Integration of Financial Accounting Processes with County Government Resource Management

Rotich Amos Kipngeno[1], J.M Theuri[2]

[1]Master Student, [2]Lecturer, Department of Accounting and Finance, Kenyatta University.

DOI: https://dx.doi.org/10.47772/IJRISS.2024.806192

Received: 14 June 2024; Accepted: 20 June 2024; Published: 19 July 2024

ABSTRACT

The county government is a devolved unit of the national government. In Kenya there are 47 devolved units representing counties that require the Integrated Financial Management Information System (IFMIS) to track financial resources and provide a summary of financial information. However, despite the adoption of the IFMIS there are challenges associated with unpaid projects, high pending bills, funds misappropriation and corruption. To obtain a solution there is a need to examine whether the financial accounting process effectively contributes to resource utilization and distribution in the IFMIS. The challenges are. IFMIS system was developed to manage, track and secure procurement and financial processes. Therefore, the purpose of the study is to establish the effect of the financial accounting process on resource management in the County Government of Kericho. This was anchored on System theory to understand the process of the IFMIS system. The study used a descriptive research design where a census of 96 county executives and 16 administrations in the county assembly were given questionnaires. The questionnaire was utilized in the study which was both open and closed-ended questions. Data collected was coded and then analyzed using descriptive statistics such as mean and standard deviation as well as inferential statistics that utilized Pearson correlation. The results indicated that financial accounting integration assisted the county in the provision of sound accounting processes, access to cash flows and record-keeping across the department. Integration of financial accounting integration had a positive effect on resource management ($P<0.05$). The study concluded that the integration of financial accounting processing in IFMIS has a positive significance in county government resource management. The study recommended that the county government should strengthen the departmental finance control and reliability of financial statements to reduce corruption and mismanagement.

Keyword: IFMIS, Resource Management, Descriptive Design, Kericho County, Kenya.

INTRODUCTION

Devolution is the governance that guarantees the allocation of resources within the devolved unit. Kenya adopted a new constitution that permitted resource distribution to the 47 counties, this constitution brought distribution difficulties and increased financial management risk. Therefore, it was wise to create a system that transparently ensured financial allocation to the devolved unit.

One of the most recent issues in organizations is technological advancement (Mambo, 2015). According to Mwaniki (2014), financial reporting is aided by integrated financial management information systems. Some of the difficulties that influenced the IFMIS execution were capacity and organizational transformation. Before utilizing IFMIS, senior management of the business must support it and offer technical assistance.

Implementing an integrated management information system, according to Hendrick (2012), increased transparency, enhanced governance, and accountability, decreased fraud, monitored, and evaluated. The IFMIS has an impact on the reporting of finances and performance (Njonde & Kimanzi, 2014). According to Amemba et al., (2015), claim that since the country's laws do not encourage the adoption of procurement procedures that are computerized or the creation of long-lasting relationships with buyers, there are many concerns with public procurement throughout the nation. It is also difficult to uphold moral principles in procurement. A review of current laws is necessary to foster extensive utilization of technology in the process of procurement, which would promote long-term relationships between suppliers and buyers and result in increased involvement of stakeholders through training, to have an improved procurement process in Kenya (Amemba, Nyaboke, Osoro, & Mburu, 2015).

According to the 2010 Kenyan Constitution, a devolved government comprises of the national level and the county level. The 47 counties that made up the devolved government were able to administer and distribute resources for use by the devolved entities. This was developed to make it possible to distribute resources fairly. One devolved unit that allowed counties to control their finances for projects was the management of finances. (Constitution of Kenya, 2010). It was necessary to create a system for managing finances based on the devolved unit to lower risks of mismanagement, corruption and misappropriation in the government (Nyanjom, 2011). Kericho County is among the few counties that are endowed with numerous resources but struggles with underdevelopment despite being highly productive in terms of agriculture.

According to Macharia and Ngaba (2019), the computerization of IFMIS enables real-time transactions, procurement processes, resource allocation and timely decision-making processes. In addition, the integration through ICT ensures the budgeting process, the process of procurement, financial process, decision-making process, and accounting process, and are integrated by government agencies.

