FACTORS AFFECTING THE FINANCIAL MANAGEMENT SYSTEMS IN COUNTY GOVERNMENTS IN KENYA
(A Case Study of South Eastern Region)

ANNASTACIA MUMBUA MUENDO
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A Research Project Report Submitted to the Department of Management Science, School of Business in Partial Fulfilment of the requirements of the award of a Degree of Masters of Business Administration of Kenyatta University

OCTOBER 2012
DECLARATION

This proposal is my own original work and has not been submitted to any other institution and or examining body for the award of any degree whatsoever.

Signature: ..................................................
Name: ANNASTACIA MUMBUA
Date: 23/10/2012

This research proposal has been submitted for examination with our approval as the University supervisor.

Signature: ..................................................
Name: DOMINIC NGABA
Date: 23/10/12

This research proposal has been submitted for examination with my approval as the Chairman Accounting and Finance Department.

Signature: ..................................................
Name: NDEDE F.W.F
Date: 01/NOV/2012
DEDICATION

This Research project is dedicated to my children and those who believe in achieving what God made them to be despite the many challenges and obstacles on the way to greatness; hoping against hope.
ACKNOWLEDGMENT

I wish to acknowledge my friends and classmates who helped me streamline my idea to arrive at the topic of this project. My gratitude goes more specifically to my supervisor who suggested the final topic and went through the work in its preliminaries and suggested some changes. Special mention is also given to my employer, the management of Municipal Council of Machakos who offered their resources and facilities which made my work easy. I sincerely recognize all who contributed in one way or another to the completion of this work. Lastly, I thank my God who has endowed me with, insight and sober mind.
ABSTRACT

Financial position of Local authorities (LAs) has been considerably strengthened in the past ten years as a result of the transfers made through the Local Authority Transfer Fund (LATF). However in almost all LAs, there is a huge gap between the formally approved budget and what actually happens. This is mainly because revenues are forecast unrealistically, in order to show a balanced budget and most of the local authorities are faced with financial problems due to failure to make realistic budgets, lack of control and poor financial management practice. This study focused on the factors affecting financial management systems of local authorities in Kenya. The specific purpose of the study was to investigate the effect of budget preparation process on financial management systems in local authorities, to establish the effect of local authority funding on the financial management systems in local authorities, to identify the effect of management practices on the financial management systems in local authorities, and to establish the effect of employee capacity on the financial systems in local authorities. The study will assist the management to realize the importance of proper financial management and create awareness among the stakeholders on the services provided and the best and efficient management practice of giving out the services. It was based on the south eastern counties with a greater emphasis on the municipal councils in the region. The study used descriptive design where by a survey method was applied. The study used stratified and purposive technique to sample the target population of 75, who are the management of the councils in the South Eastern Region. Questionnaires were prepared and face to face interviews contacted by the researcher from a sample size of 30 respondents. The data collected was analyzed using percentages and presented in tabular and pie-chart forms. It was found that budget preparation, local authorities funding, management practices and employee capacity had a great effect on the management of finances in local authorities in Kenya.
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OPERATIONAL DEFINITION OF TERMS

**Funds** - Local Authority transfer funds.

**Forums** - Local Authority service delivery action plan consultative meetings in the locations.

**Policy makers** – This is a combination of chief officers and the councillors who are making critical and vital decisions in local authorities.

**Development Partners** – these are government and non-governmental bodies which do support Local authorities in undertaking development projects. They do support local authorities either financially or technically. For example Dass, Danida, Banks and so on.

**Collective Responsibility** – it means team spirit that is every member of the team being equally responsible.

**Empowering of Employees** – Employees being given full authority to make decisions independently for common advantage of all and aiming at achieving the organizational objective.
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<td>Local Authorities Transfer Funds</td>
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<td>NGO's</td>
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<td>MOLG</td>
<td>Ministry Of Local government</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>LAIFOMS</td>
<td>Local Authorities Integrated Financial Operations Management System</td>
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CHAPTER ONE

1.0 Introduction
This chapter focuses on the background of the study, the problem statement and the objectives of the study and the research questions derived there in. It highlights the scope and significance of the study and discusses the various challenges or limitations that the researcher will face.

1.1 Background of the study
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, governments started to critically review the existing systems and processes. As a response to inadequate and outdated systems, a recommendation was the introduction of integrated financial management systems (FMS) along the experience of developed countries in the ‘70s and ‘80s(integration of different functions of public finance on the basis of a uniform technical platform).

The availability, control and use of finances are the core of any organization existence and not least local authorities in their public services role (Cola, 2002). Every organization has to prepare a budget in order to manage its finances well. Local Authorities have a duty to deliver services to the residents or citizens because it is their core mandate under the Local Government Act Cap 265. It is through proper financial management that Local authorities are able to deliver services and implement their plans.

According to Lucy (2004), financial systems are laid down quantitative statements for a defined period of time which may include planned revenues, expenses, assets, liabilities and cash flow which provides a focus for the organization which aid the co-ordination of activities and facilitates control. Financial management is achieved by means of a fixed master budget, whereas control is generally exercised through the comparison of actual costs with a flexible budget.

Local government refers collectively to administrative authorities over areas that are smaller than a state. The term is used to contrast with offices at nation-state level, which
are referred to as the central government, national government, or (where appropriate) federal government. Local government only acts within powers delegated to it by legislation or directives of the higher level of government and each country has some kind of local government which will differ from those of other countries. Cohen J. (1994).

In primitive societies the lowest level of local government is the village headman or tribal chief. Federal states such as the United States have two levels of government above the local level: the governments of the fifty states and the federal national government whose relations are governed by the constitution of the United States. Local government in the United States originated in the colonial period and has been modified since then: the highest level of local government is at county level Kiringai (2002).

The institutions of local government vary greatly between countries, and even where similar arrangements exist, the terminology often varies. Common names for local government entities include state, province, region, department, county, prefecture, district, city, township, town, borough, parish, municipality, shire and village. However all these names are often used informally in different countries and local government is the legal part of central government.

