International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 5, Issue 2, pp: (91-96), Month: October 2017 - March 2018, Available at: www.researchpublish.com

Role of Public Financial Regulations on Performance of Devolved Systems of Government in Kenya: A case of Trans-Nzoia County

[1]Abiyah Lyambula Nelima, [2]Dr. Noor Ismail Shalle

School of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract: **Current regulatory model for financial regulation in Kenya is a hodgepodge of institutional and functional regulation. There are seven Government al agencies regulating specific segments of financial services. The Central Bank of Kenya (CBK) licenses and supervises the operations of all commercial banks excluding the Kenya Post Office Savings Bank (KPOSB) which is regulated by the Treasury Development Finance Institutions (DFIs) are regulated by differentGovernment ministries. For instance, the Ministry of Finance, Industrial and Commercial Development Corporation (ICDC) by the Ministry of Trade and the Agricultural Finance Corporation (AFC) by the Ministry of Agriculture regulate the Industrial Development Bank (IDB).financial regulation is amongst the central instruments through which governmentseek to deliver on their policy priorities. However, a lack of consensus on how regulation should be conceptualized can make studying its nature and effects problematic. Therefore this study examined the role of public financial regulations on the performance of devolved systems of government in Kenya in Trans Nzoia County. The study examined the effect of budgetary process, funding mechanisms, cash management and ICT integration on performance of devolved systems. A descriptive research design was employed. The target population was184 staffs and the sample size was 124 staffs stratified in top, middle and operational level staffs within Trans Nzoia county financial regulatory board. Data was collected through the use of semi structured questionnaires which were administered to respondents and analyzed using statistical package for social sciences (SPSS) version 23.0 A pilot study was conducted to pretest the validity and reliability of data collection instruments. Both quantitative and qualitative data was collected analysed and presented in tables for easier interpretation.**

Keywords: **Budgetary process, Technology, Financial regulations, Government policy, Funding Mechanisms, Cash Management.**

1. INTRODUCTION

In the wake of the global financial crisis (GFC), many countries are prioritizing stability by strengthening financial regulation. Although important, this might be at the expense of inclusive growth, especially in poor countries. Without effective regulation, financial systems can become unstable, triggering crises that can devastate the real economy as evidenced by the recent GFC that began in 2007 [16]. Given the primary purpose of finance is to facilitate productive economic activity; the aim of regulations is to maintain financial stability and to promote economic growth. This is a delicate balancing act, as too great a focus on stability could stifle growth, while a dash for growth is likely to sow the seeds of future crises. Regulation is amongst the central instruments through which government seek to deliver on their policy priorities. However, a lack of consensus on exactly how regulation should be conceptualized can make studying its nature and effects problematic [3]. In recent years there has been a sustained argument from the International Federation of Accountants (IFAC), national professional accounting associations, the OECD, World Bank and IMF for government around the world to follow the lead of Australia, New Zealand and the UK and introduce business style accrual accounting as the basis for government financial reporting [15]. The claim is that this approach will provide more useful I In the wake of the global financial crisis (GFC); many countries are prioritizing stability by strengthening financial regulation.

Government worldwide are faced with the challenge of meeting the expectations of the citizenry. A number of studies have been conducted on Financial Regulations and public sector budgeting [19]. A world Bank research on the effectiveness of public sector accounting in Sri Lanka found out that while financial regulations existed, they did not have the force of the law and therefore were not always complied with and thus the oversight of government accounting outcomes were lacking.

In the early 1990s, developing countries in Africa began to focus on the improvement of public finance, in particular on budget and expenditure management reforms. Mainly as a response to concerns from the donor community, government started to critically review the existingsystems and processes. As a response to inadequate and outdated systems, a recommendation was the introduction of the financial management systems (FMS) along the experience of developed countries in the 70‟s and 80‟s for the Integration of different functions of public finance on the basis of a uniform technical platform [13]. According to [9], the current regulatory model for financial regulation in Kenya is a hodgepodge of institutional and functional regulation. There are seven Government al agencies regulating specific segments of financial services. The Central Bank of Kenya (CBK) licenses and supervises the operations of all commercial banks excluding the Kenya Post Office Savings Bank (KPOSB) which is regulated by the Treasury Development Finance Institutions (DFIs) are regulated by differentGovernment ministries. For instance, the Ministry of Finance, Industrial and Commercial Development Corporation (ICDC) by the Ministry of Trade and the Agricultural Finance Corporation (AFC) by the Ministry of Agriculture regulate the Industrial Development Bank (IDB).

