

# An Assessment of Factors for Financial Control on Performance of West Pokot County Government

Solomon Mssto Chemeltorit<sup>1</sup>, Prof. Namusonge<sup>2</sup>, Mr. Robert Wamalwa Wandera<sup>3</sup>

<sup>1</sup>Master in Business Administration student

<sup>2</sup>Senior Lecturer – Jomo Kenyatta University of Agriculture & Technology

<sup>3</sup>Jomo Kenyatta University of Agriculture & Technology

---

**Abstract:** The study sought to assess the internal financial controls on performance of County Governments in Kenya a case of West Pokot County. The drive behind the study was to establish internal control practices that helped County Governments in Kenya to perform efficiently and effectively for the benefit of the general interest. The objectives of the study was to establish; the relationship between internal audit, reporting, system of accounting and budgeting on the performance of County Governments in Kenya. The study was significant in that it would enable the county managers in determining the controls that needed to be strengthened for improved financial management. Descriptive research design was used to determine the influence of internal controls on the performance of County Governments in Kenya. The descriptive study method was appropriate because it explored and described the relationship between variables in their natural setting without manipulating them. Data was collected, analyzed and measured quantitatively. The target population for this study was the 47 County Governments in Kenya but West Pokot County Accounting Officers was used as a sample. All County Governments employees working in the finance department in West Pokot County were the respondents in the study. Questionnaires were administered to respondents by the researcher during working hours. Drop and pick later method was applied where respondents have no time to respond immediately. Secondary data was gathered from library materials, County Government reports, media publications and various Internet search engines covering the business process management of County Government in Kenya. Descriptive statistics was used to analyze data where mean, standard deviation and standard error were used to summarize and relate variables which were to be attained from the study. The study adopted regression analysis. Regression analysis was used to come up with the model expressing the hypothesized relationship between the independent variables. The study would come up with conclusions and recommendations to improve performance and effective delivery of services to the citizens. The research findings were that Financial Budgeting, Financial reporting, financial audit and financial performance had significant relationship with performance in the county. And the recommendations were that the county governments should improve more on financial Audit in order to enhance higher performance. Further, The results also imply that the county should constantly embrace budgeting, audit, reporting in finance to ensure effective performance

**Keywords:** Financial Control, Performance, Accounting, Reports.

---

## 1. INTRODUCTION

Financial control is critical for monitoring and measuring an organization's performance. Financial resource is considered as an important resource to many institutions and establishments (Allis, et al, 2004). This means that it must be effectively and efficiently managed to bring about the needed change and results from the activity for which the funds have been made available. However, sometimes this important resource is mismanaged and misappropriated by those put in charge. The rapidly changing nature of today's external environment continuously creates a need for development strategy,

process improvements and organizational transformation to ensure survival in today's highly competitive market. Financial controls refer to the measures instituted by an institution to ensure attainment of the entity's objectives, goals and missions (Brennan & Soloman, 2008). They are systems of policies and procedures that protect the assets of an institution, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the communication processes, internally and externally, and include procedures for handling funds received and expended by the county, preparing appropriate and timely financial reporting to county executive, conducting the annual audit of the county financial statements and maintaining inventory records of real and other properties and their where about. Internal controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. (David, 2001). Increasingly, reliability of financial reporting in accounting context is very important for the investors who use the information for decision management (Jenning et al., 2008). The reliability of financial reporting is effective to internal control efficiency to ensure that the transactions and bookkeeping are appropriate and properly authorized, valid, correctly recorded, complete, and on time. Moreover, it is very important that organizations have fairly summarized accounting information data disclosure (Sebbowa, 2009).

However, in general, a quality reporting is affected by internal control mechanism. There is a general perception that institution and enforcement of proper internal control always lead to improved financial performance. It is also a general belief that properly instituted systems of internal control improve the reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity. According to Dixon et al (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. According to Donald & Delno (2009), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Gerrit and Abdolmohammadi (2010) contents that, performance is measured by either subjective or objective criteria; arguments for subjective measurement include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms. Brennan & Soloman (2008) found out that, objective performance measures include dictators such as profit growth, revenue growth, return on capital employed.