There are weaknesses in financial management when printed estimates in the budget are compared with revised estimates and actual expenditures. Generally, there are considerable gaps between the printed and approved budgets and actual expenditures, and specifically for the development component. There is an inability to spend available funds at both central and local levels. This applies to both government and other funding.

Often, councils tend to spend funds from those donors who pose the least conditions in terms of controlling and reporting. Moreover, in a financial disbursement assessment report from 2004 it is concluded that there is a failure to use a significant proportion of available donor resources in the health sector (Gok Institute of economic affairs 2000).
1.2 Statement Of The Problem

Many African countries struggle with the right approach to reform public financial management. Studies indicate that institutions, systems, and processes that deal with the various aspects of public finance are weak, non-transparent, and, often, incapable of developing adequate budgets, monitoring public expenditures, using public funds and investments efficiently, and providing reliable data for macroeconomic modeling. Even if an analysis identifies all problem areas and weaknesses, it is often difficult to determine how and where to begin to reform the existing environment. The necessary adjustment processes are complex and deal with interrelated issues, such as institutional reforms, procedural and institutional arrangements, training, and capacity building. The use of information technology (IT)—often considered a key element of a reform agenda—poses additional challenges (Cohen, J. and Wheeler, J. 1994).

In common with many other countries, Kenya has been reforming its system of local government. The main aim of the reform has been to strengthen the capacity of local authorities (LAs) to deliver services to its residents. The very weak financial position of LAs has been considerably strengthened in the past ten years as a result of the transfers made through the Local Authority Transfer Fund (LATF). But real and lasting improvements will only happen if LAs involve their residents in decisions about how resources are used, and are accountable to their citizens for those decisions (Masya J. K. 2003).

In the past, both of these aspects have been very weak in LAs in Kenya, raising questions about whether LAs are making good use of their resources, both LATF transfers and their own local revenues. In almost all LAs, there is a huge gap between the formally approved budget and what actually happens. This is mainly because revenues are forecast unrealistically, in order to show a balanced budget whilst accommodating the many demands from councillors. The forecasted revenues cannot then be collected, so the LA soon runs short of money (James Njeru 2004).
In order for the LA to survive, the Treasurer effectively operates a shadow budget, deciding what will really be done with the money actually available. Since most of the available resources are already committed to salaries and councillor allowances, little from the original budget is implemented. Little decision-making discretion is left to the Town/County Clerk, Treasurer and senior councilors operating on an ad hoc basis. Treasurers defend themselves by saying that the Council is facing cash flow problems. The real issue, though, is what was done with the money that was budgeted?

Most local authorities are faced with financial problems due to failure to make realistic budgets, lack of control and poor financial management practice. This has led to industrial unrest, non payment of salary to their workers, lack of services rendered to its residents and poor infrastructure development (Kiringai, J. and G. West. 2002).

This research establishes the factors affecting financial management systems and highlights the course and strategies that can be used in order to improve the approach and the way resources in local authorities can be utilized effectively and efficiently.

1.3 Objectives of the Study

Main objective
The main objective of this study was to identify the factors affecting financial management systems in local authorities in Kenya.

The specific objectives
The specific objectives of the study were to:

a) Investigate the effect of budget preparation process on financial management systems in local authorities

b) Establish the effect of local authority funding on the financial management systems in local authorities.

c) Identify the effect of management practices on the financial management systems in local authorities.
d) Establish the effect of employee capacity on the financial management systems in local authorities.

1.4 Research Questions

The research questions of the study were:

a) How does budget preparation process affect financial management systems in local authorities?

b) Does LA funding affect the financial management systems in local authorities?

c) What is the effect of management practices on financial management systems in local authorities?

d) How does the employee capacity affect the financial management systems in local authorities?

1.5 Significance of the Study

The study will assist the management to realize the importance of proper financial management in order to implement its plans and deliver services. It will assist the management and policy makers to adopt strategies to reduce accumulation of debts. This study will assist the management to avoid having poor budgetary control system and their implications when service department make commitments beyond the approved budget level.

The study will create awareness among the stakeholders on the services provided and the best and efficient management practice of giving out the services to make the local authority more efficient and accountable to the people as pertains to utilization of the public funds. It will develop teamwork and collective responsibility between the management, employees and the elected leaders’ i.e. councilors.
1.6 Limitation of the Study

The researcher met some challenges while carrying out the study which included: Time; The time allocated for this research work was not adequate given that the researcher is also working and getting time to do the work was not easy. Issuing and collection of the questionnaires also needed time. The researcher made use of research assistants who made the work easier. Finances: Money was a constraining factor given the work that was involved of typesetting and printing the document. The research assistants engaged were paid. The researcher sourced money from friends and well wishers to cater for the cost involved; Respondent’s cooperation: Many people are not conversant with research operations and therefore they looked on this work with a lot of skepticism. Many respondents were not willing to give out some information.

1.7 Scope of the Study

This study was based on the eastern region with a greater emphasis on the municipal councils in the region. The research investigated the factors affecting financial management. The Revenue officer, the management team, policy makers, Accountants in charge of budget preparation and implementation and departments and sectional heads were met at their work station. The study was carried out within three months.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter concentrates on reviewing literature with a view of understanding what other researchers have contributed and the extent of this research regarding budgetary preparation process, the implementation process and the control process and any positive or negative factors which may contribute to effective budget implementation.

2.2 Review of Past Studies

2.2.1 Financial management

According to Cole, (1996) management is the process of working with and through others to effectively achieve an organizations stated objectives by efficiently using resources in the ever changing environments. Management of the revenue depends on the type of business or particular organization and the purpose to which it was collected. In local authorities revenue is collected for the provision of services and each local authority has its own type of revenue it collects thus different kind of services.

Effective management of the resources of an organization, or of a project or service within an organization, involves: A planning and monitoring cycle that ensures that expenditure is always within available funds, and that the organization is always aware of the effect on its overall financial position; A record keeping system for financial transactions that meets accounting standards, and provides accurate and useful financial reports. The record keeping system feeds directly into the planning and monitoring cycle, providing the information about the organization’s financial position at the beginning of each cycle and the information for monitoring and adjusting the budget during the year; A control and risk management system that ensures procedures are in place to protect the organization against fraud or insolvency.

