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EFFECTIVENESS OF FINANCIAL MANAGEMENT PRACTICES ON PUBLIC SECTOR REFORMS IN KENYA RURAL ROADS AUTHORITY, KENYA

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Abstract:
This research focused on the evaluation of the effectiveness of financial management practices in Kenya Rural Roads Authority (KeRRA) on public sector reforms. The main objective of the study was to establish the effectiveness of financial management practices on public sector reforms taking a case study of KeRRA. The specific objectives of the study were to establish the effectiveness of budgeting on public sector reforms in KeRRA, to examine the effectiveness of procurement laws on public sector reforms in KeRRA, to establish the effects of effectiveness of IFMIS – Integrated Financial Management Information Systems on public sector reforms and to determine the effectiveness of work plans on public sector reforms in KeRRA. The study used descriptive research design with a target population of 530 employees; a sample of 222 was selected using simple random sampling technique. The research used both primary and secondary data. Primary data was collected using questionnaires. Secondary data was obtained from reports and archives. Pilot test was conducted to enhance the instrument validity and reliability. Data collection involved a self - administered questionnaire through drop and picks them later. Descriptive analysis was applied which included mean, frequencies and percentages using assistance of computer packages especially Statistical Package for Social Sciences (SPSS) version 20 to communicate research findings.The study also used a regression model and correlation

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to study the relationship between factors. From the model, the factors that significantly influenced public sector reforms included Budgeting process (t = 2.189, p = .032), Procurement process (t = 1.913, p = .059), and IFIMIS Implementation (t = -3.847, p = .001). Work plan implementation (t = .979, p = .331) did not have any significant influence on public sector reforms. KeRRA should include financial reforms as part of their performance contracts target and should ensure that they implement the reforms to their logical conclusion in order to achieve the reforms intended objectives and consequently improve on its performance.

JEL: H61, H72, H83, B26

Keywords: budget process, public sector reforms, work plans, IFMIS, financial management practices

1. Introduction

This research focused on the evaluation of public financial management practices pertaining to strategic budgeting, procurement, integrated financial management information systems and work plan implementation in Kenya Rural Roads Authority (KeRRA). KeRRA was formed by an Act of Parliament under the Kenya Roads Act 2007 (Act No. 2 of 2007); the Authority is entrusted with the responsibility of guidance in the construction, maintenance and management of the rural roads network in Kenya.

The main role of KeRRA is the development, rehabilitation, maintenance and management of rural roads in the country. This is properly stated in the Kenya Roads Act 2007 (Act NO. 2 of 2007) and will comprise the following functions and duties, constructing, upgrading, rehabilitating and maintaining rural roads, control of reserves for rural roads and access to roadside developments, implementing road policies in relation to rural roads network. Ensuring adherence by motorists to the rules and guidelines on axle load control prescribed under the Traffic Act (Cap 403) or any other existing regulations.

Ensuring that the quality of road works is in accordance with such standards as may be defined by the Cabinet Secretary - CS in collaboration with the Ministry responsible for Transport and the Police Department, overseeing the management of traffic on rural roads and issues related to road safety. Collecting and collating all such data related to the use of rural roads as may be necessary for efficient forward planning. Monitoring and evaluating the use of rural roads, planning the development and maintenance of rural roads, liaising and co-coordinating with other Authorities in planning and operations in respect of rural roads, preparing road work programs for all rural roads, advising the CS on all issues relating to rural roads; and Performing such other functions related to rural roads as may be directed by the CS. The Authority is responsible for the following categories of roads; C,D,E,F,G,K,L,P,R,s,T,u,W.

