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# FACTORS AFFECTING THE APPROPRIATION OF FUNDS IN THE COUNTY GOVERNMENTS IN KENYA: CASE OF KIAMBU COUNTY

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***Abstract:*** **The promulgated Kenyan constitution in August 2010 has opened up new opportunities and challenges. It has indeed opened a new window of change of moving from the central governance to the devolved government. The new constitution therefore places the central government with a devolved system of government and this brings on board the National government and 47 Country governments. During the recent past the county governments in Kenya has continued to receive huge amount of money from the government and donors so as to provide quality services to the increasing population. But even after getting revenue from the above sources, county governments in Kenya face a number of governance and financial problems, especially the issue of misappropriation of funds. Financial management is the backbone of any organization and therefore misappropriation of funds in public sector affects the provision services to the public. This study aim at investigating the factors leading to appropriation of funds in County Governments, case study of Kiambu County Government so as to assist the government and other stakeholder in handling and solving financial problems in the sector, and especially the appropriation of funds. The specific objectives of the study were: To determine the level of management competence and its effect on appropriation of funds at Kiambu County Government; To assess the financial and accounting system and its effect on appropriation of funds at Kiambu County Government; To establish how planning/ budgeting is carried out and effect of this on appropriation of funds at Kiambu County Government; To establish the level of costing variance analysis and the effect on appropriation of funds at Kiambu County Government. This research is a problem solving research and therefore descriptive statistic design was used. The population of interest considered employees working in County Government of Kiambu. Simple random sampling technique was also used in the study. Data was then collected by the use of questionnaire as the data collection instrument. Data was analyzed using Statistical Package for Social Sciences (SPSS) and was later summarized and presented using descriptive statistics including percentages and frequency distribution tables, pie chart and graphs to illustrate the diverse findings of the study.**

***Keywords:*** **management competence, financial system, planning on appropriation and costing variance analysis.**

## 1. INTRODUCTION

According to Turner (2015), Government of Kenya like any other governments in the world try much as it can to make sure that all Kenyans have the necessary services, resources, infrastructures, opportunities and capabilities. For the governments to serve its citizens well, ministries, county governments, parastatals, commissions and other organs, agencies were formed. These institutions are allocated activities and funds from the central government in order to offer appropriate services and carry out development projects to the public. To get funds the government does collect taxes from the public and also get grants/loans from donors. Taxes and funds from donors go to state ministries and other organs for general public service, development and cost of government itself (the cost of running all levels of government including salaries and expenses for executive, legislative, judiciary and the cost of collecting taxes).

**Statement of the problem:**

The promulgated Kenyan constitution in August 2010 has opened up new opportunities and challenges. It has indeed opened a new window of change of moving from the central governance to the devolved government. The new constitution therefore places the central government with a devolved system of government and this brings on board the National government and 47 Country governments (Republic of Kenya, 2013). According to Mboga (2014), during the recent past the county governments in Kenya has continued to receive huge amount of money from the government and donors so as to provide quality services to the increasing population. But even after getting revenue from the above sources, county governments in Kenya face a number of governance and financial problems, especially the issue of misappropriation of funds. Financial management is the backbone of any organization and therefore misappropriation of funds in public sector affects the provision services to the public.

A survey by the Government of Kenya (2015) indicated that many county governments are affected by the issue of misappropriation of funds which has led to their inefficiencies in service delivery. Most of these problems were brought about by poor management, financial and accounting systems, lack of planning/ budgeting and failure to follow the right procurement procedures. The survey recommended that public sector reforms (county governments) should focus on deepening financial, management, procurement and legal issues to enable them provide good governance; improve the operational, management, transparency and accountability issues for the delivery of efficient and effective services. This study aims at analyzing the factors affecting the appropriation of funds in County Governments, case study of Kiambu County Government. This study will assist the government and other stakeholder in handling and solving financial problems in the sector, and especially the appropriation of funds.