2. EMPIRICAL REVIEW

Empirical research is a way of gaining knowledge by means of direct and indirect observation or experience. Empirical evidence (the record of one's direct observation or experiences) can be analyzed quantitatively or qualitatively. According to the statement on auditing standards control activities are the policies and procedures that help ensure that management's directives are carried out. [4], states that until recently, this has been the historical component of internal control. [6] Asserts that regulated control activities can be categorized as authorization, segregation of duties, record keeping safeguarding and reconciliations and these controls depend greatly on the activity under consideration.

According to [17] financial regulations elements; a policy establishing what should be done and procedures to affect the policy. [14] Assessed the effectiveness of internal control in government ministries taking a case of Benue State ministry of finance. According to the study findings, it was established that Benue State ministry of finance prepare annual budget promptly and also have adequate expenditure tracking to prevent financial recklessness.

According to [5] when studying the role of public sector audit and financial control systems in Sudan, found that audit and control system is paramount in ensuring accountability for the use of public funds, and safeguarding the limited public resources against corruption and other misappropriation and unlawful practices. The study found out that weak and ineffective financial control systems and deficiencies in accounting systems are some of facilitating factors of financial corruption in Sudan. [1] Argued that financial regulations control is achieved by designing systems and procedures to suit the specific needs of an organization. In order to have effective financial control, a firm's staff and other stakeholders are supposed to be privy with and participate in the budgeting process that affects the line items for which they are held responsible.

Increase ability to undertake control and monitoring of expenditure and receipts in Government Departments within proper regulations and policies; Increase ability to access information on financial regulations and operational performance; increase ability to access information on Government ‟s cash position and Information on Economic performance; and increase ability to demonstrate accountability to donors and the public [7]. Effected Public Financial Management (PFM) regulatory system is a catalyst for economic growth and development [2]. It ensures that the government and its departments raise, manage, and spend public resources in an efficient and transparent way with the aim of improving service delivery.