The authority receives allocations from the Roads Maintenance Fuel Levy Fund - RMLF in order to operate and function to achieve its aim, in the case of KeRRA thirty two per-cent (32%) of the fund is provided. In KeRRA's quest to achieve its objective of being a provider of an adequate, quality, safe and efficient rural road network, it undergoes challenges faced by public entities and hence the need to evaluate the practices in public financial management against the Public sector reforms to promote transparency and accountability in management of public finances. Therefore, every government endeavours to provide services that meet the needs and expectations of its citizens in terms of quality and the way in which such services are delivered. The Kenyan Civil service has an indispensable role to play in ensuring effective service delivery to the citizens, since it has a positive impact in improvement in the standard of the quality of life of its citizens. Towards the above, the Kenyan government decided to implement and institutionalise public sector reforms that would lead to an efficient, effective and ethical delivery of services to the citizens.

Financial management practices further means improvements or amendments on the management of spending, revenues, taxation, borrowing, debts, foreign reserves, foreign exchange system, level of liquidity in the economy and finance auditing in order to achieve some stated objectives by Institute of Economic Affairs (2002). Implementations of audit recommendations and paradigm shifts of the audit practices are a critical part of the financial reforms measurement. Auditing provides budget oversight and controls (Pretorius and Pretorius, 2009).

In addition monitoring and evaluation has been used to measure the performance of these reforms coupled with observation and experience. Financial management reforms could be measured through changes that were undertaken in the budget and the budgetary process. It is important to ensure that organization had the resources needed to meet their objectives and budget enabled prediction of the funding needed (Budgeting & Financial management, 2013).

Despite the critical importance of budget in financial management it was quite often abused and hardly achieved the targets. Accounting reforms are critical building blocks for the financial management reforms. Accounting reforms are triggered by a number of factors such as paradigm shift due to evolving public financial management, need for reliable and real time information about government finances and the fact that accounting systems are being revisited the world over (Preeti, 2012).

Some of the accounting reforms initiative by the Government of India included establishment of Government accounting standards advisory board in 2002, Technical committee on accounting standards in 2006 and 2nd administrative reforms commission 14th report, broadly endorsed accrual accounting in 2009 (Preeti, 2012). Some of the reforms that had taken place under accountancy included a shift from use of manual systems to internet based system known as Integrated Financial Management Information System (IFMIS) and a reduction of cash payments. Most payments were undertaken through electronic fund transfer (EFT) system.

Financial Management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. The subject of financial management is of immense interest to both academicians and practicing managers. It is of great importance because the subject is still developing, and there are certain areas where controversies exist for which no unanimous solutions have been reached as yet. Public sector managers are interested in this subject because among the most crucial decisions of the firm are those that relate to finance and an understanding of the theory of financial management provides them with conceptual and analytical insights to make those decisions skilfully (Pandey, 2011).

During the seventies and eighties, OECD – Organisation for Economic Cooperation and Development and some developing countries began to review the management of their public sector. This led to the development of the New Public Management (NPM) model, which emphasises managerial accountability, and was accompanied by the introduction of financial management measures, often referred to as New Public Financial Management (NPFM). Reviews in OECD countries show that the precise direction and speed of these PFM reforms were influenced by the country's political and social heritage. By the mid-nineties, there was a general realisation that the transferability of ideas to developing countries using a blueprint approach had problems, and there was a shift to acknowledging the importance of context, and first getting 'the basics right' for each situation (Pretorius et al., 2009).

The World Bank's Public Expenditure Management (PEM) represented another approach, which highlighted the need to move from the due process approach, to consider all actors and practices (formal and informal) involved in the budget process. By the beginning of 2000, developing country governments and donors began to question why PFM reforms had achieved only limited success. The ensuing search for answers led to the following conclusions. The budgeting process is a political process, not just a technical one, and that in many countries informal behaviour and practices override the formal ones. The reform programmes need country ownership and political commitment to achieve real sustainable progress, and that donor coordination and harmonisation is essential (Pretorius et al., 2009).

There is a need to investigate whether different public sector managers are facing challenges in respect of financial management in KeRRA. In this regard, managers refer to all officials who have financial management responsibilities within the Department. Fox, Schwella and Wissink (2004) mention that the modern public manager is confronted with challenges in many and varied fields, as a result of managing in a complex and dynamic environment. In so doing, the Accounting officer, through his or her managers, shall be accountable to Government and society. It is therefore important to share and reflect on such challenges, to determine how these challenges influence the various financial management practices. A financial management system has little value if it cannot be evaluated (Bruyns, Gericke, Kriel & Malan, 2007).