**Objectives:**

i) To determine the effect of management competence on appropriation of funds in Kiambu County government

ii) To determine the effect of financial system on appropriation of funds in Kiambu County government

iii) To establish the effect of planning on appropriation of funds in Kiambu County government

iv) To establish the effect of costing variance analysis on appropriation of funds in Kiambu County government

## 2. THEORETICAL REVIEW

**Core Competency Theory:**

The core competency theory is the theory of strategy that prescribes actions to be taken by firms to achieve competitive advantage in the marketplace. The concept of core competency states that firms must play to their strengths or those areas or functions in which they have competencies. In addition, the theory also defines what forms a core competency and this is to do with it being not easy for competitors to imitate, it can be reused across the markets that the firm caters to and the products it makes, and it must add value to the end user or the consumers who get benefit from it. In other words, companies must orient their strategies to tap into the core competencies and the core competency is the fundamental basis for the value added by the firm(Carton & Hofer, 2006).

**Theory of Constraints:**

The Theory of Constraints (TOC) is a philosophy of management and improvement originally developed by Eliyahu M. Goldratt. It is based on the fact that, like a chain with its weakest link, in any complex system at any point in time, there is most often only one aspect of that system that is limiting its ability to achieve more of its goal. For that system to attain any significant improvement that constraint must be identified and the whole system must be managed with it in mind (Ajak, 2004).

**Contingency Trait Theory:**

Fred Fiedler is a theorist whose Contingency Trait Theory was the precursor to his Contingency Management Theory. Fiedler believed there was a direct correlation to the traits of a leader and the effectiveness of a leader. According to Fiedler, certain leadership traits helped in a certain crisis and so the leadership would need to change given the new set of circumstances

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**Trade-Off Theory of Capital Structure:**

The Trade-Off Theory of Capital Structure refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The classical version of the hypothesis goes back to Kraus and Litzenberger who considered a balance between the dead-weight costs of bankruptcy and the tax saving benefits of debt. Often agency costs are also included in the balance. This theory is often set up as a competitor theory to the Pecking Order Theory of Capital Structure (Cantrell, 2006).