The control of an organization’s finances involves: Delegations which is the allocation of authority to approve specific financial transactions (most usually applied to specifying
who can approve payments at different levels of expenditure, but should also be applied to other activities such as setting up or closing accounts, transferring funds between accounts and so exercise of authority which is the actual signing of transaction documents (such as cheques or receipts) by the people with delegated authority to approve the transaction; evidence which is a paper trail of evidence that shows the validity of transactions and the appropriate exercise of delegated authority; monitoring and auditing which involves monitoring and closer examination of the financial records through audits, checks that the evidence exists to show that transactions are occurring appropriately and an efficiency review process that assesses the most resource efficient way to do things.

2.2.2 Basic tools of financial management systems

The basic tools of financial management are:

2.2.2.1 The budget

A draft budget should be prepared by someone with expertise in budgeting, and a good knowledge of the organization’s activities. The following should be checked by whoever is approving the budget: Amounts allocated to different items should be realistic, and information about how the figures for both income and expenditure items were decided should be provided. The figures should take into account inflation and cost increases (particularly those for wage or rent increases). ‘Accruals’ must be included – these are amounts that are unspent from the previous year, but are still 'owed' (such as accrued long service leave) and amounts that will need to be set aside from this year's budget to pay for things in the future (such as relief staff to cover leave accrued during this year, funds to cover replacement of equipment). Income must cover expenditure, even if some of the income is being brought forward into the budget from previous year’s surplus. All income should be allocated to something (this may include being set aside for future expenses).
2.2.2.2 Financial reports

Financial reports are essential for monitoring the budget, and will provide the most accurate reflection of how the budget is going if: ‘Year to date’ figures are shown in monthly or quarterly reports as well as the figures for that month or quarter. The figures for actual amounts are compared with the amounts budgeted for the period and year to date. The amounts budgeted are based on a cash flow chart (that is, have been realistically estimated in terms of their timing over the year).

2.2.2.3 Cash flow charts

These can be used to make sure that the organization does not run out of money or into problems during the year. A simple cash flow chart shows the timing of receipts and payments over the year, and the impact of this on available funds.

Local Authorities fail due to neglect decay, misappropriation, sleaze, bickering, lack of transparency and at the same time local authority Act Cap 265 created a conflict of interest among the elected civil leaders and chief officers alike leading to the misunderstanding of each others boundaries.

East Africa standard Newspaper (2004) reported that Kenya’s Local Authorities could attain a 95% growth in revenue collection through good business practice. Declining revenues is due to poor awareness of the prevailing revenue collection laws with no evidence to clarify what revenues do. Without revenues power, services cannot be provided and aids supported activities cannot become sustainable. Paying of revenues shapes the relationships between the management of these local authorities and its people.

Therefore residents are morally bound to pay their revenues for the upkeep and growth of their town. In anticipation of more revenues the management can introduce some policies which can assist in undertaking and meeting the needs of customers, measuring their satisfactions, keeping customers informed, giving customer’s confidence that their needs will be met and even exceeded.
2.2.3 Budget preparation

The budget process in Kenya involves the preparation of three main documents that outline the government expenditure plans namely: the forward budget, the annual budget and the supplementary estimates. Though the budget outlines resources to specific areas, it allows flexibility in resource reallocation to meet contingencies with the approval of parliament. To improve the budgeting process, the budgeting system in Kenya has undergone a number of reforms. These include: the Programme Review and the Forward Budget (PR&FB) in 1970, Budget Rationalization Programme (BRP) in 1980s, Public Investment Programme (PIP) in the 1990s and the Medium Term Expenditure Framework (MTEF) in 2000.

In a nutshell the budget process in Kenya is circular, starting in July to June. The process starts with the preparation of the forward budget (July-October) followed by the preparation of revised /supplementary estimates between September and March and finally the preparation of new annual estimates based on the forward budget, which start in January and end in June, culminating in the annual budget.

Local Authorities are generally recommended to use economic measures approach in formulating their annual estimates. To begin with, the budget committee under the leadership of the County Treasurer has to develop criteria for the preparation of the departmental budgets in it’s first session.

These guidelines will give each department a ceiling for budget preparation and establish basic priorities for service provision. The guidelines are needed because the Local Authorities must decide on how much to spend on various services under budgetary constraints as several departments compete for limited resources available.

The next stage is for each department to develop its own and present it to the budget committee for discussion and submission to the relevant standing committees of the council. These departmental budgets including comments by the standing committees are
taken back to the budget committee which harmonizes the proposals from the committees and prepares the master budget for submission to the Finance Committee. This is prepared in line with other Council's documents as LASDAP and REP.

![Budget Cycle Steps Diagram](image)

**Figure 2.2.1 Budget Cycle Steps** Masya J. K., and P. Njiraini (2003)

### 2.2.3.1 The LA's budgetary process in Kenya

The budget process in Kenya is made within the framework of the Medium Term Expenditure Format (A MTEF is a tool for linking policy, planning and budgeting over a medium-term at the government level. It consists of a top-down resource envelope and a bottom-up estimation of the current and medium term costs of existing policies. The MoF sets ceilings for all sectors on a three-year basis. The different ministries participate in working groups where sector priorities are reviewed and harmonized with national priorities LABG (1995).

Local Authorities are empowered by the Local Government Act Cap 265 S212 to prepare budget fourteen days before the Commencement of the next Financial Year. Although local authorities have certain power to manage their affairs, they are subject to the control and supervisor of the MOLG.
The local government act provides a basis for the budget process and highlights important issues to be considered by local authorities when preparing their budgets.

Relevant provision of the act explain responsibilities of councils and their officers, the role of the minister for local government, the budget period, the sequence of the begetting activities and the budgetary control. The budgets are prepared by the Chief Officers and then tabled in the Finance Committee, adopted by the Full Council, discussed in the Provisional Budget Committee and then forwarded to the Minister of Local Government for approval. When the Government realized that there was a problem of service delivery by Local Authorities, it came up with the idea of performance contracting. Performance contracting is negotiated by the Ministry of Local Government and the Council on the basis of the budget prepared for that financial year Masya (2003).