The government of Kenya currently regards its public sector transformation strategy as a dynamic and focused process designed to fundamentally reshape the Public Service to accomplish its role in the achievement of Vision 2030 (Isahakia, 2010). This transformation strategy is also seen as representing a transition for the public service and the beginning of a more cohesive, long-term approach to reform (Isahakia, 2010). The efforts to create an efficient government and cultivate a culture of performance and quality service delivery across the entire Kenyan public sector has a lengthy history, beginning as early as 1965 when the government set forth an institutional framework for reform through its Sessional Paper No. 10 (OPM/PSTD, 2010).

Gakuru and Mungania (2016) in the study of budgetary allocation and the success of public sector management in central province, Kenya, revealed that the budget allocated to the managers were not adequate to perform their tasks. As more government organizations are forced to justify their existence and their ability to service citizens, pressure for government responsiveness can be seen across many service sectors Massive budget allocation to various sectors of the government should be accounted for by its managements.

In Kenya a study by Kiilu and Karanja (2014) found out that revision of procurement laws has influenced effectiveness of management of public funds in Kenya National Treasury to a great extent. The study also found out that procurement reforms enhance transparency of procurement process, removal of bribery and corruption, accountability, efficient and effective procurement process and competition in the procurement process to a great extent. The study deduced that the adoption of IFMIS has led to effective management of public funds in Kenya National Treasury. The study also revealed that to a great extent IFMIS has enhanced automation of government processes, enhanced reporting, enhanced record keeping, enhanced communication, customization of government processes and integration of government processes.

Karanja & Nyambura (2014) strongly agreed that IFMIS enhances effectiveness and transparency of financial management system, IFMIS offers a standardized integrated financial management reporting system, IFMIS enhanced financial controls and accountability and IFMIS provide timely and accurate financial information. Auditing reforms enhances oversight over financial management in organizations. Some of the various auditing reforms that had taken place in Kenya included shifting from pre-auditing to post auditing which began by systems auditing, then risk based auditing and government entities were then undertaking both risk based auditing together with value for money audit. In addition, the Government had started use of Information Technology in undertaking audit assignments such as use of IDEA and TEAMMATE software. The reason for the current research is to establish the effectiveness of financial management practices on public sector reforms a case study of Kenya Rural Roads Authority.

2. Statement of the Problem

There is a significant relationship existing between public sector financial management reforms and economic development. The persistent underdevelopment of the economies of sub-Saharan Africa can be explained by public sector financial management failure (Nwezeaku, 2010). In the recent past, there have been attempts by the Kenyan public sector to improve its financial management's approaches. Despite these increased reforms in public sector financial management approaches, the Kenyan economic sectors performance has not been impressive leading to a situation where there are a lot of financial reforms without much impact in the economy.

Gathuya (2010) conducted a survey of factors that influence local authority's financial management taking a case of City Council of Nairobi. Karanja and Kiilu (2014) undertook a study of public financial reforms in effective public funds management taking a case study of the National Treasury. According to the best of my knowledge, an empirical study to investigate the success of these public sector reforms in KeRRA is extinct. Therefore, this study seeks to establish the effectiveness of financial management practices on public sector reforms Kenya Rural Roads Authority.

