FACTORS DETRIMENTAL TO MANAGEMENT OF DEVOLVED FUNDS IN KENYA. A CASE OF NAIROBI COUNTY

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ABSTRACT
Decentralization is meant to improve public services, but relatively few studies examine this question empirically. Poverty, inequality and social exclusion are deeply-rooted structural and historical phenomena in Kenya. Successive Kenyan governments have attempted fiscal decentralization as a way of ensuring the country achieves equitable development across the many regions. Fiscal decentralization consists primarily of devolving revenue sources and expenditure functions to lower tiers of government. By bringing the government closer to the people, fiscal decentralization is expected to boost public sector efficiency, as well as accountability and transparency in service delivery and policy-making. Decentralization also entails greater complexity in intergovernmental fiscal relations. Coordination failures in fiscal relations are likely to have a bearing on the fiscal positions, nationally and sub nationally. The purpose of this project was to find the factors that are detrimental to the management of the devolved funds in two levels of government. Increased local financing after fiscal decentralization has opposite two effects, that is, (1) the local finance derives incentive for effective management, and (2) it may induce the lack of public resource for managing public expenditure, which is particularly needed in the basics of managing the lower levels of government. This project analyzed the detrimental factors that effect management of fiscal funds by a county government. The objectives used by this study were; To establish the effects of corruption in the management of devolved funds in Nairobi City County, to determine the effect of accountability in the management of devolved funds in Nairobi City County, to determine the effect of financial regulations in the management of devolved funds in Nairobi City County and to establish the effects of adoption of IFMIS in the management of county funds in Nairobi City County. The study adopted a descriptive research design. From the findings, Accountability, Adoption of IFMIS, and Financial Regulations were found to have positive and significant effect on Financial Management while the effect of corruption was found to have a negative relationship with financial management. From the findings and conclusions therefore, this study recommended that Nairobi County Government consider Accountability, Adoption of IFMIS, and Financial Regulations as the key factors that could determine the management of devolved funds.

Key Words: Decentralization, Corruption, Devolved Funds, County Government, Accountability

INTRODUCTION
Equity in resource distribution is an issue which has dominated most developing countries’ economic and political discussions over the years. Kenya is not an exception. Decentralization as a means of fostering development has been a focus of intense academic, policy and popular debate in Africa and Kenya in particular especially after the 2013 elections that effectively brought to life counties as prescribed in Constitution of Kenya 2010. On the policy front, the government has over the years adopted a series of decentralization policies, although their implementation has in most cases fallen short of expectation. The most notable of the decentralization policies include, the Swynerton Plan (1948), Majimboism (1963), District Development Grant Program (1966), the Special Rural Development Program (1969/70), the Rural Development Fund, District Development Planning (1971), the District Focus for Rural Development (1983) and the CDF (2003) (Juma, Omboto & Mulongo, 2011).

Decentralization encompasses a variety of concepts, the feasibility of which must be carefully analyzed in any particular country before pursuing decentralization policies. One of the key challenges for the proper implementation of decentralization policies is the lack of fiscal resources for local government (Bagaka 2008). The level of resources transferred from central government often has not been commensurate with the level of responsibilities assigned to lower levels of government in Africa. This results in low performance levels and disillusionment with decentralization programmes (Mitullah, 2012).

The County of Nairobi started as a small railway depot in 1899 to serve the Kenya-Uganda Railway. The East African Railway Company established the town between 1899 and 1903 when it was gazetted as a Township and later upgraded to Municipal Board in 1928 under the management of a local authority (UN, 1995). In 1950 the Nairobi municipality was granted City status through Royal Charter by the British Colonial administration. Nairobi later got incorporated under the Local Government Act Cap.265 which came into effect in January 1964. In the period between 1948 and 1962, the city grew in population by an average rate of 5.9% per annum and between 1999 and 2009 the population grew from 1.34 million to 3.4 million people. This growth represents a 25% population increase. This increase has put more pressure on the available urban amenities which are not growing/expanding at a rate that can accommodate population growth (Mitullah, 2003).