3. CONCEPTUAL FRAMEWORK

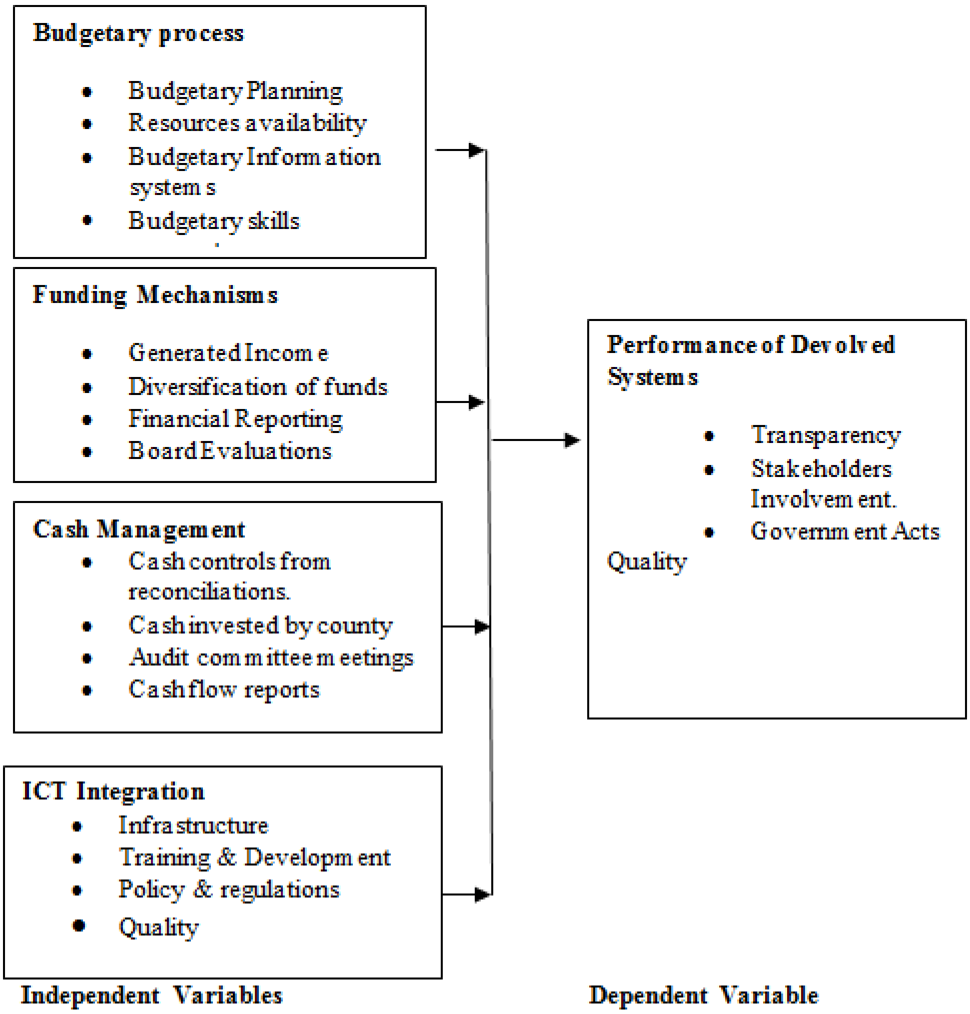

Figure 2.1: Conceptual Framework

4. SUMMARY AND CRITIQUE OF EXISTING LITERATURE

In Zambia, there has been no specific financial improvement for public sector [5]. Historically the public sector has faced capacity constraints compounded by inadequate information process and systems. In addition, non- compliance with internal controls has led to poor predictability of government expenditure and lack of analytical capacity. Whereas the issue for the Zambian government was the need to improve financial reporting and auditing systems, the challenges for Zimbabwe was dealing with an acute shortage of qualified professionals working within the public sector Botswana also had very similar issues to those in Zimbabwe. Although a relatively wealthy country, Botswana's public sector was challenged by its failure to match the rewards offered to professional staff by the private sector [5]. Kenya is considered to have the largest, most diversified and innovative economy in East Africa [8].

Moreover, Kenya is at a critical stage of implementing the devolved system of governance as espoused in the Constitution of Kenya 2010 [18].In addition to introducing 47 County governments with fiscal responsibility, the Constitution also established new Public Finance Management (PFM) institutions such as the Commission on Revenue Allocation, Salaries and Remuneration Commission and Office of the Controller of Budget and expanded the mandate of the Auditor General. Additionally, the PFM Act 2012 has specified roles for the National Treasury and Parliament on PFM. Capacity building is therefore required to enable various players fulfil their PFM responsibilities.

Furthermore, so as to meet the enlarged financing demands of both the National and 47 County Governments there is need for increased efficiency and effectiveness in utilization of scarce public resources [10].

5. RESEARCH METHODOLOGY

Both qualitative and quantitative research approaches were adopted because of the nature of the research questions. The design was appropriate for this study since it allowed the researcher to describe the record, analyse and record and report the conditions of financial regulations implementations. The target population was 184 employees within finance regulatory body in Trans Nzoia County in top, middle and lower management cadre staffs. The study used self-administered questionnaires and observation schedules. This study utilized both primary and secondary data. Questionnaires were used to collect primary data which was distributed to the staff. The researcher made personal-follow ups to ensure that the questionnaires are filled and collected. The questionnaires were tested for validity and reliability by administering to 4 respondents from the target population. The researcher relied on Likert-type scale and used Cronbach's Coefficient Alpha to evaluate internal consistency.

6. RESULTS AND DISCUSSION

Pilot Study:

A pilot study was steered to pre-test the instrument used in data collection. Out of the 124 questionnaires distributed, only 66 were filled and returned representing a 53.2% response rate. [11] States that a response rate above 50% should be considered to be good for research. The Cronbach's Alpha was used in the study for internal consistency. The rule of the thumb for Cronbach Alpha is that the closer the alpha is to 1 the greater the reliability (Sekaran, 2010) and a value of at least 0.7 is recommended. The findings in this case are presented in the table below. Alpha=NC/ (v+ (N-1) C).

Table 1 Reliability Results

Reliability statistics	Number of items	Cronbach's Alpha
Budgetary process	20	0.930
Funding mechanisms	14	0.823
Cash management	14	0.873
ICT integration	18	0.891

The findings show that all the measures had Cronbach's Alpha values greater than 0.7 which fall in the acceptable limit. This indicated a strong internal consistency among measures of variable items.