The primary responsibility of the developed entity within the County Government is resource management. As a result, resource management enables the county to allocate and distribute resources fairly while maintaining accountability and openness. It includes the delivery of quality services, resource accountability, effective procurement, and equitable resource allocation. However, there is outrage about the County Government's large number of unpaid invoices and projects, as well as misappropriation of funds and corruption (Nelson, 2020). Numerous Counties have audit concerns, and some of the governors have been removed for corruption and inefficient resource management (Munyao, 2020). Audits of the governor's leadership, including the Kericho County government, have been ongoing to look for missing resources. The most current audit questions that the general auditor of Kenya raised on Kericho County's 8.4-billion-shilling worth of expenditures (Ndanyi, 2021). According to county government audit concerns from 2018 the senate committee in charge of managing public finance raised concerns. Among other problems, one of them is the 44 unfinished and halted projects in Kericho County in 2014–15.

IFMIS is used by County Governments to control corruption and resource mismanagement. Corruption and the misuse of public resources and cash have been identified in or are being investigated against several county officials, including officers and governors. To ensure e-governance, which is intended to increase accountability and transparency of public resources, the central government used IFMIS (Njeru, 2016). The County Government's use of IFMIS has improved procurement strategic plans, contract payments, decision-making, and supplier payments, based on variances in the budget, providing reports for decision-making, and assuring openness in public procurement. These give County Government the power to administer and distribute resources provided by the Kenyan government in a manner that ensures equity, openness, and accountability (Omar, 2017).

Through a situational study, the County Government of Kericho (2017) reportedly discovered issues with the county's infrastructure development, poverty, unemployment, an ineffective system of marketing, inadequate revenue collection, and an insufficient supply of domestic water for residential usage. However, insufficient allocation of resources, poor resource management oversight instruments, and rivalry and resource invasion have consistently stunted economic growth in Kericho County.

Kericho County is divided into six Sub-County that is Ainamoi, Belgut, Sigower/Soin, Kipkelion West and Bureti which are known for different resource allocation (County Government of Kericho, 2018). The counties must be equitably developed as well as manage of financial resources to ensure openness and accounts highly dependent on IFMIS. Therefore, there is a need to establish the effect of the integration financial management information system on county government resource management in Kericho County.

Resource management is a major challenge in County Government with political interference, corruption, mismanagement of finance, and misconduct in resource allocation. Due to these challenges there is a need for the government to guide and provide policies, legislation and technology to regulate public spending. According to Thuita (2017), control of funds is crucial in resource allocation. County government management of funds has issues with the equitability of resource allocation. There is outrage at the County Government's enormous number of outstanding debts, unfunded projects, corruption, and money-laundering (Nelson, 2020). Despite the use of IFMIS in place these challenges have affected the governance the County Government. Studies done on IFMIS focus on financial performance or public procurement performance (Omar, 2017; Mugwe & Ngugi, 2017). The study concentrated on the county government's general performance. The existence of methodological gaps is due to the utilization of descriptive research design and least square regression method from secondary data (Mohammadi, 2014; Omole, Ibrahim, & Bamidele, 2018). Therefore, the study established to determine the effect of integration of financial accounting process on county government resource management in Kericho County.

LITERATURE REVIEW

This section provides related theoretically reviewed and empirical reviewed literature that forms the summary of literature review and gaps. It further, assists in the development of a conceptual framework where the relationship between variables and indicators is modeled to form a framework.

Theoretical Review

System theory is based on a scientific concept that compares an organism to a system that interacts with other subsystems (Bertalanffy, 1969). According to Bertalanffy's postulate from 1969, a system consists several heterogeneous, interdependent subsystems that cooperate as a single, integrated complex self-organization enabling input and output to be carried out efficiently and effectively. One of these systems, financial management, has a series of steps from planning to completion. In an industrial setting, Bertalanffy believed that the subsystems should cooperate to achieve the organization's ultimate goal. Hence there must be a link between each phase in financial management.