The Nairobi County Government is the local governing body of the city of Nairobi, which is the capital city of Kenya. The County Government is responsible for the provision of essential services such as housing, healthcare facilities, primary education, emergency response, waste collection, water and sanitation among other services. More so, it is an institution of political representation providing democratic framework of decision making and subjecting County Management decisions to local political control so that resident interest are incorporated in planning and execution of service delivery programs.

The county government’s current mandate of urban management has an expanded scope of functions ranging from provision of social and physical infrastructure, regulating urban development, welfare to promoting local economic development within an identified geographical area of 696.1 km2 (NCIDP, 2014).

The Nairobi City County is a creation of the new constitution of the Republic of Kenya (2010). The county has 17 constituencies: Dagoretti South, Dagoretti North, Embakasi Central, Embakasi East, Embakasi North, Embakasi West, Embakasi South, Kibra, Kasarani, Kamukunji, Langata, Makadara, Mathare, Roysambu, Ruaraka, Starehe and Westland (KNBS, 2010). Nairobi City County is responsible for the delivery of a number of services to residents within its area of jurisdiction which covers 696.1 Km2 and is located between longitudes 36o 45’ East and latitudes 1o 18’ South. It lies at an altitude of 1,798 meters above sea level (NCIDP, 2014). The city has a population of 4 million people according to the 2009 National Population census (GOK, 2010). The striking feature about the Nairobi population is that the night population differs from the daytime figures. This is because there are a large number of people who come for engagements in the city by day and retreat to the dormitory areas after work for the night.
Another striking feature of the Nairobi population is that it bears the same demographic features like the National Population i.e. the city is home to 10% of the National Population whose composition by age is over 60% youth, 52% women, 70% reside in informal settlements. Another feature of the city of Nairobi, worth noting, is that over 60% of the national gross domestic product (GDP) is generated here (Nabutola, 2004; Oundo, 2011).

**Statement of the Problem**

Poverty, inequality and social exclusion are deeply-rooted structural and historical phenomena in Kenya. Successive Kenyan governments have attempted fiscal decentralization as a way of ensuring the country achieves equitable development across the many regions. The Constitution of Kenya 2010 further entrenches decentralization through equitable sharing of revenue between the national and county governments. Despite the introduction of a multiplicity of decentralized funds over the years, there is little improvement in the living standards and circumstances of the poor. Lack of accountability in the management of decentralized funds has often been identified as the core factor limiting the attainment of the desired impacts.

The government of Kenya has been emphasizing on the importance of fiscal decentralization since independence. The first Medium Term Plan of the Vision 2030 for instance observes that “while the country awaits for the implementation of new devolution structures from the proposed constitution, the government’s position is that fiscal decentralization measures can still be taken in the interest of growth with equity” (GOK 2008 Medium Term Plan 2008 – 2012, p. 135). During the 2009/2010 budget speech, the government through the minister for finance emphasized the importance of decentralized finance to development. When he was reading the budget speech, the minister had this to say “a 22 billion Economic Stimulus Programme will be channelled to the rural areas to jump-start the economy using the CDF model” (2009/2010 budget speech).


Various studies have been done in the area of public financial management. Mathiba (2011) did a study to evaluate financial management practices in the department of correctional services in South Africa. Lawson (2012) in a study commissioned by SIDA, DANIDA and AfDB did an evaluation of public financial management reforms in Burkina Faso, Ghana and Malawi for a period between 2001 and 2010. Further, Wyk (2003) did a study to determine a performance measurement approach to improve financial management in provincial governments in South Africa. Locally, Gathuya (2010) conducted a survey of factors that influence local authorities’ financial management taking a case of City Council of Nairobi. However, no study had dealt on the effects of fiscal decentralization on management of county funds in Kenya. This paper sought to find out the factors that are detrimental to management of devolved fiscal funds in Kenya with evidence from Nairobi County Government.