Public Financial regulation:

The study sought to determine the role of budgetary process on the performance of devolved systems, from the finding majority of the respondents disagreed that all staffs are included in budgetary planning as shown by a mean of 1.71 and standard deviation of 0.28, budgetary planning in organization are not within specified financial regulations as shown by mean of 1.83 and a standard deviation of 0.31, the organization lacks enough resource in their budgetary process as shown by mean of 1.86 and a standard deviation of 0.30, Information systems is not applied during budgetary process implementation as shown by mean of 1.87 and a standard deviation of 0.29 and finally that it emerged that organization budgetary process meets its objectives as shown by a mean of 1.91 and standard deviation of 0.25

Effect of funding mechanisms:

The study sought to determine the effect of funding mechanisms on the performance of devolved systems, from the finding majority of the respondents strongly disagreed that organization receive enough revenue on time from the central government as shown by mean of 1.74 and a standard deviation of 0.27, the organization board review revenue reports per year and the organization does not have income generating activities to increase its income on service delivery as shown by mean of 1.86 and a standard deviation of 0.28, organization lacks proper financial regulations on it financial evaluations as show by mean of 1.87 and a standard deviation of 0.29, funding mechanisms systems regulations are not properly oriented to organization members as show by mean of 1.89 and a standard deviation of 0.26, and finally that the organization lacks proper financial regulations on diversification of its funds in their services rendered as show by mean of 1.90 and a standard deviation of 0.29. Non-profit organizations are struggling financially, particularly those that rely on government funding with 61percent of non-profits reporting cuts in government funding as well as those that rely on foundations for monetary contributions with48 percent of non-profits reporting cuts in foundation funding.

Role of cash management:

The study sought to determine the role of cash management on the performance of devolved systems, from the research findings the study established that majority of the respondents disagreed that; the organization has effectively invested mechanisms within its locality in service delivery as shown by mean of 1.76 and a standard deviation of 0.29, They disagreed that the or organization audit committee meetings are properly regulated and further disagreed that the organization staffs are properly trained on cash management mechanisms as shown by a mean of 1.80 and a standard deviation of 0.28 and 0.30 in each case, Organization cash controls from reconciliations are not well regulated as shown by a mean of 1.83 and a standard deviation of 0.26 and finally respondents agreed that organization cash flow reports are properly prepared within specified regulations as shown by a mean of 1.85 and a standard deviation of 0.27.

Role of ICT integration:

The study sought to determine the respondent’s level of agreement with the above statements relating to the role of ICT integration on the performance of devolved systems. From the research findings the study established that majority of the respondents disagreed that organization staffs are duly trained on ICT developments as shown by a mean of 1.72 and a standard deviation of 0.25 and it affects performance of the County negatively, the organization lacks vast ICT infrastructures to meet its goals as shown by a mean of 1.73 and a standard deviation of 0.26 and this affects performance of the County negatively, organization ICT policy is not clear in its application and the organization ICT Infrastructure are not well regulated on its operations as shown by a mean of 1.75 in each case and a standard deviation of 0.27 and 0.23 respectively hence negatively affects performance of the county, the organization lacks ICT policy and regulation that is well implemented as shown by a mean of 1.78 and a standard deviation of 0.27 which affects performance negatively, the above findings concurs with the findings by [12] in his study of Government ministries in Kenya found that IFMIS has significantly contributed to the improvement in financial management in Kenya. This improvement from using the system can be realized if the implementation process is successful. [2] Confirms that a strong Public Financial Management system is a catalyst for economic growth and development.

7. CONCLUSION

Prior inquiries notwithstanding the insufficiency of studies in this area and especially in the public financial regulation sector covering performance of Devolved systems of government in Kenya indicated that there are varied results on the role of public financial regulations on performance of Devolved systems of government in Kenya. The study found a general challenge in provision of proper budgetary process, delayed funding mechanisms from the National Government, poor cash management practices and total delays in implementation of ICT Integration. Moreover, the role of public financial regulation was evident on performance of Devolved systems as depicted. The study further revealed most respondents disagreed with public financial regulation statements which draws attention of their implementation process. The study found that budgetary process, funding mechanisms, cash management and ICT integration played a major role on devolved systems of government in Trans Nzoia County, Kenya.