There are two current variations of system theory, one of which is founded on sociological and scientific system theorizing and research (Miller & Page, 2007). According to Morgaine (2001), the social system is a collection of connected items with attributes that work together to solve social issues. The generic system depicts a scientific model method of system theory and offers concepts for how purchasing processes may be connected and information arranged such that each process constitutes a subsystem. This model can be distinguished by an input process and an output process with feedback in the subsystem-capable model. The broader system may then be developed by connecting the subsystems, enabling the alignment of finance and procurement procedures with organizational objectives. IFMIS is a system that connects county government, banks, suppliers, and government finance. This is done to make sure that suppliers are properly connected to the procurement office, which is connected to the government account, financial institutions, and financial offices. This demands a network of interconnected systems to guarantee the provision of financial solutions. The IFMIS system can integrate all operational functions of the county government in terms of finance by so doing it is-able to monitor all process that touches on monetary functions hence ensuring that financial accounting is up to date. This theory links with all objectives of the study in that the IFMIS system ensures all financial performance and operation objectively hence diminishing vices such as mismanagement.

Summary of Literature

Bookkeeping, creating financial statements, and maintaining accounting data are all included in the accounting process. According to Kariyawasam (2016), focused on how accounting information and strategic decision-making connected to human resource management interact in Sri Lankan manufacturing firms. Seventy publicly traded manufacturing companies operating around the nation made up the study's sample. The corporate level served as the analysis unit for this study. Using Pearson's correlation analysis, the relationship between accounting data and strategic decision-making linked to human resource management in Sri Lankan manufacturing enterprises was examined. According to the study's findings, strategic decision-making in Sri Lankan manufacturing enterprises related to human resource management has a statistically significant strong positive correlation with accounting information.

Another study in Nigeria by Akeem, *et al.*, (2019), evaluated the relationship that exists between accounting information and human resource management decisions, using survey design. Seven Up Bottling Company Plc and Nigeria Bottling Company were included in the study as industry representatives for the manufacturing sector. Primary data was gathered by asking employees of the companies to complete a questionnaire. The study used a sample of 382. It was determined that managerial decision-making in the Nigerian manufacturing sector is impacted by accounting information. Because human capital is so important to any organization, the study suggested that choices about promotions, transfers, and layoffs be made extremely carefully.

Since the data is utilized by an accountant to compile final accounts throughout the accounting process, bookkeeping is a crucial stage in the accounting system. This is the area where an organization's financial performance may be evaluated (Mutisya, 2015). Then, key financial decisions are made based on their records, which gives them the utmost significance. To have the proper financial and economic interpretation, it must therefore be accurate and comprehensive. In addition to measuring performance, it also assesses the company's profitability and direction. Most businesses fail as a result of inaccurate records.

In Kenya, Mwakio (2017), purposed to ascertain how Kenya's commercial banks' HRM and accounting information systems relate to one another. 33 of the 44 registered commercial banks were chosen, representing a 75% response percentage. The participants were deliberately chosen from every bank in Nairobi. Well-structured questionnaires were used to collect primary data to meet the study's objectives. The design used was cross-sectional. The parameters were estimated using correlation techniques and multiple regression modelling. The analysis of the data was done with SPSS 20. It was discovered that among Kenyan commercial banks, HRM and IT had a good correlation. The results of the study demonstrated there is a relationship between the accounting information system and the HRM system, which are relevant to decision-makers in Kenya's commercial banks.

Bare (2016) looked into SMEs' performance and financial accounting requirements. The study was conducted in Nairobi using 86 out of 868 SMEs as the sample. It was discovered a connection between SME financial performance and accounting standards. Additionally, it was shown that the adoption of accounting standards was negatively correlated with the standard of financial reporting, whereas the size of SMEs had an insignificant effect on their financial performance.