2.1 Specific Objectives of the Study

The specific objectives of this study included;

1. To establish the effectiveness of budget process on public sector reforms taking a case study of KeRRA.
2. To examine the effectiveness of procurement processes on public sector reforms taking a case study of KeRRA
3. To establish the effectiveness of IFMIS – Integrated Financial Management Information Systems on public sector reforms taking a case study of KeRRA.
4. To determine the effectiveness of work plans on public sector reforms taking a case study of KeRRA

3. Literature Review

3.1 Theory of Planned Behaviour

This theory of planned behavior is a theory about the link between beliefs and behavior. The concept was proposed by Ajzen (1991) to improve on the predictive power of the theory of reasoned action by including perceived behavioral control (Ajzen, 1991). It is one of the most predictive persuasion theories. It has been applied to studies of the relations among beliefs, attitudes, behavioral intentions and behaviors in various fields such as advertising, public relations, advertising campaigns and healthcare. The theory states that attitude toward behavior, subjective norms, and perceived behavioral control, together shape an individual's behavioral intentions and behaviors. In relation to the study, this theory can be used to explain effectiveness of management of public funds in KeRRA after budgetary reforms. This is because work plan, budgetary reforms cover a range of initiatives to strengthen the rules and procedures that underpin budget processes.

These clearly set rules, procedures and processes in budgeting, will therefore produce certain desired expected out comes in the management of public funds; effective management. According to McThomas (2003), Standard interventions have focused on: improving the comprehensiveness of budget operations; building better links between annual allocations and medium- term policy objectives; introducing performance indicators and management systems; computerizing budget management and expenditure control.

3.2 Institutional-Centric Theory of Finances

Institutional-centric theory of finances, which was proposed by Stein and Rosefieldein (2005) as an alternative to the flawed financial liberalization theory that increased the instability of developing countries during the 90's, it is based on the theory of imperfect markets, it acknowledges the existence of imperfect information and informal and formal institutions, which efficiency is the engine of development (Stein & Rosefielde, 2005; Dornbusch & Reynoso, 2003). This therefore highlighted the need to have an integrated system that supports real time financial information access. An integration of financial functions was proposed by Demaestri and Guerrero (2003) and theoretically suggests that effectiveness and efficacy are achieved when financial information is integrated.

In relation to this study, adoption of IFMIS in the public sector is aimed at enhancing information access through integration of various functions thereby removing information asymmetry. This as suggested by Demaestri and Guerrero (2003) will enhance effectiveness and efficacy of KeRRA and therefore ensure effective public funds management.

4. Research Methodology

This study adopted a case study research design. Saunders, Lewis, and Thornhill (2003) defines a case study as a strategy for doing research which involves an empirical investigation of a particular contemporary within its life context using multiple sources of evidence. Saunders et al (2003) postulate that a case study is ideal when testing theory against reality in a particular organization as it provides in depth information. This research design is appropriate with the purpose of this study, which is to establish the effectiveness of financial management practices on public sector reforms taking a case of KeRRA. The research design is both quantitative and qualitative with the aim of determining the relationship between the dependent variable (Public Sector Reforms) and the independent variables (Public Sector Financial Management practices). In designing research instruments the research considered the objectives of the study and the research questions. Data was collected using questionnaire, and observation. The Questionnaire was used in primary data collection. These were informal and conversational methods of data collection.

5. Data Analysis and Findings

5.1 Regression Analysis

To quantify the results of the chi square test a multiple linear regression was carried out and the results are presented in Table 4.10 below.

Table 4.10: Multiple Linear Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients		
Variable	B	Std. Error	Beta	T	Sig.
(Constant)	1.755	.311		5.648	.000
Budgeting process	.276	.126	.231	2.189	.032
Procurement process	.133	.069	.255	1.913	.029
IFIMIS Implementation	.075	.077	.118	-3.847	.001
Work plan implementation	-.232	.060	-.488	.979	.331

Source: Researcher 2017

From the model, the factors that significantly influenced public sector reforms included Budgeting process (t = 2.189, p = .032), Procurement process (t = 1.913, p = .059), and IFIMIS Implementation (t = -3.847, p = .001). Work plan implementation (t = .979, p = .331) did not have any significant influence on public sector reforms.

According to the regression equation established as derived from Table 4.10, when all the financial management practices considered for the study assumed the value of zero, PSR will be 1.755. The error term was 0.311. The beta value of work plan implementation indicates that it has a negative impact on PSR. This further suggests that the more work plan implementation strategies are undertaken, the lower its impact on PSR.