Benefits of budget do not automatically arise from the budgetary process; they have to be worked for. Well organized and thought out budget can however bring positive and significant benefits a co-ordination, classification of authority and responsibility, communication, control, motivation and goal congruence and performance evaluation Lucy (2004). These are the ideas of budget preparation.

The budgetary process provides a mechanism for Local Authorities to plan the services they will provide, detail their expected costs and define how they are to be financed. Monitoring of the budget as it is implemented helps to keep expenditures within the control and to ensure that revenue targets are achieved to the maximum extent possible. The budget facilitates communication of objectives and plans among the Local implementation of the Council’s responsibilities.

2.2.4 Local Authorities Funding
Local government finance in the larger continental countries that is Germany and Italy appears to be getting into difficulties, arising from over reliance on a single source of local revenue. Alternative methods of financing local government are now being
examined in these countries. The key to success of local government in these countries is a strong and reliable source of funding at local authority level, with most of this funding coming from income taxes and only a small share of local revenue being derived from property. This means that Nordic local authorities are dependent to a large degree on the personal income levels within their localities.

Kenyan local authorities (LAs) face serious financial problems for a number of reasons; local own revenue sources are limited: although the Single Business Permit has increased local revenues, LASC has been abolished and the full potential of the property tax is not utilized, until the introduction of LATF, central government provided no grants - and it even fails to pay its obligations in the form of the Contribution in lieu of Rates (CILOR), LAs fail to collect the revenue due: in many cases less than half of the potential revenue is collected, and LATF may be having a negative effect on the incentive to collect, taxpayers are often unwilling to pay because the LAs provide hardly any services, enforcement action against tax defaulters is difficult and expensive, meanwhile, LAs spend most of their money on personnel (partly due to over-staffing) and councilor allowances, with little left for operations, maintenance or capital investment, extensive corruption drains available resources, and many LAs (including some of the richest!) have huge debts IEA (2003).

As a result, many LAs have substantial deficits – in reality, even if not shown in the approved budget. Expenditure management is often simply crisis management – staving off creditors. In most LAs, few services are actually delivered, and despite the rhetoric of the PRSP, little attempt is made to direct the available resources to addressing poverty.

Many of these problems are caused by the structural imbalance between expenditure needs and resource availability at the local level, but other problems are attributable to the failings of LAs themselves.
2.2.5 Management practices

Given that the budget is rarely adhered to, a number of management issues exist. This is revealed in budget reallocations through revised estimates and huge budget deficits. A study by the IEA (2001), using survey data carried out by the CGD (2001) revealed seven years of waste between 1991-1997 when the government lost Ksh. 475 billion through corruption, neglect, wastage and a “don’t care” attitude of public officers.

Further the survey indicates that during this period, wasteful expenditure amounted to Ksh. 69 billion; undelivered goods and services Ksh. 39.8 billion; irregular payments Ksh. 54 billion; unsurrendered/ uncollected revenue 236 billion; and pending bills Ksh. 77 billion. This situation has been aggravated by among other factors the misallocation of public expenditures; large unbudgeted expenditures (Eldoret Airport project; presidential jet), over-invoicing, evasion of duty and unauthorized expenditure.

The budget indiscipline has also been evidenced by the selective award of tax exemptions and incentives and off-budget transactions, such as the huge increases in salaries and wages for members of parliament and permanent secretaries in the civil service (Institute of Economic Affairs, 2003).

A study by Njeru (2004) reveals that after budget approvals, policy makers do switch budgetary resources from one vote to another to finance extra recurrent expenditures. Thus as long as the budget is not adhered to, efficiency and effectiveness in resource use and management will largely remain elusive in Kenya.

The budget goals have largely remained elusive in Kenya, as the government is unable to achieve its revenue targets. This is because, despite the fact that donor budgetary support has not been forthcoming in the last two decades, the government has largely remained optimistic and continues to include in the budget outturns uncommitted donors funds and receipts expected from the disposal of public corporations which are never realized. As a result, the actual budget implementation tends to dictate policy priorities despite the...
enormous resources put into the budget preparation, often resulting in a scenario where budget drives policy rather than the ideal where policy should drive budget.

Many LAs (including some of the richest!) have huge debts. As a result, many LAs have substantial deficits – in reality, even if not shown in the approved budget. Expenditure management is often simply crisis management – staving off creditors. In most LAs, few services are actually delivered, and despite the rhetoric of the PRSP, little attempt is made to direct the available resources to addressing poverty. Many of these problems are caused by the structural imbalance between expenditure needs and resource availability at the local level, but other problems are attributable to the failings of LAs themselves.


Most of the studies done give an overview of how finances are raised against the budget. Importantly, though, is that where an otherwise well-formulated budget is poorly implemented, government cannot achieve most of its spelt-out goals/objectives. Most Local Authorities do follow the approved budget in executing their plans.

There are no specific set standards, policies and procedures regarding the financing and implementation of the budget. Lack of familiarities and understanding of exact laws, regulations and guidelines on project execution by LA’s, Delays in obtaining approvals of Ministers and Permanent Secretaries for various stages of the procurement process, delays in processing payments, challenges in documentation delays in processing memos to council are bureaucratic obstacles facing LA’s in budget implementation.

2.2.6 Employee Capacity

Financial Management Systems include complex technical, procedural, institutional and behavioral adjustments that require specialized expertise. Finding expertise in key areas has been a problem and has caused difficulties in financial management. It is also important to take into account that while some relevant expertise may be available ‘in house’, it may take time to ensure the external procurement of the necessary capacity.
Management of public finance also poses a major challenge to the existing public sector environment. In most African countries, parts of the existing FMS are based on outdated manual, labor-intensive processes. The skills needed to operate that system are different from the demands of a new computerized system. Apart from IT-knowledge, a new accounting system requires professional accounting skills, which are scarce in African governments. To close the gap between available and necessary skills will not always be possible with the existing staff. It will in any case require long-term capacity building.