Daisy and Naibei (2019), sought to determine how bookkeeping procedures affect SMEs' financial performance, and evaluate how auditing procedures affect SMEs' financial performance. Pecking order theory, resource-based theory, accounting theory, and trade-off theory of capital structure were all used to support the study. It employed a descriptive survey design. A sample of 231 small and medium-sized businesses in Kericho County were selected from a target population of 548 such businesses. The findings indicated that a rise in these variables had a major impact on the SMEs' financial performance. The variables' combined effect had a good link with SMEs' performance, suggesting that the model can explain up to 77.7% of variations in SMEs' financial performance. The survey suggests that when developing their organization's strategies, small business owners give the accounting process top priority. This improved their financial operations' accountability, openness, and uniformity. The report also suggests that regulatory agencies create suitable guidelines and rules to make it easier for small and medium-sized businesses to adopt accounting procedures.

RESEARCH METHODOLOGY

In the study, a cross-sectional survey method was employed, this is because it documents events at a single point in time, a cross-sectional survey design or cross-section of life. The target respondents were the 96 executive senior management working with Kericho County Government which includes the CECs, COEs, County directors, and assistant county directors from 13 county departments as well as 16 administrators in the County assembly. Census was used so that the entire 96 executive members which includes CECs, COs, County directors and assistant directors participated as well as 16 administrators who work in the office of finance and procurement also participated in the county assembly arm of government. Both closed-ended and open-ended questionnaires were employed for gathering the data. The descriptive statistics of the standard deviation and mean were used in this method. The researcher also employed inferential statistics, the Pearson Correlation analysis.

RESULTS AND DISCUSSION

The section provides the results of demographic information, IFMIS and resource management. Descriptive and inferential statistics were adopted as follows;

The integrated financial accounting process in IFMIS was also examined in the study based on five-point Likert scale. The mean and standard were also adopted to explain the degree of agreeability and dispersion across the department as presented in Table 1.

Table 1: Integration of Financial Accounting Process

Financial Accounting Process	**SA=1**	**A=2**	**N=3**	**D=4**	**SD=5**	**Mean**	**STD**
1. IFMIS utilizes accounting standards that ensure a sound accounting process	1 (1.1%)	72 (77.4%)	20 (21.5%)	0 (0.0%)	0 (0.0%)	3.7957	.43136
2. IFMIS has to proper book keeping making easy to follow the cash flow allocations.	0 (0.0%)	52 (55.9%)	41 (44.1%)	0 (0.0%)	0 (0.0%)	3.5591	.49918
3. IFMIS has enabled accounting information on cash flows to be accessible in departments within the County Government	35 (37.6%)	58 (62.4%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	4.3763	.48709

4. IFMIS has simplified the financial accounting process for proper cashflow allocations.	0 (0.0%)	45 (48.4%)	48 (51.6%)	0 (0.0%)	0 (0.0%)	3.4839	.50245

As per the results in Table 1, IFMIS utilized the accounting standards that ensure a sound accounting process as agreed by the majority of 72 (77.4%) respondents. A mean of 3.7957 and standard deviation of 0.43136 revealed that the department homogenous achieved a sound accounting process by using IFMIS. The department in the county also ensured proper bookkeeping making it easy to follow the cash flow allocation as indicated by the majority of 52(55.9%). The mean of 3.5591 and standard deviation of 0.49918, further revealed that bookkeeping was made easy across the department.

The finding also revealed that IFMIS improved accounting information as revealed by 58(62.4%) of the respondents. A mean of 4.3763 and standard deviation of 0.48709 implied that the accounting information improved cash flows making it accessible across the department within the County. The majority 48(51.6%) were neutral whether IFMIS had simplified the financial accounting process. A mean of 3.4839 and standard deviation of 0.50245 were obtained which revealed that the financial accounting process somehow ensures proper cash flow allocation to some departments.

The study also analyzed how the county government of Kericho managed resources. A five-point Likert scale was used to examine the agreeability of County Government resource management.