Financial controls refer to the measures instituted by an institution to ensure attainment of the entity's objectives, goals and missions (Brennan & Soloman, (2008) they are systems of policies and procedures that protect the assets of an institution, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. Failure of governance poses a serious risk to organizational legitimacy, especially for public entities operating in modern democracies (Deegan, 2006; Ingraham & Lynn, 2004). This increased risk exists because the public expects them to operate transparently and offer a greater degree of accountability (Power, 1997). Internal Controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (David, 2001).

In China, the budgeting process in government entities and performance measurement is rigorous (Young, 2010), more formal budgeting planning has promoted higher efficiency use of revenues, clear and difficult budget goals has improved budgetary performance, more formal budgetary control has led to a higher growth of profit in the entities and a greater budgetary participation by stakeholders has led to better managerial performance. Increasingly, reliability of financial reporting in accounting context is very important for the investors who use the information for decision management (Jenning et al., 2008). The reliability of financial reporting is effective to internal control efficiency to ensure that the transactions and bookkeeping are appropriate and properly authorized, valid, correctly recorded, complete, and on time. A study by Ochoge in Uganda (2011) on internal controls and organizational performance: a case of Medipont industries limited identified that the internal controls used in Medipoint Industries Limited were ineffective and unsatisfactory, the level of organizational performance was found to be inadequate and a significant positive relationship between internal controls and organizational performance was established to exist. According to (Ssebowa, 2009) in Uganda, organizations have fairly summarized accounting information disclosure however, in general a quality reporting is affected by internal control mechanism. There is a general perception that institution and enforcement of proper internal control systems will always lead to improved financial performance.

Webola (2009) on the relationship of internal control and resource management of NGO's in Tanzania clearly indicated that organizations face quite a number of challenges during internal controls in performance like; struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of institutional resources. Adongo (2012) determined the salient features of budgetary controls in state corporations, to establish the human factors within budgetary controls, establish the process of budgetary control in public organizations and determine the challenges affecting budgetary control, observed that there are factors affecting financial performance which thus reveal that there are gaps that remain on the influence of budgetary control on financial performance of public institutions. He found out that a positive relationship existed between budgetary control and financial performance of state corporations and that existing budgetary features reflect ability to predict financial milestones of organizations. In addition, human factors within budgetary controls had to do with managerial commitment, employee motivation, employee training and competence as well as the attitude between managers and other employees towards the budget process. He thus recommended sensitization among management and employees of state corporation on the importance of budgetary controls in enhancing financial performance, avoidance of political interference in the budgetary process and use of budgets not only as tools for management and indicators of management, but also as practical tools within which organizations should use to enhance their financial goals.

The constitution of Kenya creates 47 county governments. This number is based on the delineation of administrative districts as created under the Provinces and Districts Act of 1992. The mandate of County Government is to execute development activities in collaboration with the National Government through budget allocation annually. Despite the annual budget allocation, performance of County Governments in Kenya has remained a big challenge due to misappropriation of financial resources due to ineffective internal control practices/systems (Onyango, 2010). Regardless of the internal control practices, it is evident that County Governments in Kenya are inefficient and ineffective based on their internal control practices. However, the motive behind this study is to investigate the effect of internal controls in performance of County Governments in Kenya thus coming up with appropriate measures to reduce the felt difficulty among County Governments in Kenya in terms of financial management (GOK, 2013).

## 2. RESEARCH OBJECTIVES

### General Objective:

The general objective of the study was the assessment of financial controls on performance of West Pokot County, Kenya

### Specific Objective:

The specific objectives of this study were:

- (a) To establish the influence of budgets as financial control on performance of West Pokot County.
- (b) To evaluate the influence of financial audits on performance of West Pokot County.
- (c) To assess the extent to which financial reports as a tool of financial performance influences the performance of West Pokot County.
- (d) To find out how accounting system influences effective financial control in West Pokot County.

### Research questions:

This research was guided by the following questions:-

- (e) What is the influence of budgets as financial control on performance of West Pokot County?
- (f) Does financial audit influence performance of West Pokot County?
- (g) Does financial reports influences the performance of West Pokot County?
- (h) How accounting systems do influences effective financial control in West Pokot County?

