



Role of Internal Controls on IFMIS Effectiveness in County Governments in Kenya

 Wakhaya Musumba Charles ¹,  Gulali Donald ¹
and Mengich Esau ²

¹*Department of Business Administration, School of Business and Economics,
Maseno University, P.O. BOX, Private Bag, Maseno, Kisumu, Kenya*

²*Department of Management Science, School of Business and Economics,
Maseno University, P.O. BOX, Private Bag, Maseno, Kisumu, Kenya*

Correspondence: wakcharles.com@gmail.com

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Abstract

This paper analyzed the role of internal controls on effectiveness of Integrated Financial Management Information Systems in County Governments in Kenya. The specific aim was to analyze whether policies and procedures play a role in creating an effective framework for budget, procurement, payroll and payment operations. Actor Network Theory anchored the study in examining the county IFMIS operational framework including the actors, roles, relations, networks and the effectiveness of each element in achieving the required effectiveness. Constructivism philosophy enabled the study to review the social contexts through in-depth analysis using a qualitative approach. The study was undertaken in Turkana, Baringo, Makueni, Nairobi and Mombasa counties on 17 directors purposively selected. The directors responded to an interview. Observation method also provided data. Thematic analysis was used. Results found that there were no County IFMIS policies, and the existing national IFMIS policies did not have a role in the effectiveness of IFMIS in county governments. However, both County and National IFMIS procedures played a role in the effectiveness of IFMIS in county governments. The study recommends that County governments enact own IFMIS policies and enhance the adoption of national and county IFMIS procedures. The study also

recommends similar studies in government ministries and departments that use IFMIS.

Keywords: County Governments, Effectiveness, Policies, Procedures, IFMIS

Introduction

Background Information

IFMIS is a technology that has been adopted around the world to modernize financial management. Its common applications are on the budget management, procurement management, payment management and payroll management. Such adoption has been connected with improved service efficiency, regulation of budgets, open procurement process and accountable payments. This view is what prompted the World Bank to front IFMIS to governments around the world. It is estimated that more than 50 countries from around the world have already adopted IFMIS (Mwabili & Kyalo, 2022). IFMIS' introduction to different countries and regions is often based on the needs that the system targets to address. In Europe, the system was adopted as a reform strategy in the public sector to satiate the market demands for broad-based solutions to traditional challenges of coverage and distance. This way, IFMIS was adopted within the political systems. In the United States, IFMIS was adopted as a service oriented strategy meant to achieve specific missions of integrating government with community and businesses (Nyamita, Dorasamy & Garbharran, 2015). Adoption of IFMIS in the United States aligned the financial operations in government with the objectives of wide participation through decentralized frameworks.

The adoption of IFMIS in South American countries including Brazil, Paraguay and Bolivia started in the 1980s and was premised on centralizing the financial functions that occurred in uncontrolled manner in the lower levels or regions of governance. The mismanagement of public funds was also a concern in the countries and IFMIS was meant to curb this (Uña & Pimenta, 2022). Adoption continued in the early 2000s in Chile and Costa Rica among other Latin America counties as government policies meant to modernize financial management and provide guidance in the performance of tasks (Selimoglu et al., 2022).

The adoption of IFMIS as a policy reform in the African setting has been evident in Countries like Ghana, South Africa and Tanzania. In Ghana as well as South Africa, the modernization of financial management was just one of the objectives of adopting IFMIS (Tetteh & Agyenim-Boateng, 2020). Other objectives included controlling wastage through corruption (Tetteh et al., 2021). IFMIS was adopted in Tanzania following several trials with different financial management systems. With the adoption of IFMIS, government

presented operational procedures in the accounting and management of funds not just in the central government but also in the municipalities.