**Objectives of the Study**

The general objective of this study was to establish the factors that are detrimental to the management of devolved funds in Kenya with evidence from Nairobi County Government. The study was guided by the following specific objectives:

- To establish the effects of corruption in the management of devolved funds in Nairobi City County.
- To determine the effect of accountability in the management of devolved funds in Nairobi City County.
- To determine the effect of financial regulations in the management of devolved funds in Nairobi City County.
- To establish the effects of adoption of IFMIS in the management of devolved funds in Nairobi City County.
LITERATURE REVIEW

Theoretical Framework

Theory of planned behavior
This theory of planned behavior is a theory about the link between beliefs and behavior. The concept was proposed by Ajzen (1991) to improve on the predictive power of the theory of reasoned action by including perceived behavioral control (Ajzen, 1991). It is one of the most predictive persuasion theories. It has been applied to studies of the relations among beliefs, attitudes, behavioral intentions and behaviors in various fields such as advertising, public relations, advertising campaigns and healthcare. The theory states that attitude toward behavior, subjective norms, and perceived behavioral control, together shape an individual’s behavioral intentions and behaviors.

In relation to the study, this theory can be used to explain effectiveness of management of public funds in Kenya National Treasury after budgetary reforms. This is because budgetary reforms cover a range of initiatives to strengthen the rules and procedures that underpin budget processes. These clearly set rules, procedures and processes in budgeting, and will therefore produce certain desired expected outcomes in the management of public funds; effective management. According to McThomas (2003), standard interventions have focused on: improving the comprehensiveness of budget operations; building better links between annual allocations and medium-term policy objectives; introducing performance indicators and management systems; computerizing budget management and expenditure control.

Three-Component Theory of Commitment
This theory was proposed by Allen & Meyer, (1990). This model proposes that organizational commitment is experienced by the employee as three simultaneous mindsets encompassing affective, normative, and continuance organizational commitment. Affective Commitment reflects commitment based on emotional ties the employee develops with the organization primarily via positive work experiences. Normative Commitment reflects commitment based on perceived obligation towards the organization, for example rooted in the norms of reciprocity. Continuance Commitment reflects commitment based on the perceived costs, both economic and social, of leaving the organization. This theory of commitment has been used by researchers to predict important human outcomes, including turnover and citizenship behaviors, job performance, absenteeism, and tardiness (Meyer et al., 2002).

In this study, the three components may be used to describe the need to be committed to voluntary tax compliance, perceived costs of neglecting it, and a felt obligation to abide by policies to increase revenue collection and reduce evasion. The affective component is defined as citizens’ emotional attachment to, identification with, and involvement in ensuring enhanced tax collection. This is in response to the government and revenue authority policies to ensure tax collections. The continuance component in the case of this study may be looked at as the perceived cost in terms of penalties in case defaults and loss of business in cases where the business is not tax compliant. Finally, the normative component may describe the government and Kenya Revenue Authority (KRA) commitments to ensuring citizens abide by tax policies to enhance collection. In fact, in general tax administration reform needs: high level political and senior management support; to be embedded in broader public sector reforms, so as to avoid unsustainable ‘islands of excellence’; to be supported by broader public sector reforms, including anti-corruption and civil service reforms and appropriate use of change management techniques (Hestad, 2005; Robson and Engelschalk, 2006). Further, Witt (2006) concluded that cultural factors influence tax policy, that the form of government affects the level of voluntary tax compliance, as does the citizen’s perception of government (legitimacy and efficiency).

REMM Theory of Human Behavior (Resourceful, Evaluative, Maximizing Model)
REMM Theory of Human Behavior proposed by Meckling (1976) addresses the concept of “man” as unit of analysis in economics. It explains man’s behaviors as a result of interactions with value systems and constraints”
REMM individuals are able to make trade-offs to overcome a constraint, and therefore theoretically have “no needs”, they have wants and desires which help them focus on alternatives, substitutes and costs and reduce their exposure to hidden agendas of politicians or media (Brunner & Meckling, 1977). In general markets are always in equilibrium because REMM individuals adapt to their opportunity set and make demand and supply better off, by balancing cost/benefit (Jensen & Meckling, 2001).

In relation to this study, reforms in the public procurement sought to reduce corruption in procurement. Corruption in public procurement would reduce effectiveness of public funds management however, the reforms are attracting individuals who are focused to overcome fair competition and therefore, this will enhance management of public funds.