## 3. JUSTIFICATION OF STUDY

The researcher expected the findings of the study help identify gaps within the systems of financial controls in the County Governments. Consequently, the research findings may be important in addressing these gaps. The findings may also be of invaluable benefits to the management and those charged with public sector governance since they are bound to enable

them streamline the systems of financial controls. Ultimately, the findings are likely to ensure improved financial management and also attainment of the public sector organizations objectives. The study may also add to the existing knowledge regarding financial controls and financial management particularly in the public sector. The study may generate knowledge to link financial controls and financial management which may guide policy makers in the planning for the public resources. The findings of the study may be helpful to all academicians in finance and accounting, management legal and other pertinent field

#### 4. LITERATURE REVIEW

This study is based on the following theories;

##### **Contingency Theory:**

Contingency approach to management accounting is based on the premise that there is no universally appropriate accounting system, which applies equally to all organizations in all circumstances Otley (1980). Since a performance measurement system is considered part of the management accounting system or at least depends on it in great part, the contingency approach to performance measurement can be formulated in the same way. Contingency theory therefore attempts to identify specific aspects of a performance measurement system that are associated with certain defined circumstances and to demonstrate appropriate matching Rejc (2003). It is important, that in our research, we identify specific features of an organization's context that impact on particular features of performance measurement design. Three main classes of contingent factor have been identified as influencing the accounting system design: the environment, organizational structure and technology Otley (1990).

Relevant features of the organization environment affecting its accounting system design that have been suggested include its degree of predictability, the level of competition faced in the market place, the number of different product/market encountered, and the degree of hostility exhibited. Structural features suggested include size, interdependence, decentralization and resource availability. Technological factors include the nature of the production process, its degree of routines, how well means-end relationships are understood and the level of task variety. These environmental factors have most often been researched. A consideration of corporate strategy has, quite surprisingly, not been prominent in studies or control design despite some arguments that differences in corporate strategies should logically lead to differences in planning and control systems' design. The key question here, then, is which classes of contingent factor can be identified as influencing performance measurement in Kenyan parastatals.

##### **Resource Based Theory:**

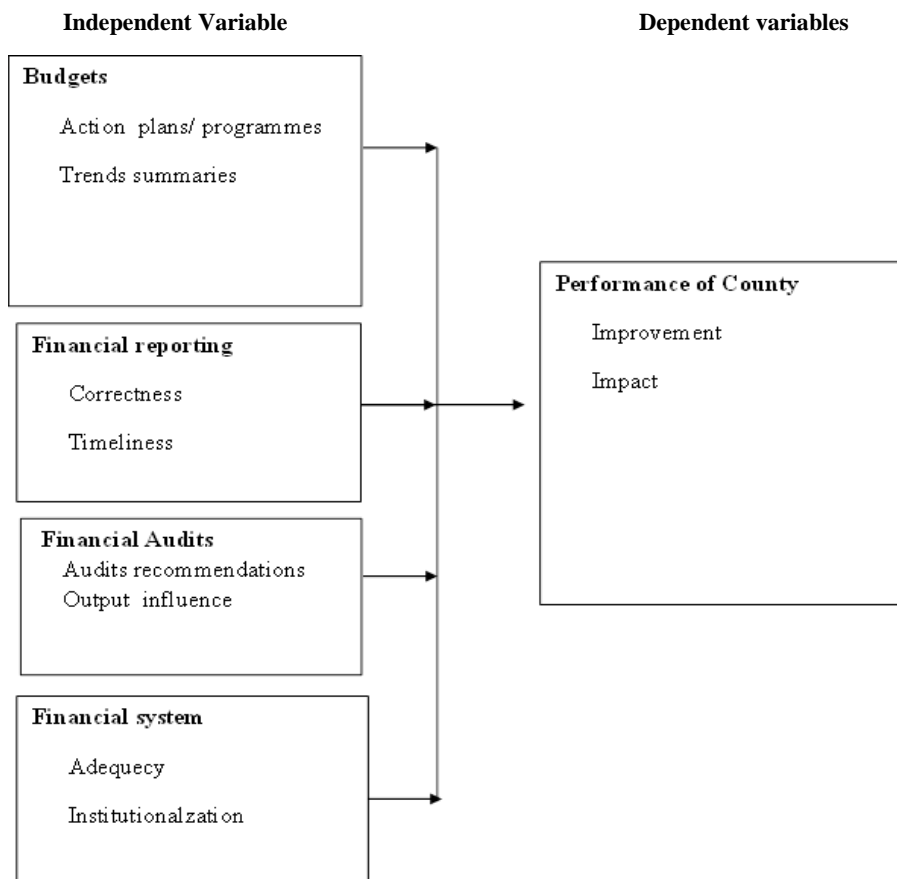
The currently dominant view of business strategy resource-based theory or resource based view (RBV) of firms is based on the concept of economic rent and the view of the company as a collection of capabilities. This view of strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision making (Kay, 2005). The resource-based view (RBV) offers critical and fundamental insights into why firms with valuable, rare, inimitable, and well organized resources may enjoy superior performance (Barney, 2002). Its current prominence is reflected not only by its dominance in the academic journals, by its inclusion in leading strategic texts which warrants the conclusion that it is widely taught to students and practitioners in undergraduate, masters' and executive programs. Building on the RBV, Hoopes, Madsen and Walker (2003) suggest a more expansive. Discussion of sustained differences among firms and develop a broad theory. This dilutes its explanatory power. For example, one might argue that the RBV defines, rather than hypothesizes, that sustained performance differences are the result of variation in resources and capabilities across firms. The difference is subtle, but it frustrates understanding the Resource Based View's possible contributions (Hoopes et al., 2003). The Resource Based View's lack of clarity regarding its core premise and its lack of any clear boundary impedes fruitful debate. Given the theory's lack of specificity, one can invoke the definition-based or hypothesis-based logic any time. Again, we argue that resources are but one potential source of competitive heterogeneity. Competitive heterogeneity can obtain for reasons other than sticky resources (or capabilities) (Hoopes et al. 2003). Competitive heterogeneity refers to enduring and systematic performance differences among close competitors.