Table 2: County Government Resource Management

IFMIS and Resource Management	**SA=1**	**A=2**	**N=3**	**D=4**	**SD=5**	**Mean**	**STD**
1. The county government has improved in equitable resource allocation across the department	0 (0.0%)	43 (46.2%)	50 (53.8%)	0 (0.0%)	0 (0.0%)	3.4624	.50128
2. The accessibility of resources has been achieved in the county	37 (39.8%)	52 (55.9%)	4 (4.3%)	0 (0.0%)	0 (0.0%)	4.3548	.56425
3. The resource a given within the recommended time	0 (0.0%)	44 (47.3%)	49 (52.7%)	0 (0.0%)	0 (0.0%)	3.4731	.50198
4. The high efficiency in resource allocation of the county	7 (7.5%)	67 (72.0%)	19 (20.4%)	0 (0.0%)	0 (0.0%)	3.8710	.51554

The results revealed that the majority 50(53.8%) were neutral on whether there was equitable distribution of resources across departments in the county. The mean of 3.4624 indicated that equitability was achieved to a small extent where the variation was low in Kericho County departments (standard deviation of 0.50128). The majority 52 (55.9%) agreed that the county has improved the accessibility of financial resources in different departments. The mean was 4.3548 and the standard deviation of 0.56425 revealed that all departments were able to access cash flow allocation.

The majority of 49 (52.7%) respondents were neutral that there was timely resource allocation across the department within County Government. As indicated by the mean of 3.4731 and standard deviation of

0.50198, the timeliness of resource allocation was achieved to a small extent across the departments. Further information revealed that there was efficient utilization of resources in the county as agreed by 67 (72.0%) respondents. A mean of 3.8710 and standard deviation of 0.51554 revealed that to proper utilization of resources was done across the departments in the County Government of Kericho.

Pearson correlation analysis was adopted to examine the relationship between variables. The study also used it for examining the hypothesis of the study and therefore, achieving the intended objectives. Pearson correlation analysis was appropriate in understanding the significance, direction and magnitude of the relationship between two bivariate variables of the study using a significant level of 5%.

Table 3: Pearson Correlation Analysis

		Resource Management
Financial Accounting Process	Pearson Correlation	.929**
	Sig. (2-tailed)	.000
	N	93

The results revealed that the financial accounting process (FAP) (R=0.929) had a strong positive significant relationship with resource management. The strong relationship indicated that IFMIS integration in the financial accounting process contributes significantly to the county resource allocation.

H_{01} Integration of financial accounting process has no significant effect on county government resource management in Kericho County."

The alternative hypothesis was accepted (P=0.000<0.05). This implies that the financial accounting process had a significant effect on county government resource management (R=0.929). This implies that the financial accounting process was the leading effect on the resource management in the IFMIS integration process.

CONCLUSION AND RECOMMENDATIONS

Financial accounting process results indicated that IFMIS provided a sound accounting process. It also ensured that proper bookkeeping was made easy to follow the cash flow allocation. The results also revealed that IFMIS enables accounting information on cash flows to be accessed by departments. Finally, it led to a simplification of the financial accounting process for proper cash flow allocations. The integration of the financial accounting process had a positive significant effect on resource management.

Finally, results allocation has to a small extent been equitably distributed across the county government. The county had improved access to financial resources by different departments. However, the resource allocation to a small extent timely distributed within departments. Finally, the county to small extent utilized resources.

Conclusion

The study concluded that the integration of the financial accounting process had a positive effect on the resource management of county government. This was contributed by IFMIS's ability to provide sound accounting processes, provide cash flows that are accessible by other departments and keep records for cash flow allocation to this department. Therefore, the IFMIS financial accounting process had the highest impact on resource allocation.

Recommendations

The study recommended that the county government should improve ensuring that IFMIS is utilized well in producing proper bookkeeping making it easy to track cash flow allocation. The simplification of the financial accounting process would enable proper cash flow allocation and reduce misappropriation of funds.

