enable the effective use of the revenue and spending processes it authorizes. The government should ensure that there is effective oversight and audit to eliminate all the chances of fraud and noncompliance at the ministry.

Key Words: *Public Financial Management, Legislative Oversight, Auditing Practices, Budget Implementation*

Introduction

In Kenya, public finance management in county and national levels is governed by the Public Financial Management (PFM) Act 2012 (Republic of Kenya, 2016). This Act details all the policies, procedures and practices that counties and national government need to adhere to when managing public funds. The objectives of the statutes governing public financial management are to ensure that existing powers are exercised in an accountable and democratic manner when it comes to collection and use of public finances (Republic of Kenya, 2016). In Kenyan perspective, the 2010- constitution gave the PFM and fiscal decentralization as the keys to reforms in the management of public financial resources. This was in a bid to ensure that there was efficient and disciplined use of these resources. The introduced reforms were aimed at improving the efficiency of the public service and ensure the resources available were used to meets the needs of the public (Khumalo, 2016). From the time the PFM reforms were introduced in Kenya there have been changes in the development of budget, parliamentary oversights, procurement, collection of revenue, public participation, external audit and execution of budget (Khumalo, 2016).

The Kenyan Government has been trying to encourage changes in the Public Finance Management (PFM) area since 2006. This strategy addresses gaps that have been identified after the development of the new constitution that introduced the devolved system of government, mostly relating to inadequate strategy orientation and limited ownership of the lapsed strategy, organizational and management arrangements for the program in Commercial State-Owned Enterprises. The Strategy for the revitalization of Public Finance Management System in Kenya covered was introduced between 2006 to 2011 and its implementation was characterized by a sector wide method PFMR Strategy (Njenga, Omondi & Omete, 2014).

The Ministry of Devolution and ASAL was established in January 2018 following the restructuring of the Government. It consists of two State Departments; Devolution and ASAL, both of which formed part of the defunct Ministry of Devolution and Planning from April 2013 to January 2018. The Ministry is in charge of the Management of devolution affairs and ASAL. The functions of the Ministry are drawn from Articles 6, 187, 189 and 190 of the Constitution of Kenya, the Executive Order No. 1/2016 and the various Acts under which devolution is implemented including: Transition to Devolved Government Act, 2013; Intergovernmental Relations Act, 2012; and County Governments Act, 2012 (GOK, 2017).

Research Problem

In Kenya there has been challenges in budget implementation which are as a result of inefficiencies in fiscal policies, rampant corruption, poor use of resources and mismanagement of public resources making it necessary for reforms in the public firms

(Wakhungu, 2014). The Ministry of Devolution and ASAL Kenya in particular has faced key challenges in its budget implementation key among them corruption. A case in point is where the Ministry of Devolution was accused to have blatantly misappropriated huge amounts of taxpayers' monies. The list exposed how the ministry acquired goods and services at inflated prices, with one Kaspersky security unit going for kshs. 973,780. A photocopier (Kyocera 8001) was bought at kshs. 1.45 million while a "heavy duty" photocopier cost kshs.1.38 million (Standard Newspaper, November 4th 2015).

The use of PFMRs allows to pinpoint organizations that are characterized by financial problems and also improves economic growth. Public financial management challenges will help solve the challenges in budget implementation which are as a result of PFM systems. There exists a gap in the focus of budget implementation especially in Kenya, Kanayo (2013) focused on public financial management and fiscal results in Nigeria and pointed that literacy rate and corruption are key influences of Nigeria fiscal results. Matthias (2013) attempted to establish the public financial management changes done in developing nations and the conclusion was that the effect of PFM changes on anti-corruption factors cannot be said to be independent of factors that caused positive anti-corruption results.

From the above findings' there exist a gap on the link between PFM and budget implementation in the Kenyan public sector taking into consideration the importance of budget implementation as its key to public sector success and service delivery as many ministries in Kenya are unable to implement their budgets effectively. In Kenya there exist gaps that have been identified after the development of the new constitution that introduced the devolved system of government which limits the effectiveness of budget implementation. If PFM reforms are implemented, they can improve transparency, encourage fiscal discipline and enhance the implementation of budgets which has not been the case in Kenya. Therefore, there exists a gap as none of the named studies looked into the effect of public financial management on budget implementation in the public sector, a case of Ministry of Devolution and ASAL, therefore the current research hopes to fill the existing knowledge gap in this area.