##### **Complexity Theory (CT):**

Complexity theory, which is the study of nonlinear dynamic systems promises to be a useful conceptual framework that reconciles the essential unpredictability of industries with the emergence of distinctive patterns. Despite the fact that the theory was originally developed in the context of physical and biological sciences, today it has found applications in social, ecological and economic systems which also tend to be 10 characterized by nonlinear relationships and complex

interactions that evolve dynamically over time (Kiel and Elliott, 1996). During the 1990s, there was an explosion of interest in complexity as it relates to organizations and strategy. The theory suggests that simple deterministic functions can give rise to highly complex and often unpredictable behavior.

## 5. CONCEPTUAL FRAMEWORK



## 6. RESEARCH METHODOLOGY

### RESEARCH DESIGN:

Descriptive survey design was used; this is a method of collecting information by interviewing and administering questionnaires to a sample of individuals, (Orodho, 2003). Descriptive studies are classified into three categories; Survey Studies, Interrelationship Studies and Developmental Studies (Borg, & Gall 2003). Specifically, survey research will be employed in this study. The surveying research method investigates a contemporary phenomenon within its real-life context. The study is designed to determine the nature of an existing state of affairs within the population, (Sincich Benson, 2008). Mugenda and Mugenda (2003) define survey research as an attempt to collect data from members of a population in order to determine the current status of the population with respect to one or more variables. The specific survey to be employed by the study will be sample survey which studies a population through sampling method in order to answer the research questions. Both quantitative and qualitative approach will be utilized and this will be appropriate due to its safeguard against bias and its ability to maximize reliability and concern for economic completion of the research study. The study was concerned with ascertaining the effects of financial control on the performance of West Pokot County.

### TARGET POPULATION:

The study targeted all accounting officers in the devolved county government structure system in West Pokot County. The total number of accounting officers from the Governor's office, County Legislature and County Oversight is 85 officers. The population of the study will therefore be 85 accounting officers

**SAMPLE SIZE AND SAMPLING TECHNIQUE:**

According to Gay (1992) Sampling is the process of selecting a number of individuals for a study in such a way that the individuals represent the larger group from which they were selected. They study will use purposive sampling technique. According to Mugenda and Mugenda (2003) purposive sampling allows a researcher to use cases that have the required information with respect to the objectives of the study. Therefore the study only focuses on the senior accounting officers drawn from each of the ten departments of the County government.