REFERENCES

1. Akeem, L., Ajayi-Owoeye, A., Oluwayomi, O., & Olumide, O. (2019). Accounting information and managerial decision making in the manufacturing industry in Nigeria. *Advances in Social Sciences Research Journal*, 6(9).
2. Amemba, C., Nyaboke, G., Osoro, A., & Mburu, N. (2015). Challenges Affecting Public Procurement Performance Process in Kenya. *European Journal of Business and ManagementOnline), 7*(7), 2222-2839.
3. Bare, A. (2016). *The Extent of Adoption of Financial Accounting Standards and Its Effect on Financial Performance of Small and Medium Enterprises in Nairobi County, Kenya.* Nairobi: Unpublished University of Nairobi Report.
4. Constitution of Kenya. (2010). *National Council of Law Reporting.* Nairobi, Kenya: Government Press.
5. County Government of Kericho. (2018). *Second Generation County Integrated Development Plan 2018-2022.* Kericho, Kenya: Republic of Kenya.
6. Hendrick, C. (2012). Integrated Financial Management Information System: Guidelines for Effective Implementation by the Public Sector of South Africa. *SA Journal of Information Management, 14*(1), 517-529.
7. Kariyawasam, D. (2016). Relationship between Accounting Information and Human Resource Management Related Strategic Decision Making in Sri Lankan
8. Macharia, S., & Ngaba, D. (2019). The effectiveness of integrated financial management information system in selected government ministries in Kenya: A theoretical review. *International Journal of Current Aspects, 3*(5), 1-11.
9. Mambo, P. (2015). Factors Influence Implementation of E-Procurement in the National Government: A Case of the Ministry of Interior and Co-Ordination of National Government. *Strategic Journal of Business & Change Management, 2*(1), 12-25.
10. Mohammadi, S. (2014, June). The Relationship Between Financial Reporting Quality and Investment Efficiency in Tehran Stock Exchange. *International Journal of Academic Research in Business and Social Science., 4*(6).
11. Mugwe, G., & Ngugi, L. (2017). Integrated Financial Management Information System and Its Influence on Public Procurement Performance in Kianbu County government, Kenya. *International Journal of Social Science and Information Technology*, 3(9), 2475-2492.
12. Munyao, A. (2020). An Inquiry into the Limits of judicial Interventin in the Impeachment Process of Governors in Kenya. *Strathmore Law Review*, 139-156.
13. Mutisya, S., Abonyo, J., & Senelwa, W. (2017). Influence of political parties' affiliations on county assemblies' exercise of oversight authority over county government in Kenya: A case study of Makueni County Assembly. *Saudi Journal of Humanities and Social Sciences*, 2(5), 385-392.
14. Mwakio, S. (2017). *The Relatonship Between Accounting Information System and Human Resource Management Among Commercial Banks in Kenya.* Nairobi: Doctoral dissertation, University of Nairobi.
15. Ndanyi, M. (2021, July 1 St). Sh8.4bn not accounted for by Kericho county. *The Star*, p. 1.
16. Nelson, W. (2020). Constraints to Enhanced Revenue Mobilization and Spending Quality in Kenya. *CGD Policy Paper 163* (pp. 1-31). Washington, DC: Center of Global Development.
17. Njeru, P. (2016). *An assessment of integrated financial management information system*

implementation towards effective management practices in Nairobi and Lamu County. Nairobi, Kenya: Strathmore University.

18. Njonde, J., & Kimanzi, K. (2014). Effect of Integrated Financial Management Information System on Performance of Public Sector: A Case of NCCG. *International Journal of Social Sciences and Entrepreneurship, 1*(12), 913-936.
19. Nyanjom, O. (2011). Devolution in Kenyan's new constitution. *Constitution working paper series no. 4*, Nairobi: Society for International Development.
20. Omar, M. (2017). *Effect of Integrated Financial Management Information Systems on Financial Performance of Garissa County, Kenya.* Nairobi: Unpublished University of Nairobi.
21. Omole, L., Ibrahim, J., & Bamidele, M. (2018, May). Financial Reporting Quality and Its Effect on Investment Decisions by Nigerian Deposit Money Banks. *European Journal of Accounting,Auditing and Finance Research., 6*(4), 23-34.
22. Thuita, J. (2017). *Effect of financial management practices on financial performance of County Government in Kenya.* Nairobi: University of Nairobi Reports.