Consequently, time should be allocated to build skills and capacity in the existing public sector environment. In this context, it is essential to strike a balance between the necessary training and the ability and capacity to absorb information at the level of individual staff. Training needs and capacity building assessments are key elements of financial management. While it may require a more in-depth analysis to make a final assessment, more comprehensive capacity building efforts are recommended to avoid skills/capacity constraints and the potential loss of qualified public sector employees to the private sector.

At least parallel action should be considered to improve the salaries for financial management and IT-staff. Experience in the five countries indicates that it is difficult to retain qualified staff on public sector wages. As a consequence, in many cases (Ghana and Tanzania are examples) key staff are being paid outside the public sector salary structure. A careful evaluation of the salaries and packages for the relevant staff in both public and private sector should be done including an assessment of the implications of improved salaries for the broader public sector environment. Such a strategy would aim at striking a balance between the need to attract/retain qualified staff and the financial and social implications of better wages for specific employees (Murphy, Peter. F., 2000).
2.3 Critical Review

Municipalities have the responsibility to make sure that all citizens are provided with services to satisfy their basic needs. The most important services the municipality must provide are: water supply, sewage collection and disposal, refuse removal, electricity and gas supply, municipal health services, municipal roads and storm water drainage, street lighting and municipal parks and recreation. Municipalities provide services to people by using their own resources - finances, equipment and employees. People have to pay a certain rate to the municipality for providing these services.

Most of the studies are already done give an overview of how finances are managed against the budgets in place. The researcher intention was to state how effective revenue collection can be enhanced and how the expenditure can be minimized into account that, here is a possibility that most of the revenue collected is not put into proper use regarding the services needed by the residents. There are no specific set standard policies and procedures regarding the issues of collecting of revenues and the priorities in expenditure.

All the LA’s must administer and enforce written laws or specified provisions of written laws pertaining to the assessment, collection and accounting for all revenues in accordance with the local government laws. They should advise on matters pertaining to the administration and the collection of revenue under written laws and enhance efficiency and effectiveness of tax administration by eliminating bureaucracy, procurement, promotion, training and discipline.

They should eliminate tax evasion by simplifying and streamlining procedures and improving taxpayer service and education thereby increasing the rate of compliance. In addition they should promote professionalism and eradicate corruption amongst their employees by paying adequate salaries that enable the institution to attract and retain competent professionals of integrity and sound ethical morals.
2.4 Summary And Gaps To Be Filled

The implementation, audit and monitoring functions of the LA are far from being performed effectively. The result is accumulation of pending bills due to commitment of funds without reference to cash availability, over invoicing by government suppliers, existence of separate accounts by donors in line agencies, weak internal audit functions, and excessive reliance on cash rationing resulting into unsatisfactory service delivery (Cohen, J. and Wheeler, J., 1994).

Although accounting officers are personally and pecuniary liable for ensuring expenditure controls of their vote, they are rarely sanctioned when they fail to adhere to the administrative controls. There is also general non-compliance with financial regulations. There is a general lack of transparency over decisions and actual use of resources there is a profound distrust between officials and councillors in most LAs, each accusing the other of malpractice. Councillors complain of not being provided with information, of council decisions not being implemented, and of officers not being accountable, for example, for budget implementation councillors also accuse officers of secrecy, obstruction and corruption, and complain that corrupt officers are simply moved by the Ministry to different LA’s (LATF Annual Report 2006-2007).

Officers often regard councillors as ill-educated and so unable to understand policy choices or read a budget (although officers rarely seem to make serious efforts to engage councillors in strategic decision-making). Officers accuse councillors of being interested only in their direct benefits (allowances, corrupt awarding of tenders, appointment of staff), and of not following due procedures. Officers in some LAs see the LASDAP process as a way of holding councillors to account LABG August 1995.

The major challenge affecting many Local Authorities is financial management. Many Local Authorities don’t follow up the approved budget in executing their plans. This leads to poor service delivery to its residents or citizens. Local Authorities are being challenged by the Government and its citizens to deliver services which equate the amount of money collected from the citizens as well as the monies channeled from Central Government.
2.3 Conceptual Framework

The conceptual framework shows the inter relationship between the independent and dependent variables of the study. Financial management systems in counties is a function of several factors among them being the ones discussed in this study which include budget preparation, funding received by the counties, management practices at the counties and the employee capacity. This implies that the effectiveness or ineffectiveness of the financial management systems is determined by the effectiveness or ineffectiveness of the independent variables.

2.3 Conceptual Framework

- Budget Preparation Process
- Funding
- Management practices
- Employee Capacity

Financial Management Systems

Dependent Variables
CHAPTER THREE

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction
This chapter describes the research design, methods and procedures used by the researcher to carry out the study. The research design, target population, sample, design, data collection instruments and data analysis methods are explained in this chapter too.

3.2 Research Design
The study used descriptive design where by a survey method was applied. Qualitative and quantitative approaches were used to establish the status of the problem under investigation. Descriptive research is essentially cross sectional and concerns with generalized statistics that relates the sample to population characteristics, obtains a large number of population and deals with large number of cases.

3.3 Target Population
The target population comprised all the management team of the counties in the south eastern region of Kenya. These councils comprise of Machakos county, Makueni county, and Kitui county. The total number of the employees in the management team is as shown.

Table 3.3.1 Target Population

<table>
<thead>
<tr>
<th>The Counties</th>
<th>Target Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machakos county</td>
<td>27</td>
</tr>
<tr>
<td>Makueni county</td>
<td>25</td>
</tr>
<tr>
<td>Kitui county</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
</tr>
</tbody>
</table>
3.4 Sampling Design, Procedures and Sample Size

The research used stratified and purposive sampling method to select the required sample size. The population was divided into the different counties which form the strata of the study from where only the senior management team were picked who comprise of the town clerks, the treasurers, the auditors and accountants to form a sample size of 30 respondents which is 50% of the total population as shown below. According to Lucey T. (2004), any sample above 10% is enough representation.