**DATA COLLECTION METHODS:**

The main data collection instruments that were used in this study included the questionnaires and interview schedule. A structured questionnaire was used to collect data. A questionnaire refers to set of questions designed in a form format and is employed by researchers in eliciting information for the purpose of data analysis. Questionnaire is a collection of items to which a respondent is expected to react usually in writing. Questionnaires have a definite advantage over other methods of collecting data. They are more efficient, less expensive and permit collection of data from a much a larger sample. Questionnaires are also of particular importance in collecting information about a population in the fields of education and social sciences. They can also be used to collect information that is not directly observable since they among other things enquire about feelings, motivation, attitude, accomplishment, as well as an individual's experiences. In this study, structured questionnaire will be used to collect background information of the financial system in place, accounting procedures and policies, budgets and the internal controls in place. Together with the questionnaire the researcher also used Interview schedule which made it possible to obtain in-depth data required to meet specific objectives of the study. This is deemed appropriate because a face-to- face interaction with the respondent will enable the researcher to seek clarification on the spot on some pertinent issues in relation to the study. This will also enable the researcher to follow up the incomplete or unclear responses by asking additional probing questions.

**PILOT TEST:**

The instruments were subjected to content validity. The instruments population constituted all accounting, finance, and administrative staff in West Pokot County. The instruments were given to two experts in Finance at the Jomo Kenyatta University, to validate them. An early draft of the questionnaire was pre-tested in this stage. The aim of a pre-testing is to ensure that the questions brings out the responses required, discover vague wordings or errors before the survey is launched at large (Burns and Bush, 2002). Ten senior accounting officers in the county under study from different departments were asked to complete the questionnaires and give their opinions with regards to content validity. Churchill (2002) reckons that pre-testing is necessary because it assures the researcher that the questionnaire designed will perform its diverse functions, and that the data collected will be relevant and corrected. Cronbach alpha test will be used to test reliability of questions. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale

**7. CONCLUSION**

According to the first research hypothesis, the null hypothesis ( $H_0$ ) held that there is no significant difference between budget execution and the performance of the county. While the alternative hypothesis ( $H_1$ ) Held that, there is significant difference between budget execution and the performance of the county. The research findings showed a beta coefficient ( $\beta$ ) of (+ 0.045,  $p=0.684>0.05$ ) Hence Budget execution had significant positive relationship with the performance of the county. The next null research hypothesis held that there was no significant difference between financial reporting and the performance of the county. While the alternative held that there was significant difference between financial reporting and the performance of the county. The research findings showed a beta coefficient ( $\beta$ ) of (+0.539,  $p=0.000<0.05$ ) hence this supports the alternative hypothesis that there was a significant positive relationship between financial reporting and county performance. The next null hypothesis held that there was no significant difference between financial audit and the performance of the county. While the alternative hypothesis held that there was significant difference between financial audit and the performance of the county. The research findings were in support of the alternative hypothesis only that it showed that the financial audit had a significant negative effect on the county performance. The beta coefficient ( $\beta$ ) was (- 0.449,  $p= 0.003<0.05$ ). The final null hypothesis held that there was no significant difference between financial system and the performance of the county. While the alternative hypothesis held that there was significant difference between

financial system and the performance of the county. The research findings were in support of the alternative hypothesis. Where the beta coefficient ( $\beta$ ) was (+0.85,  $p=0.000<0.05$ ) implying a significant positive effect of financial system on the county performance. From table 5.3 below, the estimated equation for multiple linear regression models is: Performance= $0.599+0.045X_1+0.539X_2-0.449X_3+0.85X_4+ 0.31192$ .

#### The study recommends that;

From the study findings it was deduced that budgeting, financial reporting and financial performance had a higher significant effect on performance in the county. The county governments should improve more on financial Audit in order to enhance higher performance. The results also imply that the county should constantly embrace budgeting, audit, reporting in finance to ensure effective performance.