Objective of the Study

To establish the effect of public financial management on budget implementation in the public sector in Kenya. The specific objectives were;

1. To assess the effect of legislative oversight on budget implementation in the public sector in Kenya
2. To determine the effect of auditing practices on budget implementation in the public sector in Kenya

Theoretical Review

Agency Theory

The Agency theory is the first most important theory of corporate governance both in private and public organizations. Jensen and Meckling (1976) advanced the work of Berle and Means (1932) to come up with the hypothesis. Agency relationship is said to be a circumstance where one party (principal) delegates another (agent) to perform administrations on their sake and gives them the specialization to create choices. The fundamental preface of this hypothesis is that those people entrusted with representation of others ought to eventually commit the corporate assets to value maximization for those they speak to. The agents are expected to work tirelessly and observe due care in making corporate choices and guarantee the interface of the principal are defended.

Stakeholder Theory

Richard E. Freeman is the one who developed the above model in 1984. This is a theory that introduces business-based approaches to the public sector administration and management. The theory defines a stakeholder as someone or group of persons who has an influence or can be affected if the firm meets or does not meet its objectives. This model gives approaches through the decision makers in the public sector can look at their environments for existing opportunities and threats. This means that proponents of the public sector and financial management reforms should look at the social economic and political environments to look out for opportunities or threats for growth so as to know where to prioritize the available resources during the policy and budget making (Freeman, 1984).

Conceptual Framework

A conceptual framework provides the relationship that the researcher feels exists between the study variables.

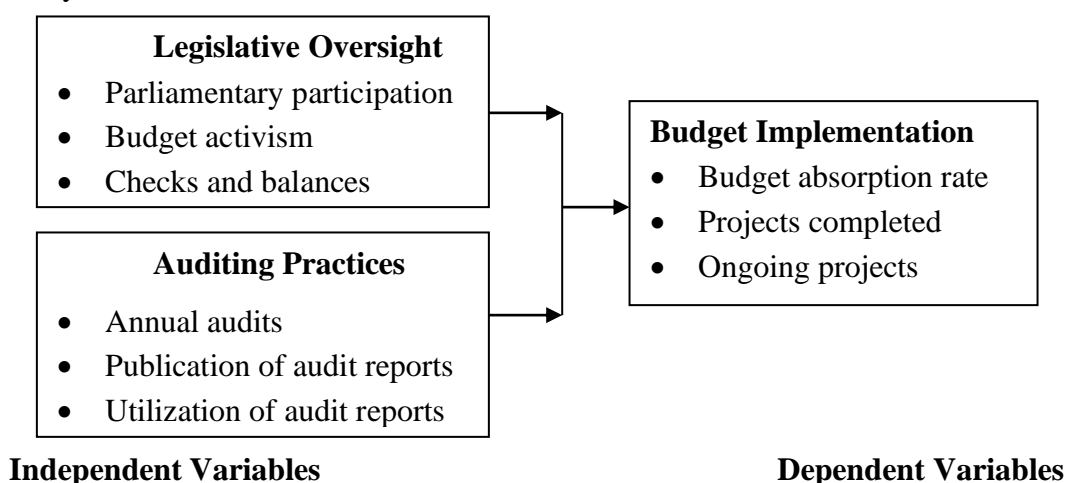


Figure 1 Conceptual Framework

Research Methodology

A descriptive research strategy was utilized for this study which allowed the researcher to induce a part of data from a small sample in a straightforward, prudent and viable way by utilization of the investigative device (Saunders, Lewis & Thornhill, 2012). The population targeted for the research was made up of 154 staff members in the finance, planning and accounting departments at the Ministry of Devolution and ASAL (Human Resource Department, Ministry of Devolution and ASAL 2018). The analyst utilized a stratified random sampling strategy since the study population was not homogenous and in this way it was conceivable to isolate this populace into strata to induce a representative sample. To calculate the sample size of the adolescents, the Yamane's formula (1967) was employed.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision (0.05).

$$\begin{aligned} n &= 154 / 1 + 154(0.05)^2 \\ &= 154 / 1 + 154 (0.0025) \\ &= 154 / 1.385 \\ &= 111 \end{aligned}$$

The researcher took a random sample from each stratum proportionate to the population proportion to come up with 111 respondents. Questionnaires were used to obtain primary data. The pilot test was done to ensure that the research tool was reliable and valid, 16 participants from the study population were used for the pilot study. Descriptive statistical methods such as Ms Excel and SPSS were used to analyze the quantitative data. The researcher further employed a multivariate regression model to deduce the relationship between the factors studied here. A regression model was concluded to be useful as it is able to test the effect of these independent variables on the dependent variable.

Results And Discussions

Legislative Oversight and Budget Implementation

The participants were asked to indicate the extent to which they agreed with the below statements that relate to influence of legislative oversight on budget implementation.