**Conceptual framework:**

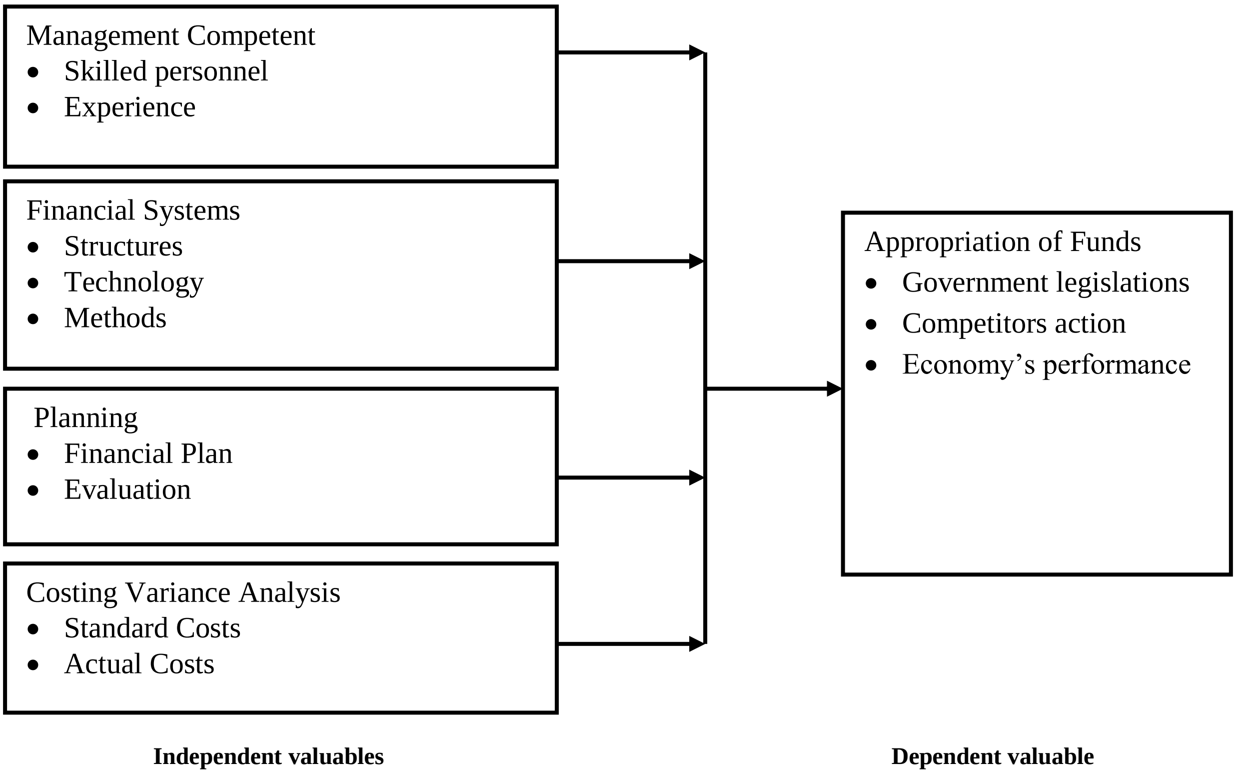


**Figure 1: Conceptual Framework**

**Research gaps:**

From the literature reviewed it's clear that appropriation of funds in organizations can be led by various factors. Which include management competence, financial and accounting systems, budgeting/ planning and cost variance analysis. Thriving today requires that the government/ organizations be fast and responsive. These require responding to customer/ public needs, offering good services and products. Meeting these standards requires good financial stability and governance. The financial base and management is the backbone of any government/institution, for it affects the provision and management of services. It is a given fact that with misappropriation of funds the activities of any government/ organization cannot be achieved as required. A major empirical and conceptual gap in existing studies is that few studies have been done to establish the causes of misappropriation of funds in the County Governments and yet most of the governments suffer from this issues time to time. This study is geared toward filling these gaps.

## 3. RESEARCH METHODOLOGY

The research design used in this study was descriptive research design.The study targeted the entire 112 workforce in Kiambu County Headquarter (Governor's office and County Assembly) the area and population will fairly represent other Counties in Kenya. The population of interest that was studied consisted of top management staff, middle level management and low level management staff.This study targeted a sample size of 56 respondents.Primary data was collected by use of structured questionnaires that was designed to address the objectives of the study. Questionnaires had both closed - ended and open - ended questions. Secondary data was collected through review of published literature such

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as journals, articles, published theses and textbooks.The study used quantitative and qualitative method of data analysis. Data was analyzed using Statistical Package for Social Sciences (SPSS). Data was then summarized and presented using descriptive statistics including percentages and frequency distribution tables, pie chart and graphs to illustrate the diverse findings of the study.

**Model:**

A linear regression model was employed to test the significance of the relationship between the independent variable and the dependent variable.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X4 + \mathcal{E}$

Where Y represents appropriation of funds (dependent variable), $\beta_0$ is a constant term, $X_1$-management competence, $X_2$-effect of financial system, $X_3$-effect of planning and $X_4$-cost variance analysis are the independent variables and $\mathcal{E}$ is the disturbance term.

**Correlations Analysis:**

The correlation coefficient is a measure of linear association between two variables. Values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear sense; a correlation coefficient of -1 indicates that two variables are perfectly related in a negative linear sense, and a correlation coefficient of 0 indicates that there is no linear relationship between the two variables. A correlation coefficient of between 0.0 and 0.19 is considered to be “very weak”, between 0.20 and 0.39 is considered to be “weak”, between 0.40 and 0.59 is considered to be “moderate”, between 0.60 and 0.79 is considered to be “strong” and between 0.80 and 1.0 is considered to be “very strong”.

The researcher carried out correlation analysis between the variables of the study using Pearson product-moment correlation coefficient. Correlation Coefficient was used to test whether there existed interdependency between independent variables and also whether the independent variables were related to the dependent variable, Appropriation of funds.