Statement of the Problem

IFMIS was adopted in Kenya's county governments in the year 2012 with the objective of providing policy and operational procedures meant to control the wastage of public funds, enhance accountability and create clarity. Decades since the adoption of the technology, counties are still facing the challenges that existed before adoption. As the Office of the Auditor General report, counties continue to spend above the policy of 30% ceiling on recurrent budget. The lack of clarity on payment procedures has led to rising pending bills. These issues are more evidenced in the counties of Turkana, Makueni, Baringo, Mombasa and Nairobi where this study was targeted. Existing studies have not reviewed the county policies and procedures that support IFMIS implementation. This creates a gap in knowledge on the role of policies and procedures on IFMIS effectiveness in county governments in Kenya.

Literature Review

Theoretical Literature

The Actor Network theory identifies important elements of a system whose absence makes the system dysfunctional (Razaque et al., 2022). These are called actors. In the IFMIS situation in the county governments, policies and procedures stand between functional and dysfunctional IFMIS. In order to have a functional thus effective IFMIS system, there is need for policies and procedures that define what each user is supposed to do and how they do it. Policies act by stating in clear terms, the actors, their roles and relationships. This creates role clarity which ensures adoption of IFMIS in the procurement, payment, payroll and budgeting functions. The procedures act by increasing the output in terms of IFMIS functions being performed. By breaking down each function, this important actor ensures there is a network of interrelated functions and players. ANT therefore presents an analysis of the counties from the point of how guided the users are by the existing policies and procedures and what roles and relationships exist from this. This enabled a view of the IFMIS operations in counties as a network that is either connected or lacking the required connections thus missing defined roles, interactions and activities (Razaque et al., 2022).

This theory anchored the study effectively given the purpose of the study to understand the role of internal controls on IFMIS effectiveness. With the theory, it was possible to understand the situation relating to the

availability and use of policies and procedures and their effect on IFMIS effectiveness. Given the use of technologies for change management, the role of policies and procedures as actors in this change is central hence the application of the theory.

Empirical Review

Internal Controls and IFMIS Effectiveness

The soundness of financial management is based on the key ideals of spending management and extent of the application of spending policy. This was well enumerated in the study by Postula and Raczkowski (2020) who reviewed the control mechanisms on public spending in Europe and how this boosted the competitiveness indicators. The study was based on analysis of data from the year 2008 to the year 2018 and revealed the connectivity of public policy to progressive improvements in spending management and the economic competitiveness indicators across Europe. Highly competitive scores were associated with increased policy application. This study was done in Europe hence the need to have a study that focusses on Kenya. There was also need for a study that focuses on indicators in County governments as opposed to country-level indicators.

Policy and IFMIS implementation in Asia are well documented in the study by Noor (2022) who focused on how 70 public institutions in the country operationalized this technology. A key finding in the study was the lack of policy framework to operationalize IFMIS and the reliance on existing administrative as well as political system. The study found lack of policy to be a hindrance to the implementation of IFMIS (Noor, 2022). The implementation of IFMIS in Kenya also relies on the existing administrative and political structures hence the need to test the results reached in Indian in the Kenyan context.

The internal control reforms' movement created by IFMIS is well documented in studies. This is exhibited in a study in Nigeria on the application of IFMIS (Owalobi et al., 2022). The study done through a questionnaire on government officials sought to understand their perception of IFMIS fraud detection and deterrence system. According to the authors, Government's policy on IFMIS adoption across the ministries enhanced adoption and acceptance (Owalobi et al., 2022). This improved on the transparency of the financial services in the country. This study was done in Nigeria, therefore the need to undertake a similar study in Kenya. Further, while the study addressed itself to IFMIS effectiveness, it did not explore the role of policies in detail and with clarity. There was therefore need for this study which reviewed policies and its role on IFMIS effectiveness.

Fraud detection systems and IFMIS effectiveness was also focused on in a study in Congo. This study examined the role of policies that supported the implementation of fraud detection systems (Mputu & Monique, 2022). Officers working in IFMIS sections at the national level formed the respondents. As the study found, the application of policies and fraud detection systems served to steer actions of users into compliance with the required expenditure ceilings. The system was also connected to reduction in procurement delays and associated costs. The study was done in Congo on centralized offices therefore the need to undertake it in Kenya on decentralized units of counties. This is because the policies are different in the two countries and application at county level is less understood.