Table 1 Influence of Legislative Oversight and Budget Implementation

Statement	Mean	Std. Dev
Parliamentary plays a key oversight role at the ministry of Devolution and ASAL	1.99	0.275
Legislature is legal obliged to ensure the authorized revenue and measures by it are well implemented	2.01	0.174
Parliament requires answerability of state officers at the ministry of Devolution and ASAL	1.96	0.233
The legislature has a budget policy development plan to enhance	2.05	0.218

budget implementation		
The legislature ensures the budget policy document is implemented properly and efficiently	1.94	0.283

The results revealed that most of the participants were in agreement to a great extent that the legislature ensures the budget policy document is implemented properly and efficiently as shown by a mean of 1.94, parliament requires answerability of state officers at the ministry of Devolution and ASAL as shown by a mean of 1.96, parliamentary plays a key oversight role at the ministry of Devolution and ASAL as shown by a mean of 1.99, legislature is legally obliged to ensure the revenue and measures authorized by it are well implemented as shown by a mean of 2.01 and that the legislature has a budget policy development plan to enhance budget implementation as shown by a mean of 2.05. Consistent to the study findings is Shifwoka (2014) who found that oversight of the legislature was responsible for ensuring the government executive accountability when it came to the use of the public resources. Inconsistent to the findings is Ehigiamusoe and Umar (2013) who found that legislative oversights had not been very effective in hastening budget performance.

Auditing Practices and Budget Implementation

The participants were asked to indicate the extent to which they agreed with the below statements that relate to influence of auditing practices on budget implementation.

Table 2 Influence of Auditing Practices and Budget Implementation

Statement	Mean	Std. Dev
Ineffective oversight and audit is the major factor affecting budget implementation at the ministry of Devolution and ASAL	2.08	0.300
Ineffective oversight and audit leads to the emergence of fraud at the ministry of Devolution and ASAL	2.03	0.284
Ineffective oversight and audit leads to noncompliance with internal policies and procedures at the ministry of Devolution and ASAL	1.92	0.248
Effective oversight and audit leads to effective financial decision at the ministry of Devolution and ASAL	2.22	0.251
Internal control mechanisms enhance budget implementation the ministry of Devolution and ASAL	1.94	0.232

The results reveal that most of the participants were in agreement to a great extent that ineffective oversight and audit leads to noncompliance with internal policies and procedures at the ministry of devolution and ASAL as shown by a mean of 1.92, internal control mechanisms enhance budget implementation the ministry of devolution and ASAL as shown by a mean of 1.94, and that ineffective oversight and audit leads to the emergence of fraud at the ministry of devolution and ASAL as shown by a mean of 2.03. The respondents also agreed to a great extent that ineffective oversight and audit is the major factor affecting

budget implementation at the ministry of Devolution and ASAL as shown by a mean of 2.08, and effective oversight and audit leads to effective financial decision at the ministry of Devolution and ASAL as shown by a mean of 2.22. Similarly, Mutuma (2016) found that lack of effective internal audit hinders effective budget implementation.

Budget Implementation

The study sought to find out the status of budget implementation at the ministry of Devolution and ASAL.

Table 3 Statements on Budget Implementation

Statement	Mean	Std. Dev
There has been efficient and effective budget execution at the ministry of Devolution and ASAL	1.93	0.274
There has been accurate and timely accounting and reporting at the ministry of Devolution and ASAL	2.09	0.539
There has been value for money for the projects at the ministry of Devolution and ASAL	2.10	0.174
Most of the projects at the ministry of Devolution and ASAL have been completed	2.06	0.434
The budget absorption rate at the ministry of Devolution and ASAL is high	2.04	0.256

Most of the participants as revealed by the results were in agreement to a great extent that there has been efficient and effective budget execution at the ministry of Devolution and ASAL as shown by a mean of 1.93, the budget absorption rate at the ministry of Devolution and ASAL is high as shown by a mean of 2.04 and that most of the projects at the ministry of Devolution and ASAL have been completed as demonstrated by mean of 2.06. The respondents further agreed to a great extent that there has been accurate and timely accounting and reporting at the ministry of Devolution and ASAL as shown by a mean of 2.09 and that there has been value for money for the projects at the ministry of Devolution and ASAL as illustrated by a mean of 2.10. Consistently Kiilu and Ngugi (2014) found that effective public fund management is influenced by budgeting reforms. The findings were however inconsistent to those of Onyiah (2016) who found that in Nigeria there was poor budget execution due to poor project conceptualization, design and planning.

Correlation Analysis

The study sought to find out whether there existed a significant relationship between the independents and dependent variables where Pearson correlation was used.