Table 4.10 depicts that budgeting processes, procurement process and IFMIS implementation have a positive relation to PSR. This indicates that budgeting process being well inculcated in KeRRA results in effective, efficient and quality of service as regards the PSR. Further, an active procurement department and adherence to the laws enhances PSR by mitigating the agency from conflict as propounded by Jensen and Mecklin.

The data findings analysed also shows that if all other independent variables assumed the value of zero, a unit increase in budget process will lead to a 0.276 increase in PSR uptake in KeRRA; a unit increase in procurement process will lead to a 0.133 increase in PSR uptake in KeRRA; a unit increase in IFMIS implementation will lead to a 0.077 increase in PSR, however a unit increase in Work plan Implementation will lead to a 0.060 decrease in PSR uptake in KeRRA.

This infers that budgeting process has a strong and positive relationship with PSR in KeRRA. Thus, effective and efficient utilization of budgets bring in enhanced management, quick decision making processes, proper budget reporting which in turn result in uptake of the PSR in KeRRA resulting in achievement of the authority's' objectives; the analysis also reveals a positive relationship between procurement processes and PSR, but the relationship cannot be determined to be strong or weak.

This depicts that procurement processes does not significantly impact the PSR, with IFMIS contributing the least. At 5%level of significance and 95% level of confidence, budgeting processes had a 0.032 level of significance; procurement processes showed a 0.029 level of significance, IFMIS showed a 0.001 level of significance, and work plan implementation showed a 0.331 level of significance; hence the most significant factor is budgeting processes.

6. Conclusion

This study concludes that the budget process has an effect on public sector reforms in Kenya Rural Roads Authority. The study also revealed that budget management, budgeting process, comprehensiveness, budget execution and budget reporting influences the public sector reforms in Kenya Rural Roads Authority. The study also concluded that procurement processes as a result of revision of the procurement laws influenced effectiveness of public sector reforms in Kenya Rural Roads Authority. The study also concluded that procurement processes enhanced transparency, accountability, improved efficiency and effectiveness of the procurement process in Kenya Rural Roads Authority. On the effectiveness of Integrated Management Information Systems on public sector reforms in KeRRA, the findings were that Integrated Financial Management Information System – IFMIS indeed influenced the effectiveness of public sector reforms in KeRRA, and additionally improved management information for the establishment of links between the key personnel in accounting and financial management. The study concluded that IFMIS would improve financial controls by availing reliable and timely financial information.

On the effectiveness of work plan implementation on public sector reforms and on completion of the study the research accepted that indeed, work plan implementation is financial management practice that has been adopted by Kenya Rural Roads Authority, and as much as it is part of the working of KeRRA where it measures the progress against objectives but it did not significantly affect public sector reforms.

The study concluded that financial management practices have a positive relationship to the public sector reforms in KeRRA. These financial management practices are good indicator of public sector reforms, but should not be considered in isolation of other factors such as staff expertise, quality of leadership and management, political climate as well as competence and innovation of the board.

7. Recommendations

There should be an increase in the number of financial management practices that are part of performance targets of KeRRA and also see to it that the practices meet their intended objectives through proper monitoring and evaluation of reforms prior and after being undertaken. This will greatly improve the performance of the KeRRA that there be all inclusive participation if the relevant departments when the priorities are provided by the stakeholders this will enable the staff within KeRRA to be able to critically look into the budget content and more so the line items that specifically affect each department uniquely.

The study recommends that procurement process could be measured using non - financial measures such as internal processes, staff training, technology and organizations' culture and ethics. Implementing procurement process is not as easy as it may sound; it requires preparation, coordination, team work, constant communication and feedback.

The study recommends there should be access though controlled to the treasury accounts where KeRRA holds its funds, so as to monitor usage, and ensure resources are fool proofed by checking on the movement of funds accessible from all departments through the IFMIS system.

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