**Institutional-centric theory of finances**

Institutional-centric theory of finances proposed by Arestis, Nissanke and Stein in 2005 as an alternative to the flawed financial liberalization theory that increased the instability of developing countries during the 90s. Based on the theory of imperfect markets, it acknowledges the existence of imperfect information and informal and formal institutions, which efficiency is the engine of development (Arestis et al., 2005; Dornbusch & Reynoso, 1993). This therefore highlighted the need to have an integrated system that supports real time financial information access. An integration of financial functions was proposed by Demaestri and Guerrero (2003) and theoretically suggests that effectiveness and efficacy are achieved when financial information is integrated.

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

**Empirical Review**

Various studies on the impact of decentralization on public goods provision have provided evidence of heterogeneity in access to public goods, as well as heterogeneity in investment in public goods across communities in the period prior to decentralization. Research shows that fiscal decentralization comes with relatively high spending in schools and health centres and lower resources devoted to roads, public transport and other infrastructure. Bagaka (2008) analyzed the impact of the CDF in Kenya on the growth of national government budget between 2004 to 2008. In his study, he analyzed how local CDF expenditures on capital projects such as health centres and schools exported the tax burden of maintaining these facilities to the national government. He employed a Nested Analysis Approach (NAA) which combines a statistical analysis of large samples but with an in-depth focus on one or more samples contained in the large samples. He used 210 Kenyan constituencies categorized into 68 districts. The study concluded that fiscal decentralization through CDF leads to equity and allocative efficiency. Further, the capital expenditures on healthcare at the local level contributed to growth of the national government budget.

Zhang and Zou (1998) undertook a case study of the effect of decentralization in China between 1970s through 1990s. They found out that the degree of decentralization differed across the various provinces and that in overall, decentralization slowed down economic growth at the provinces. Kneller et al; (1998) studying decentralization and economic growth in OECD, applied pooled-mean group techniques to a panel data set of 23 OECD countries covering 1972-2005. The findings were that decentralization based on expenditure leads to a decline of economic growth while revenue based decentralization has been associated with higher growth. This is consistent with Oates (1972) hypothesis which calls for close matching between revenue and spending decentralization in order to achieve maximum efficiency gains.

Faguet (2004) in a study in Bolivia sought to examine whether fiscal decentralization leads to a more preferential treatment of local needs, specifically education and healthcare. This study was conducted in the context of spending and local goods provision. He used two specification models. The first one employed fixed effects
ordinary least squares to test whether local conditions such as primary education enrolment and child vaccination had an effect on future expenditure patterns of local governments. The second specification examines whether or not spending and household characteristics have any effect on future local outcomes. The study concludes that certain public goods such as education, water and sanitation, urban development, and water management, exhibit different investment patterns after decentralization. Local government expenditure in education rose by over 25% after decentralization while in health, expenditure decreased slightly. Using the change in investment patterns resulting from fiscal decentralization at both the national and local levels, decentralization therefore leads to more sensitive treatment of local needs in the aforementioned sectors. Further evidence from the study showed the poorest districts allocating large percentages of spending toward their highest priority projects.

Freinkman and Plekhanov (2009) in a study to analyze the relationship between fiscal decentralization and the quality of public services in Russian regions concluded that fiscal decentralization does not significantly affect key secondary school inputs such as computers, textbooks, availability of schools or pre-schools. Key observable inputs were controlled for. The study found a direct relationship between quality of municipal utilities provision as well as on average examination results. Standardized examination results in Mathematics and languages were used as performance indicator in education. The study distinguishes between municipal expenditure shares and municipal revenues as measures of decentralization. Barankay and Lockwood (2007) studying the relationship between decentralization and school completion rates, found a positive relationship in Swiss cantons.

Akin et al. (2005) in a study on the impact of decentralization and public goods provision in Uganda modelled local government budgeting decisions under decentralization, to assess allocative efficiency in the health sector. The empirical results provided evidence that district planners under decentralization allocated declining portions of their budgets to public goods activities. The budgets are split into specific types of activities based on the subjective characterization of their “publicness.” The study therefore concludes that decentralization has a negative impact on public goods provision.