This study examined the role of public financial regulations on the performance of devolved systems of government in Trans Nzoia County, Kenya. The objective was arrived at by delving into the following research questions; what is the role of budgetary process on the performance of devolved systems of government in Trans Nzoia County? How does funding mechanisms affect the performance of devolved systems of government in Trans Nzoia County? What is the role of cash management on the performance of devolved systems of government in Trans Nzoia County? And finally Has does ICT integration affect the performance of devolved systems of government in Trans Nzoia County? The examination on the role of public financial regulations on the performance of devolved systems of government in Kenya contributes immensely to the theory on financial regulation in Kenya. The contribution strengthens the practice of financial management and in particular highlighting the challenges of implementing financial regulation in the financial system is valuable to the stakeholders. Budgetary process, funding mechanisms, cash management and ICT integration statements were disagreed upon implying poor reinforcement mechanisms to aid performance of devolved government. The independent variables used in the study were found to be a good fit in explaining performance Trans Nzoia County in Kenya.

REFERENCES

[1] Alin, F., de Boer, S., Freer, G., van Ginneken, L., Klaasen, W., & Mbane, J. R., (2006). How to build a good small NGO, Management Review, 35(1)55-64.

[2] Ajayi, C. & Omirin, S. (2007). Key Issues in Information Systems Management. Boston, McGraw-Hill. Anonymous. (2003). Still together after all these years: A chat about changes and trends in the nonprofitsector. Nonprofit World 21 (3), 18-21

[3] Black, J. (2002). Critical Reflections on Regulation, CARR Discussion Papers, London

[4] Crawford, D. B. (2000). Levels of Control, the Internal Auditor, 60(2), 59-63.

[5] El-Nafbi, H. M. (2008). The role of public sector audit and financial control systems in safeguarding public funds in Sudan, Journal of Economics & Administration, 2 (1), 1-11.

[6] Jajo, S. (2005). Internal Audit- Internal Controls Internal Audit. 275 HDL center oh university Athens.

[7] Jobe, R. (2009). Dynamic Financial Systems: Complexity, fragility and regulatory principles. FinancialMarkets, Institutions & instruments, 22, (1): 1-42.

[8] Karanja, J. G., & Ng'ang'a, E. N. (2014). Factors influencing implementation of integrated management information system in Kenya government ministries. Research Journal of Finance and Accounting, 5(7), 10-18.

[9] Mas, I. & Radcliffe, D. (2010). Mobile Payments go Viral: M-PESA in Kenya, Bill. & Melinda GatesFoundation

[10] Mugambi, M. (2011). Factors influencing implementation of integrated financial management information system software: A case study of Kenya Institute of Education. Unpublished masters dissertation, University of Nairobi.

[11] Mugenda, O. & Mugenda, A. (2003). Research Methods: Quantitative and Qualitative Approaches. Nairobi: Acts Press.

[12] Muigai, N. (2012). The effect of integrated financial management Information systems on the financial management of public sector in Kenya: A case of the Kenyan Ministries. Unpublished masters dissertation, University of Nairobi.

[13] Musgrave, R. & Musgrave, P. (2009). Public Finance in Theory and Practice. (9th Ed.): Finance Series. New York. McGraw-Hill International Editions.

[14] Owizy, S. O. (2011). Assessment of effectiveness of internal control in government ministries: A study of Benue State ministry of finance. Unpublished Masters Thesis. Benue State University.

[15] Smullen, A. (2009). Business Style Accounting for the Core of Government : Academic Debates andInternational Experience, Report prepared for the Ministry of Finance, The Netherlands, Amsterdam

[16] Spratt, S. (2013), Financial Regulation in Low-Income Countries: Balancing Growth with Stability. Part 1 and 2. Unpublished.

[17] Warren, S. (2005). Internal Controls, Internal Auditor, 62(4), 69-73

[18] Wanjau, K. N., Muiruri, B. W., & Ayodo, E. (2012). Factors affecting provisions of service quality in the public health sector: A case of Kenyatta National Hospital. International Journal of Humanities and Social Science, 2(13), 114-125.

[19] World Bank. (1998). Public Expenditure Management Handbook, the World Bank