<table>
<thead>
<tr>
<th>COUNCIL</th>
<th>POPULATION</th>
<th>SAMPLE SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machakos county</td>
<td>27</td>
<td>10</td>
</tr>
<tr>
<td>Makueni county</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>Kitui county</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>30</td>
</tr>
</tbody>
</table>

3.5 Data Collection Instruments

The researcher used questionnaires with open and closed – ended questions to collect the required data. This is because the questionnaire is easy to administer and gives quick, accurate statistics where a large number of respondents is used.

3.6 Data Analysis

The research used descriptive statistics to describe the distribution of scores to be obtained by use of statistical methods like frequencies and percentages. Data was classified and tabulated by use of tables and presented in form of graphs and charts according to research questions and objectives.
CHAPTER FOUR

4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction
This chapter deals with the analysis of data from the questionnaires collected by use of tables. The data is then presented by use of bar graphs and pie charts. Interpretation of the data is also made to enable the researcher make an inference and conclusions of the research.

4.2 Presentation of findings.
The respond rate is given by the table below

Table 4.2.1 Response rate

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed</td>
<td>28</td>
<td>96%</td>
</tr>
<tr>
<td>Not returned</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td>uncompleted</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100%</td>
</tr>
</tbody>
</table>

Out of the 30 questionnaires issued, 1 was not returned and 1 was returned incomplete. 28 were fully completed and were the ones used for data analysis in this study.
The response rate is tabulated by the figure below

**Response rate**

![Pie chart showing response rates](image)

*Figure 4.2.1*

4.2.2 The respondents were asked to indicate their gender which is tabulated in the table below.

**Table 4.2.2 Gender**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>16</td>
<td>57</td>
</tr>
<tr>
<td>Female</td>
<td>12</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

Majority of the respondents were men comprising 57% of the sample size while 43% were female.
The gender is represented by the figure below.

**Gender**

![Gender Figure]

**Figure 4.2.2**

4.2.3 Educational background of the respondents was as shown in the table below.

**Table 4.2.3 Education qualification**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree holders</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Diploma holders</td>
<td>13</td>
<td>46</td>
</tr>
<tr>
<td>certificate holders</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>form four lavers</td>
<td>7</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The table shows that majority of the respondents were Diploma holders 46% while 25% are form four lavers, 16% were certificate holders while 13% were degree holders.
The educational background was then represented as shown in the figure below

**Education qualification**

![Bar chart showing education qualifications]

**Figure 4.2.3**

4.2.4 The research sought to know if all the stakeholders are involved in budget preparation.

**Table 4.2 4 Stakeholders involvement**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>No</td>
<td>21</td>
<td>77</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

The table shows that 23% indicated that all stakeholders were involved while 77% said that the stakeholders were not all involved. It implies that majority felt that many stakeholders were not fully involved in budget preparation.
The Stakeholders involvement

Figure 4.2.4

4.2.5 The research wanted to identify whether the budget preparations was politically influenced. The results are given as shown below.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>18</td>
<td>61</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>39</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

The table shows that 61% indicated that budget preparation was politically influenced while 39% said that it was not influenced. This indicates that there is some form of political influence in budget preparation.
The political influence of the budget preparation is represented in the chart below.

![Political influence chart](image)

**Figure 4.2.5**

4.2.5 The researcher sought to establish the respondents view of how realistic the budget preparation was and the results were shown as shown below.

**Table 4.2 6 Budget realistic**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very realistic</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Realistic</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Moderate</td>
<td>8</td>
<td>27</td>
</tr>
<tr>
<td>Unrealistic</td>
<td>11</td>
<td>40</td>
</tr>
<tr>
<td>Very unrealistic</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The table shows 41% of the respondents indicated that the budget was unrealistic, 27% said it was moderate while 18% said it was realistic.
The budgets realistic as indicated by the respondents is shown in the chart below.

**Budget realistic**

![Budget Chart](image)

**Figure 4.2.6**

4.2.7 The study wanted to know if the budget preparation process is followed.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
<td>84</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 4.2.7 *Is the Budget process followed?*

Eighty four percent of the respondents indicated that the budget preparation process is followed while sixteen percent indicated that it is not followed.
The results of whether the budget process is followed are shown by the chart below

Is Budget process followed?

Figure 4.2.7

4.2.8 The researcher sought to know to what extent the budget is followed

Table 4.2.8 To what extent is it followed?

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Fairly</td>
<td>23</td>
<td>82</td>
</tr>
<tr>
<td>Lowly</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>
The extent to which the budget is followed is shown in the figure below.

Figure 4.2.8

4.b FUNDING

The following were identified as the main fundraisers for the projects in order of their participation from the most to the least. The central government, The L.A Resources, The ministry.

4.2.9 The researcher wanted to know if the funds were enough. The results are shown in the table and chart below.

<table>
<thead>
<tr>
<th>Table 4.2 9 Sufficiency of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

The table shows that 60% indicated that the funds were not enough while 40% said it was enough.
4.2.10 The researcher sought to identify the main influencers of budget preparation. The results were tabulated in the table and chart below.

**Table 4.2 10 Main influencers**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPs</td>
<td>7</td>
<td>25</td>
</tr>
<tr>
<td>Councilors</td>
<td>18</td>
<td>63</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

The table shows that the main influencers were the councilors 63% followed by members of parliament 25% while others had 12% influence.
The researcher sought to know on average the budgets deficit from which the following results were received and tabulated in the table and chart below.

**Table 4.2.11 Average budget deficit**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5%</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>5 – 10%</td>
<td>13</td>
<td>47</td>
</tr>
<tr>
<td>10 – 15%</td>
<td>7</td>
<td>25</td>
</tr>
<tr>
<td>Over 15%</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The table shows that 13% of the respondents indicated that the deficit averaged below 5% while 47% said it was 5 – 10%, 25% indicated it was 10 - 15% while only 15% said it was over 15%.
Average budget deficit

![Average budget deficit chart]

Figure 4.2.11

4.c MANAGEMENT

4.2.12 The researcher sought to know the effectiveness of the management on the budget implementation. The results were tabulated as shown below.