Table 4 Correlation Analysis

		Budget Implementation (Y)	Legislative Oversight (X1)	Auditing Practice (X2)
Budget Implementation (Y)	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	88		
Legislative Oversight (X1)	Pearson Correlation	.810**	1	
	Sig. (2-tailed)	.001		
	N	88	88	
Auditing Practice (X2)	Pearson Correlation	.783**	.228*	1
	Sig. (2-tailed)	.002	.038	
	N	88	88	88

The study found a strong positive correlation between budget implementation and legislative oversight, as shown by correlation factor of 0.810. This strong relationship was found to be statistically significant as the significant value was 0.001 which was less than 0.05. The findings supported Ana-María, Francisco and Bernardino (2014) findings that there was a positive effect of legislative budgetary oversight on the transparency of budgets. The study also found a strong positive correlation between budget implementation and auditing practice as shown by correlation coefficient of 0.783, the significant value was 0.002 which was less than 0.05. The results supported Unegbu (2015) findings that the internal audits can be efficient in the checking of corruption and fraud in the Nigeria public sector.

Regression analysis

A multiple regression was conducted so as to determine the extent of influence of the independent variables on the dependent variables and also to determine the significance of the relationship using the p values.

Table 5 Beta Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.686	0.284		5.937	0.001
Legislative oversight	0.835	0.189	0.774	4.418	0.003
Auditing practice	0.803	0.187	0.762	4.294	0.012

$$Y=1.686+0.835X_1+0.803X_2+0.284$$

The regression equation shows that if the independent variables (Legislative oversight, Auditing practices,) were held to a constant zero, budget implementation in the public sector

would be 1.686. A unit increase in Legislative oversight would lead to increase in budget implementation in the public sector by 0.835 units. The findings supported Ana-María, Francisco and Bernardino (2014) findings that there was a positive effect of legislative budgetary oversight on the transparency of budgets.

A unit increase in auditing practices would lead to a rise in budget implementation in the public sector by 0.803 units. The results supported Unegbu (2015) findings that the internal audits can be efficient in the checking of corruption and fraud in the Nigeria public sector. At 5% level of significance and 95% level of confidence, all the variables were significant ($p < 0.05$).

Model Summary

The model summary sought to determine whether the correlation coefficient was significant at 5% significance level and also the extent that each independent variable explained the dependent variable through the coefficient of determination.

Table 6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842 _a	.709	.685	.274

a. Predictors: (Constant), Legislative oversight, Auditing practices

The table displays R at 0.842 showing the correlation between the observed and predicted values of the dependent variable. The relationship between the two values is deduced to be average the adjusted R squared value is 0.685 meaning that 68.5% of the variation retention (dependent variable) can be explained from Legislative oversight and Auditing practices at 95 percent confidence interval.

Analysis of Variance

An Analysis of Variance (ANOVA) was tested so as to determine whether the model was significant at a confidence level of 95%.

Table 7 ANOVA Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.73	2	5.865	13.576	0.002
	Residual	36.72	85	0.432		
	Total	48.45	87			

The table summarizes the results of the ANOVA. The table shows that the population parameters significance level was at 0.001% revealing that the data can be used to make inferences. The overall model relationship was considered significant since F calculated

(13.576) is higher than the F critical (value = 3.1038) 2 d.f, 85 d.f and $0.001 < 0.05$ at 5% level of significance.

Conclusion

Parliament plays a key oversight role at the ministry of Devolution and ASAL. It is legally obliged to ensure the spending measures and revenues authorized by it are well implemented and has a budget policy development plan to enhance budget implementation and ensures the budget policy document is implemented properly and efficiently.

The internal control mechanisms enhance budget implementation the ministry of devolution. Effective oversight and audit leads to effective financial decision at the ministry of Devolution and ASAL. Ineffective oversight and audit leads to the emergence of fraud at the ministry of devolution and ASAL as well as noncompliance with internal policies and procedures at the ministry.

Recommendations

The study revealed that Parliament plays a key oversight role at the ministry of Devolution and ASAL. The government should therefore ensure that parliament is timely performing its' legal obligation to ensure the revenues and spending measures it authorizes are well implemented.

Ineffective oversight and audit have been found to be the major factor affecting budget implementation at the ministry of Devolution and ASAL. The government should ensure that there is effective oversight and audit to eliminate all the chances of fraud and noncompliance at the ministry.

Suggestions for further studies

The study was carried out on the effect of public financial management on budget implementation in the public sector, a case of Ministry of Devolution and Arid and Semi-Arid Lands. For comparison, similar studies can be replicated in other government ministries.