A review of the policy situation in local authorities in Tanzania focused on their availability in these decentralized units (Pesape, 2022). The study identified that there were no such policies and procedures in Tanzania's local authorities. This situation was connected to low budget controls and inability to control the procurement and budgeting processes. This study was done on local authorities in Tanzania which are different from the counties in Kenya. The application to the Kenya County situation was therefore necessary.

The aim of the study by Lundu and Shale (2015) was to review the use of IFMIS procedures in Nairobi City County. Studying the staff in the ICT section, this quantitative study revealed lack of county procedures that addressed IFMIS issues. They effect found was staff laxity in the performance of their roles and roles overlap in many departments. The overall finding was that there was low adoption of IFMIS in the performance of payment, procurement and budgeting functions. This study required confirmatory study using in-depth analysis of the situation through a qualitative approach. This gap was filled by the study done in the five counties where Nairobi county was included.

The application of procedures as internal controls aimed at reducing budget variance and overspending was traced in the study in Western Kenya targeting five counties (Majani, Mackton & Atieno, 2022). The major finding of the study was that the counties lacked clear procedures on the usage of county budgets. The study found the lack of procedures as disadvantageous to IFMIS effectiveness as it resulted in continued overspending mainly on recurrent budgets. This study was done in counties from one region of the country hence the need for a study on counties that are spread across Kenya in order to have generalization of results. This gap was filled in the study done on five counties spread across Kenya.

A study in Baringo County, Kenya, sought to examine the reach of county procedures in terms of enhancing effectiveness of approval of budgets, access to payment portal and general IFMIS information. The study found that the internal procedures in the county were weak. This was related

to financial imprudence including users colluding in the actualization of IFMIS payments. This study was done in one county hence the need to use multiple counties to confirm the findings reached. This is the gap filled in the study undertaken in five counties in Kenya. The use of national treasury procedures and their role of creating IFMIS effectiveness was traced in a study by Njau and Kinoti, 2020). This study that focused on officers from the national treasury using a quantitative questionnaire revealed that there were enough IFMIS use procedures in use. The focus on national structures and procedures created a gap in understanding county procedures and their role. This gap was solved by undertaking a study county internal procedure focusing on five counties

Conceptual Framework

The conceptual framework presented in fig. 1 below shows how the independent variable connects to the dependent variable. The independent variable in the study was internal controls which plays a role on IFMIS effectiveness. IFMIS effectiveness is therefore the dependent variable.

Independent Variable

Internal Controls

Internal Policies

Internal Procedures

Dependent Variable

IFMIS effectiveness

IFMIS effectiveness

- Budget management
- Payroll management
- Payment management
- Procurement management

Figure 1: Conceptual framework on Internal controls and IFMIS effectiveness

Source: Author, 2024

Methodology

The study used constructivist research philosophy to enable a deeper review of the social contexts in the counties and their use of internal controls. A qualitative research approach was adopted to gain a deeper understanding of the application of internal controls and IFMIS effectiveness. Multiple case study design adopted supported comparisons and in-depth analysis. The study was conducted in the counties of Turkana, Mombasa, Baringo, Makueni and Nairobi on the directors in charge of IFMIS related directorates. These are IFMIS payment, procurement, payroll and budget. Data collection methods

were interview combined with natural observations while thematic analysis was the main data analysis method used.

Findings and Discussion

Role of Internal Policies on IFMIS Effectiveness

This study had an objective of analyzing the role of internal policies on IFMIS effectiveness. From the thematic analysis undertaken, the study found that there were no internal policies in use and the existing national policies had no role on IFMIS effectiveness. As the study found, all counties depended on the Public Finance Management Act (PFM Act) which was a general policy by the national government used across ministries, departments and counties. No County had developed a policy that customized the PFM Act in terms of regulating the use of IFMIS in the county setting. The study related the use of PFM Act to IFMIS effectiveness. There was role confusion, and conflicts in IFMIS usage persisted despite the use of the PFM policy. There were no clear roles for IFMIS users and lack of IFMIS coordination mechanism; factors that caused delays in IFMIS procurement, payment, payroll and budget processes.