Table 4.2.12 Management effectiveness

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very effective</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Effective</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Moderate</td>
<td>9</td>
<td>31</td>
</tr>
<tr>
<td>Ineffective</td>
<td>8</td>
<td>28</td>
</tr>
<tr>
<td>Very ineffective</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>
The table shows 31% indicated that the management was moderately effective, 28% said they were ineffective while 16% said that the management was effective. Only 11% said that the management was very effective and 15% said they were very ineffective.

**Management effectiveness**

![Management effectiveness chart]

**Figure 4.2.12**

4.2.13 The managements influence to adjust the budget upward or downward was tested and the response was as follows:

<table>
<thead>
<tr>
<th>Table 4.2.13 Managements influence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Response</strong></td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Eighty seven percent indicated that the management was influenced to adjust the budget while thirteen percent said they were not being influenced.
Managements influence

Figure 4.2.13

4.2.14 Unfinished projects are a show of poor management of resources. The respondents were asked whether there are unfinished projects and the response was shown below.

Table 4.2.14 Availability of Unfinished projects

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>91</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

Ninety one percent indicated that there are unfinished projects while 9% indicated that they were not there.
4.2.15 The respondents were asked their opinion on whether resources were being diverted. The response received was presented in the table and chart below.

Table 4.2.15 Diversion of resources

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
<td>83</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

Eighty three percent of the respondents expressed the opinion that funds were being diverted while seventeen percent indicated that there was no diversion of resources.
The involvement of employee in the budget implementation was also sought. The following was the response.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>28</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

The table shows that all respondents indicated that employees were involved in budget preparation.
4.2.17 The employee competence on the budget preparation was also sought and the response was as shown in the table below.

**Table 4.2.17 Employee competence**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>26</td>
<td>93</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

Majority of the respondents 93% indicated that the employee involved were competent in budget preparation.
Employee competence

4.2.18 The employees extent to which they are competent in budget preparation was shown in the table and chart below.

Table 4.2.18 Extent of their competence

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>16</td>
<td>56</td>
</tr>
<tr>
<td>High</td>
<td>7</td>
<td>31</td>
</tr>
<tr>
<td>Moderate</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Very low</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

The table shows that 56% respondents indicated that the politicians influence was very high, 31% said it was high, 11% said it was moderate while 1% said it was low and very low.
4.2.10 The researcher sought to know other key figures involved in the budget preparation. The results were shown in the table and chart below.

**Table 4.2.19 Other key figures**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPs</td>
<td>9</td>
<td>33</td>
</tr>
<tr>
<td>Councilors</td>
<td>10</td>
<td>34</td>
</tr>
<tr>
<td>Business people</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>The wealthy</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The table shows that 34% saw councilors as key influences, 33% indicated MPs as key influences while 16% and 17% said the business people and the wealthy respectively were key influences of the budget preparation.
Other Key figures

![Bar chart showing categories: MPs, Councilors, Business people, The wealthy.](chart)

Figure 4.2.19

### 4.3 Summary Of Data Analysis

Thirty questionnaires were issued of which twenty eight were fully completed and were the ones used for data analysis. Majority of the respondents were Diploma holders together with form four leavers, certificate holders and a few degree holders.

Majority (84%) of the respondents indicated that the budget preparation process is followed while with low involvement of all stake holders and little influence. The main funding agents of the budget are; The central government, The L.A Resources and The ministry of Local government.

The management was moderately effective but the budget usually has a deficit averaging below 10% basically because of diversion of funds by the management. The key influencers of the budget implementation were identified as the councilors followed by the local area members of parliament.
CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with the summary of the findings of the study conclusions and the recommendations of the study. It also gives the suggestions for further studies as presented by the researcher.

5.2 Summary of major findings

The study considered the factors affecting the financial systems in the county governments. Under consideration in this study were the budget preparation process, the funding of the budget, the L.A management and the employee competence. The respondents comprised seventy five employees of the LA who fifty seven were male and forty three were female. Forty six of them were Diploma holders twenty five were form four leavers, sixteen were certificate holders and thirteen were degree holders.

5.3 Answers to research questions

5.3.1 How does budget preparation process affect the financial systems?

The researcher established that not all stakeholders are involved in budget preparation. Seventy seven of the respondents indicated that not all stakeholders were involved while only twenty three indicated that all were involved. Further the budget preparation was politically influenced by political figures in the area such as councilors and MPs. Most of the respondents, forty one indicated the budget preparation as unrealistic, twenty seven said it was moderately realistic while twenty four percent said it was realistic. In addition eighty four of the respondents said the budget preparation process was followed.

5.3.2 Does LA funding affect the financial systems?

Budget funding determines the financial systems in the county governments. For a budget to be implemented there has to be enough funds for every activities as planned and
allocated for. The main funders of LA were identified as the central government, the Ministry of Local Government and the LA revenue collections. Sixty percent of the respondents however said that the funds raised from the various sources are not enough for the activities in the LA. Due to this many respondents forty seven percent indicated the budget deficit ranges between five to ten percent of the planned budget. Twenty five percent of the respondents indicated a deficit of between ten to fifteen percent.

5.3.3 What is the effect of management on financial systems?
The financial systems depends to a large extend on the management of the local authority. Thirty one percent of the respondents identified the management as moderately effective while twenty eight percent said they were ineffective on the budget implementation. Eighty seven percent said the management was influencing the budget downward and upward and therefore seen as ineffective and thus contributing to a number of unfinished projects in the LA as indicated by ninety one percent of the respondents. The respondents, eighty three percent indicated that they were of the opinion that funds were being diverted to other activities.

5.3.4 Does employee competence in local authorities affect financial systems?
Employee competence and the involvement of other figures such as MPs and councilors greatly influences what happens in local authorities, hundred percent of the respondents indicated that politicians were involved in the implementation and ninety three percent shows that the politicians were influencing the financial systems. Their influence was seen as very high by fifty six percent of the respondents. The great influencers of the budget implementation were councilors followed by MPs and business people and the wealthy.