#### REFERENCES

- [1] Adongo, K. O. (2012). The relationship between budgetary control and Financial
- [2] Allis, R. P. M. (2004). Financial Management: Ratio Analysis Zero to one Million. New York: McGraw-Hill and Whither in: *British Accounting Review*, Vol. 35(4).
- [3] Brennan, N. M., & Solomon, J. (2008). Corporate Governance, Accountability and Mechanisms of Accountability: An Overview. *Accounting Auditing And Accountability Journal*, 21 (7) (7), 885 - 906.
- [4] Chai, T.J. (2011).The impact of capital budgeting techniques on the financial performance of courier companies in Kenya, Research Project University of Nairobi
- [5] Covalleski, M. A., Dirsmith, M. W., &Jablonsky, S. F. (1985). Traditional and Emergent
- [6] Donald, K. Kombo., &Delno L. A. Tromp. (2009). Proposal and Thesis Writing, An introduction. Pauline Publications Africa. Nairobi, Kenya.
- [7] Gerrit, S., & Mohammad, J. Abdolmohammadi. (2010). Monitoring Effects of the Internal Audit Function: Agency Theory versus other Explanatory Variables. *International Journal of Auditing*. Blackwell Publishing Ltd
- [8] Hoskisson R.E (1997) Construct validity of an objective categorical measure of Diversification strategy
- [9] Internal Control Weakness andCost of Equity: Evidence from SOX Section 404, Disclosures. *The Accounting Review*
- [10] Morris, M.H., & Hooper, V.A. (1996). Contemporary issues in entrepreneurship: research perspectives form within South Africa. *Southern african journal for entrepreneurship and small business*, 8(2): 14 – 45.
- [11] Mugenda, M.O. and Mugenda, A. (1999).Research Methods: Qualitative and Quantitative Approaches. *Africa Centre for Technology Studies*, Nairobi, Kenya.
- [12] Njuguna Ndung'u (2009): Credit information sharing to enhance financial sector Development: *Address by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the launch of the Banking Credit Information Sharing Implementation Project*, Nairobi, 27 August 2009.
- [13] Otley, D.T. (2003). "Management control and performance management: whence
- [14] Padilla, A. J., and Pagano, M., (1997), "Endogenous Communication among Lenders and Entrepreneurial Incentives", *Review of Financial Studies*, 10(1), 205-236.
- [15] Padilla, A. J., and Pagano, M., (1999), "Sharing Default Information as a Borrower. *Journal of Finance*, 68(6):28-41
- [16] Pagano, M., &Japelli, T., (1993), "Information Sharing in Credit Markets ", *Journal of Finance*, 48(5), 1693-1718.
- [17] Pan, H. L. (2007). School effectiveness and improvement in Taiwan.
- [18] Townsend (Ed.), *International handbook of school effectiveness and movement* (Pg 269-286). New York: Springer.
- [19] Pandey I.M (2010), Essentials of Financial management, Vikas publishing house PVT ltd.

- [20] Ray Whittington & Kurt Pany. (2001). Principles of Auditing and Other Assurance Services. Irwin/McGraw- Hill. New York
- [21] Reid, K. & Ashelby, D. (2002). The Swansea Internal Quality Audit Processes Quality Assurance in Education. Vol. 10
- [22] Sebbowa B, (2009), The role of internal audit function in Organizations
- [23] Simiyu, O J. (2011). 'Effectiveness of Internal Control System in Parastatals in Kenya' Unpublished MBA Project, University of Nairobi.
- [24] Stephen, Emasu. (2007). Public Financial management – Concepts & Practices
- [25] Subramaniam, N. (2006). International Journal of Auditing. Vol. 10
- [26] Theories of Budgeting: An Empirical Analysis. Journal of Accounting and Public Policy, Vol. 4(4), pp. 277–300
- [27] Whittington R., Pany K, & Whittington O. R. (2001). Principles of Auditing and Other Assurance Services. Mishawaka, IN Irwin/McGraw-Hill. 13 (ed)
- [28] Woolf, E. (2010). Auditing Today (3rd Ed.). Prentice Hall International (UK) Ltd.
- [29] Yang, (2010) Budgeting as a financial control mechanism affects the performance of SMEs in China.