Sarmistha and Zaki (2012) in a study to assess the impact of fiscal decentralization on local public spending in Indonesia, used data from Indonesia family life surveys and found that there was greater homogeneity in spending on social infrastructure (Schools and health centres) as well as physical infrastructure in the period after decentralization. The study however fails to establish on whether there’s any allocative efficiency associated with decentralization. In another study to assess the effects of decentralization on education in East Asia and pacific Islands, 0% of the respondents held that quality had improved as a result of decentralization, with 31% observing that quality had actually deteriorated due to decentralization (Hinsz et al, 2006). Bird, Ebel, and Wallich (1995) examined decentralization in Eastern and Central Europe and found that provision of public goods such as schools can suffer in the short run as a result of decentralization. By contrast, Matheson and Azfar (1999) explored the impact of decentralization on health and education outcomes in the Philippines and found that decentralization improved health outcomes in Filipino provinces where national minorities formed local majorities after decentralization.

IFMIS is a computer based information system that enhances effectiveness and transparency of the financial management system. For the GoK, IFMIS should provide timely and accurate financial information and a standardized integrated financial management reporting system for managers within the government, and it should provide the Accountant General with a GoK-wide upgraded computerized accounting system, and lead to significant improvement in financial control (World Bank, 2003).

In developing countries, automated systems, particularly IFMIS have become synonymous with PFM reform, seen by some as even drivers of reform. They are often considered as the answer to the problems of lack of reliable and timely data and poor financial controls. Yet as Peterson (2006) observes, unlike other multi-million dollar investment projects, in many cases, cost-benefit analyses have not been undertaken. According to
Diamond and Khemani (2005) IFMIS aims at integrating the national budgeting process, accounting, procurement and financial reporting, is only in most cases partially rolled out with only the accounts payable, purchase order module and general ledger. As a result, IFMIS is yet to realize its full potential as a tool for national budgeting, accounting, procurement and financial reporting.

However, under the re-engineered IFMIS, the activation of the Cash Management (CM), Fixed Assets (FA) and Accounts Receivables (AR) will facilitate the integration of budgeting, procurement, accounting and financial reporting aspects through the end-to-end logic, whose pilot is currently ongoing pending full roll out (Heidenhof et al., 2002). Diamond and Khemani (2005) indicates that IFMIS implementation should follow modular approach, with the initial introduction of just the core functions of budget execution, accounting, payment processing, commitment control and financial reporting. Based on experience in Ethiopia, Peterson (2006) argues that process change not process (innovation) re-engineering is the best method.

Throughout the nineties, the majority of assistance was provided by donors to developing countries through isolated projects, and frequently included complex interventions such as medium-term expenditure frameworks (MTEF), performance budgeting, gender budgeting and integrated financial management information systems (IFMIS) (Vani and Dorotinsky, 2008). In Eastern Europe, comparative success in IFMIS implementation is attributed to the fact that the whole regulatory and institutional framework of public finance was new. Traditionally, in many Latin American countries, budgetary and expenditure management was fragmented and therefore simple integration achieved through automation was viewed as beneficial (Heidenhof et al., 2002). Success in Guatemala is attributed to the initial emphasis on basics (Wescott, 2008).

Conversely, in Africa, the PFM ‘problem’ was perceived to be pervasive informal behaviour and failure to follow the rules. The focus for the introduction of an IFMIS was therefore not on integration, but rather on how to ensure compliance with rules (Heidenhof et al., 2002). Other reasons cited for the failure of IFMIS’ implementations include: lack of clarity in ownership; failure to clearly specify basic functionality; insufficient design phase; failure to re-engineer procedures; failure to undertake parallel reforms; unrealistic time-scales; lack of incentives for reform; and neglecting to ‘sell’ the system (Diamond and Khemani 2005). World Bank (2001) underscores the importance of IFMIS and indicated that IFMIS is at the core of reforms aimed at greater financial control and accountability.

Both the MTEF and IFMIS reduce the discretionary power of public officials and senior civil servants to re-allocate resources and overspend, which is against their interests. IFMIS reduces the workload of civil servants, makes bank reconciliation automatic, and provides for a number of ways of detecting excessive payments, fraud and theft. Implementing and maintaining IFMIS is, however, not a simple task. According to World Bank’s own evaluations; over 60% of its IFMIS projects have not worked well (Durevall & Erlandsson, 2005).