5.4 Conclusions

The factors under consideration in this study were the budget preparation process, the funding of the budget the LA management and the employee competence effect on the financial systems of counties. The budget preparation process did not involve all the
stakeholders and it was politically influenced by councilors and MPs. The budget preparation was also unrealistic though it followed the whole preparation process.

The budget is funded by the central government, the local government, ministry and LA revenue collections, though the funds were not enough for the LA activities. The budget therefore has a deficit of between 5 – 15% of the planned budget. The LA management is ineffective and they influence the implementation of the budget either downward or upward to favor or satisfy some other interests. Due to this ineffectiveness in management many projects initiated by the LA are unfinished and funds are being diverted to other activities not previously in the budget. Influence by politicians was identified as they are involved in the budget preparation and implementation. Due to their direct involvement their influence is very high and more so from the councilors.

These factors were identified and affecting the budget implementation. How a budget is prepared matters a lot in its implementation. The availability or lack of funds also determines whether it’s to be effectively implemented. The management of the LA and political influence also determines to a great extent if the budget is to be adequately implemented.

5.5 Recommendations

The researcher recommends that the budget preparation process should be fully followed and all the stakeholders involved. The stakeholders include the employees and the publics who are the LA service consumers. Further the funding of the LA budget should be adequate to make sure that all activities as per the budget are fully implemented. This calls for the central government and the ministry to make allocations based on the budgets availed. The LA’s should also increase their revenue collection to meet their budgets.
In addition the researcher recommends that control measures and systems should be established to check the work of the LA management team to make sure that funds were used properly and for the purpose they are assigned as this will minimize the number of unfinished projects and bring about accountability. Also there should be a clear line to the extent to which the politicians are allowed to influence issues in the LA matters of budget implementation and handling of funds should be left to the LA management who should not be involved in political activities. The government should come up with policies to increase monitoring, evaluation and control measures at LA’s. The management should be held accountable to any sort of mismanagement of either funds or any other resources in the LA.

5.6 Suggestions for further studies

This area of study is very wide and this research alone is not exhaustive in provision of the knowledge in this area. The researcher therefore suggests further studies to be carried in other areas such as the accountability measures in LA’s in budget implementation and how they are effective and affecting the management of LA resources, strategies to be investigated on how to improve revenue collections in the LA’s to make the implementation effective, to investigate how political influence is impacting on budget implementation and how such influence can be reduced or done away with and a further analysis of other factors affecting the implementation of LA budget besides the ones identified by this study can also be carried out.
REFERENCES


Dear Sir/Madam,

I am a post graduate student currently working on my research about factors affecting the financial management systems in county governments in Kenya. My respondents are the personnel of south eastern counties. Kindly allow me to collect data using questionnaires; the data collected will strictly be used for academic purposes only.

Thank you.

Yours faithfully,

Annastacia Mumbua Muendo
Post Graduate Student
APPENDIX II

QUESTIONNAIRE

A) PERSONAL INFORMATION

(Tick appropriately)

1. Gender:
   - Male 
   - Female

2. Age:
   - Below 30 yrs
   - 30-35 yrs
   - 35-40 yrs
   - 40 and above

3. Education/Professional Qualifications
   - Diploma
   - Undergraduate degree
   - Certificate
   - Graduate degree

4. How long have you been in this job or business?
   - Less than 3 yrs
   - 3-5 yrs
   - 5-8 yrs
   - 8 yrs and above

BUDGET PREPARATION

1. Are all the stakeholders involved in the budget preparation?
   - Yes
   - No
   - If yes, who are involved? .................................................................

2. Do you think the preparation of the budget is influenced in any way by politicians?
3. In your opinion in the budget preparation realistic?
   Very realistic
   Realistic
   Moderately realistic
   Unrealistic
   Very unrealistic

4. Do you think the process of budget preparation is followed?
   Yes
   No
   If yes to what extend? ....................................................

**FUNDING**

1. Who funds the activities and projects of the budget? Rank from the main to the least by use of Nos. 1,2,3
   The central government
   The LA revenues
   The ministry
   Any other (specify) ..........................................................

2. Do you think the funds are enough for the budget implementation?
   Yes
   No

On average what is the percentage deficit per year?
   Below 5 %
   5 – 10%
   10% - 15%
   Over 15%
3. Are there unfinished projects in the LA carried forward from previous years?
   Yes  
   No  
   If yes, what is the main cause of the unfinished projects?

4. On your own opinion do you think there is resource diversion in the LA?
   Yes  
   No  

MANAGEMENT PRACTICES

1. Who are responsible for the allocation of finances in the county?
   The clerk  
   The treasurer  
   The councillors  
   The council committee  
   Any other  

2. Do you think the finances of the county are well planned?
   Yes  
   No  
   If yes, are all the stakeholders involved in the planning process?
   Yes  
   No
3. In your own opinion, do you think the finances are utilized fully for the purpose for which they are planned for?

Yes ☐ No ☐

If no, give reasons why you think so.

EMPLOYEE CAPACITY

1. What is the average educational background and professional training of most of the county employees?

- Secondary school level ☐
- Certificate level ☐
- Diploma level degree level ☐
- Others ☐

2. Are the employees of the county effective in the implementation of the planned finances?

Yes ☐ No ☐

3. If yes, to what extent?

- Very effective ☐
- Effective ☐
- Moderate ☐
- Ineffective ☐
- Very ineffective ☐
4. In your own opinion do you think the competence of the employees affects the management of finances in the county?

Yes  [ ]  No  [ ]

If yes, briefly explain.

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---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

5. Please comment on the financial management in the county.

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---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

6. Do you think there are other factors based on your own observation, that affect the financial management in the county?

Yes  [ ]  No  [ ]

If yes please list down those factors.

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## APPENDIX III Budget

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<th>Quantity</th>
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<th>Total (Kshs.)</th>
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<td>2. Materials</td>
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## APPENDIX IV WORK PLAN: JAN 2012-MAY 2012

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