**Table 1: correlations analysis**

| | | Management competence | Financial systems | Financial planning | Cost variance analysis | Appropriation of funds |
|---|---|---|---|---|---|---|
| | | | | | | |
| Management competence | Pearson Correlation | 1 | .435** | -.089 | .183 | .230 |
| | Sig. (2-tailed) | | .002 | .548 | .214 | .116 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Financial systems | Pearson Correlation | .435** | 1 | -.275 | .047 | .245 |
| | Sig. (2-tailed) | .002 | | .059 | .753 | .093 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Financial planning | Pearson Correlation | -.089 | -.275 | 1 | -.070 | .043 |
| | Sig. (2-tailed) | .548 | .059 | | .637 | .770 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Cost variance analysis | Pearson Correlation | .183 | .047 | -.070 | 1 | .008 |
| | Sig. (2-tailed) | .214 | .753 | .637 | | .955 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Appropriation funds | Pearson Correlation | .230 | .245 | .043 | .008 | 1 |
| | Sig. (2-tailed) | .116 | .093 | .770 | .955 | |
| | N | 48 | 48 | 48 | 48 | 48 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | | | | |

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## 4. REGRESSION RESULTS

**Table 2: Overall Regression coefficient:**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 1.372 | .929 | | 2.554 | .014 | | |
| | MC | .147 | .159 | .152 | .924 | .361 | .783 | 1.278 |
| | FS | .177 | .140 | .212 | 1.262 | .214 | .752 | 1.329 |
| | FP | .095 | .127 | .114 | .749 | .458 | .919 | 1.088 |
| | CVA | 0.979 | .148 | -.021 | -.143 | .887 | .961 | 1.041 |
| a. Dependent Variable: Appropriation of funds | | | | | | | | |

Regression of coefficients results in Table 2 shows that there is a positive and significant relationship between appropriation of funds (dependent variable) and management competence, financial systems, financial planning and cost variance analysis (independent variables). From the finding, the overall model obtained is expressed as:

$$Y=1.372+0.147X_1+0.177X_2+0.095X_{3+}0.979X_4$$

These were supported by beta coefficients of 0.147, 0.177, 0.095 and 0.979 respectively. This result shows that a change in either of the variables will definitely lead to a positive change in appropriation of funds.

## 5. CONCLUSION

The study concluded that management competence, financial systems, financial planning and cost variance anal affected fund appropriation in Kiambu County. The study also affirms that financial systems has an impact on fund appropriation; this has been seen with the influence of the accounting systems and the general functions that they perform in record keeping, information communication technology has played a great role in financial management systems, hence financial systems have impact on fund management and appropriation Financial planning has also been found closely related to fund appropriation; this is because planning is required to account for how resources are use and which projects can be ventured into, poor planning leads to waste of resources and is therefore not good for county government. Finally, cost variance analysis was also found to be having effect on fund appropriation, in terms of cost analysis and price determination for county project, this is where cost can be inflated to meet the interest of individual employees, with a proper cost variance analysis it will help to avoid things like corruption and money laundering within the county government.

## 6. RECOMMENDATION

The organization should initiate training programs, refresher courses, arrange frequent seminars and workshops for the employees so as to meet their training needs and hence improve their management skills. Management should also be more committed and effective in its leadership style and operations especially in planning and implementation of the budget, actual expenditures and strategic plans. This will help the council to utilize its available resources well and improve service delivery. Management should work with all stakeholders, councilors continually to improve the organization performance. Furthermore, management should understand the needs of staff (employees) as expressed in their working environment discover what motivate the employees in any given work and then work towards meeting these needs for this will motivate employees and in return improve their performance. Finally, in order to assist in improving the performance of this sector, the government should allow the councils to run their business. It should only take up a supervisory role. The councils should set up self-policies to manage issues related to the organizations but consult regularly with government.

**Suggestions for Further Research:**

From the findings of this research, the researcher's suggestions for further study are: A similar study can be done for other counties to find out if similar results would be realized. This would facilitate comparison and comprehensive results on findings.This research dealt only with few factors that affecting fund appropriation in county government. However there are many other factors that could be considered for the study.

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