The lack of county IFMIS policies confirms what Pesape (2022) found to be the case in municipalities in Tanzania. In the study by Pesape (2022), the lack of internal policies was connected to inability to control budget and procurement process. This was confirmed in this study which revealed counties' inability to coordinate the procurement, payment, payroll and budget processes. The study also confirms what Postula and Raczkowski (2020) give as the bare minimum for having a competitive financial system. From this study, the lack of policies was found to decrease the overall level of IFMIS acceptance and adoption; which are the foundations of prudence and transparency that Postula and Raczkowski (2020) talk about. With this, it is clear that for Kenyan counties to achieve the indicators observed in Europe, there must be clear internal policies on IFMIS (Postula and Raczkowski, 2020).

Role of Internal Procedures on IFMIS Effectiveness

Another objective of the study was to analyze the role of internal procedures on IFMIS effectiveness in county governments in Kenya. From the thematic analysis done, the study found county IFMIS procedures to be in use. The study also found existence of national IFMIS procedures in the counties studied. Figure 1 below shows an IFMIS based procurement poster found in one of the study settings. The poster indicates the stages in IFMIS based procurement



Figure 2: County Government procure to pay process

Source: Author, 2024

A finding from the analysis was that county IFMIS procedures had a positive role on IFMIS effectiveness. There were departmental procedures and national IFMIS procedures. The finding related the existing procedures to timely budget preparation and actualization of the required procurement processes. The procedures ensured the required budget documents were uploaded on time. Thematic analysis also connected the proper budget uploads to faster payment approvals. Procedures were also connected to compliance to budget vote heads during procurement. Respondents identified this to eliminate the scenario of over-quoted projects in the counties.

The above finding contradicts previous studies that held that counties operate without IFMIS procedures (Lundu & Shale, 2015; Majani, Mackton & Atieno, 2022; Njau and Kinoti, 2020). Whereas the previous studies found that the IFMIS procedures in the counties were lacking or weak, this study found that the procedures exist and are strong in influencing IFMIS effectiveness. This study therefore emphasizes the relevance of county IFMIS procedures over and above the national IFMIS procedures for purposes of enhancing budget compliance, reducing delays in payment and ensuring procurement meets the requirements.

Conclusion

The objective of this study was to analyze the role of internal controls on IFMIS effectiveness in County governments. The study found counties as

lacking internal policies to guide IFMIS usage with this related to inability to coordinate the procurement, payment, payroll and budget processes. Further, the study found that there were IFMIS procedures in use in the counties which brought about timely budget and payment and compliance to budget vote-heads in the procurement process.

Recommendations

Policy recommendations

- 1) The National Senate should review the PFM Act to embrace IFMIS use by county governments. Such policy review should ensure counties have a role to further legislate to align and domesticate the national policies into a county IFMIS policy that guides users and achieves expected effectiveness on procurement, payment, budget and payroll
- 2) County Governments should enact their own policies and legislations that define the county IFMIS users and establish a coordination mechanism. This should be cascaded to departmental policies on IFMIS use in the counties.

Recommendations on practice

- 1) Stakeholder engagement at all levels should inform IFMIS adoption and re-engineering; ensuring that situational factors inform adoption decisions.
- 2) Managers seeking to implement any technology must ensure the required policies and procedures are in place to put in motion the coordination framework and ensure there is compliance and effectiveness in the implementation

Recommendations in relation to further studies

- 1) The study recommends that similar research is undertaken in the ministries and departments that use IFMIS. This will enable confirmation of the results reached in this study on the five counties.

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