References

- Barry, H. (2015). *Guidelines for Public Expenditure Management*, International Monetary Fund, Washington DC.
- Berle, A. A. Jr., & Means, G. C. (1932). *The modern corporation and private property*. New York: Macmillan.
- Bovaird, T., & Loffler, E. (2015). *Public Management and Governance*. London: Routledge.
- Broughton, C., & Chalmers, J. (2013). 'Reconsidering the Revolution? Australian Public-Sector Administration', *Australian Journal of Public Administration*, 60 (1) 81-8.
- Dunleavy, P., & Hood, C. (2014). 'From old public administration to new public management', *Public Money and Management*, 14 (3), 9-16.

- Freeman, R. E. (1984). *Strategic management: a stakeholder approach*. Massachusetts: Pitman.
- Government of Kenya. (2016). *Governments Amendment Act supplement number 34 of 2016*. Kenya Gazette Supplement No. 43 (Acts No. 1).
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: managerial behavior agency costs ownership structure. *Journal of Financial Economics*, 3, 305 -360.
- Johnson, G., Scholes, K., & Whittington, R. (2014). *Exploring Corporate Strategy: Text and Cases*. Pearson Education.
- Kanayo, O. (2013). *Public Financial Management and Fiscal Outcomes*. Lagos, Nigeria: Empirical Evidence.
- Khemani, J. D. (2016). Introducing Financial Management Information Systems in developing countries. *OECD Journal on Budgeting*, 3 (5), 98-100.
- Kiilu, M. R., & Ngugi, K. (2014). Effect of Public Financial Management Reforms in the Effective Management of Public Funds in Kenya: A Case Study of the National Treasury. *European Journal of Business Management*, 2(1), 161-169.
- Kipsang, R. (2015). *A survey of factors affecting budget utilization in the public sector in Kenya*, MBA thesis, Jomo Kenyatta University of Science and Technology, School of business.
- Latema, R. (2013). The theory and practice of corporate finance: Evidence from the field. *Journal of Financial Economics*, 60(2), 187 - 243.
- Mugenda, O., & Mugenda, B. (2008). *Research Methods. Quantitative and Qualitative*. Nairobi: Acts Press Publishers.
- Muli, B. (2016). Effect of Financial Management Practices on Budget Implementation of County Governments: A Case of Machakos County. *www.strategicjournals.com*. 3 (40), 756-771.
- Munyombera, E., & Lwanga, M. (2015). A review of Uganda's public financial reforms (2012-2014).
- Njenga, A. N., Omondi, M. M., & Omete, F. I. (2014). Financial Management Reforms and Economic Performance of Public Sector in Kenya. *International Journal of Business and Management*, 6 (31), 148-161.
- Onduso, E. A. (2013). *The effect of budgets on financial performance of manufacturing companies in Nairobi County*. Thesis, University of Nairobi.
- Onyiah, A. I., Ezeamama, N. N., Ugwu, J. N. & Mgbodile, C. C. (2016). Liberia Budget Implementation and Control Reforms: Tool for Macro Economic Growth. *British Journal of Economics, Management & Trade*, 11 (2), 1-13.
- Osborne, S. P. (2016). *The new public governance: emerging perspectives on the theory and practice of public governance*. New York: Routledge.
- Painter, M. (2015). Bureaucratic autonomy and administrative reform. In Cheung, A. (Ed.), *Public Service Reform in East Asia: Reform Issues and Challenges in Japan, Korea, Singapore and Hong Kong*.

- Quah, J. (2010). *Public Administration Singapore Style*. Emerald.
- Republic of Kenya. (2016). *The role and composition of the Kenyan Government*.
- Saunders, M., Lewis, P., & Thornhill, A. (2012). *Research Methods for Business Students* (4th edn). Harlow: FT Prentice Hall.
- Shand, D. (2014). *Improving budget implementation OECD-Asian senior budget officials Meeting*, Bangkok 2010. Pg.4-5.
- Shifwoka, K. W. (2014). *The Effect of Oversight Role of Parliament on Budget Implementation*. University of Nairobi.
- Smith, R.W., & Lynch, T. D. (2014). *Public budgeting in America*. New Jersey: Pearson.
- Standard Newspaper, November 4th 2015.
- Unegbu A., & Kida M (2015). *Effectiveness of internal audit as instrument of improving public sector management*. J. Emerging Trends Econ. Manage. Sci. 2(4):304-309. Retrieved from EBSCO database.
- Wakhungu, D. (2014). *Effect of Public Finance Management Reforms on Financial Performance of Commercial State-Owned Enterprises in Kenya*. Unpublished Research Project. University of Nairobi, 1-60.