In Kenya, IFMIS was rolled out to Government Ministries in 2003. In 2011, The National Treasury launched IFMIS Re-engineering to spearhead IFMIS implementation. By 2012, IFMIS was operational in Ministries, Departments and Agencies (MDAs). The components IFMIS includes, Re-engineering for Business Results (RBR), Plan to Budget (P2B), Revenue to Cash (R2C), Procure to Pay (P2P), Communicate to Change (C2C), Record to Report (R2R) and ICT to Support (ICT2S) (GOK, IFMIS website, 2016)

Re-engineering for business results focuses on continuous review of workflows and business processes in line with user requirements for quality delivery of services. The business processes includes budgeting, procurement, accounting and reporting. Notable interventions in this regard include: defining workflows for stricter controls which ensure that approval roles and responsibilities are clearly inbuilt into the IFMIS. It also provides notifications for the respective officials in the approval hierarchy; and delegation of responsibilities to subordinates by senior officials. This ensures that expenditure approvals continue even in their absence (GOK, IFMIS website, 2016).
Revenue to Cash component is aimed at providing functionalities for collection, recording and classification and reporting of Government revenue. It involves all activities related to revenue and cash management from generation, collection, recording of revenue and distribution of funds to MDAs and Counties. It also facilitates timely reconciliation of bank accounts. This translates to the automation of the following core processes within government: recording and reporting for revenues collected by Kenya Revenue Authority (KRA); collection, recording and reporting for revenues collected directly by MDAs, counties, among other sources; recording and reporting for funds disbursed to National and County Governments; Auto bank reconciliations; and cash flow management in terms of cash forecasting and cash positioning (GOK, IFMIS website, 2016).

The aim of IFMIS Procure to Pay (P2P) system is to develop an efficient and streamlined procurement and payment system by fully automating the procurement and payment process to increase control and visibility over the entire life-cycle of a procurement transaction, from procurement planning to payment. The end-to-end P2P automated process that starts at development of procurement plans, to the actual procurement of goods and services, to payment of suppliers for goods or services delivered. The P2P implementation that is currently undergoing implementation covers the following 8 modules: supplier management; requisition management; quotation management; contract management; purchase order management; receipt management; invoicing and payment management; and inventory management (GOK, IFMIS website, 2016).

**METHODOLOGY**

This study adopted a descriptive research design, which according to Kothari (2004), is used when the problem has been defined specifically and where the researcher has certain issue to be described by the respondents about the problem. The population of study was the Finance and Internal Audit department in the Nairobi City County which was 116 in number according to the HRM staff list of auditors (Nairobi County HR manual, 2016). For purpose of this study, the target population was stratified through top management level, senior officer level and low-level management. The study used survey design as the target population was small.

The researcher administered a survey questionnaire to each member of the target population. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance the validity and accuracy of data to be collected for the study. The researcher carried out a pilot study to validate the questionnaire.

Quantitative data collected was analyzed by the use of SPSS and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. A linear regression model was applied to determine the relative importance of each of the four variables with respect to the management of county funds.

The regression model was as follows:

\[ y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \]

Where:
- \( Y \) = management of county funds
- \( \beta_0 \) = Constant Term
- \( \beta_1 \) = Beta coefficients
- \( X_1 \) = corruption
- \( X_2 \) = accountability
- \( X_3 \) = financial regulations
- \( X_4 \) = adoption of IFMIS
- \( \epsilon \) = Error Term
RESULTS

Descriptive Statistics

Descriptive Statistics for Corruption
The study sought to establish whether corruption affected management of county funds. From the findings presented, 95.3% were in affirmation that corruption affects management of county funds, while 4.7% were not. The study further asked the respondents the extent to which corruption affects management of county funds. From the findings, a majority (61.2%) said corruption affects management of county funds to a very great extent, 28.2% said to a great extent, 10.7% said to a moderate extent.

The study further generated a descriptive statistics table from the data and the results were presented in Table 1.

Table 1: Descriptive Statistics on Corruption

<table>
<thead>
<tr>
<th>Purchasing function through which organization obtain products and services from external suppliers.</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All the staffs in central government are professionally qualified to conduct procurement functions</td>
<td>17.4</td>
<td>32.1</td>
<td>28.4</td>
<td>17.4</td>
<td>4.6</td>
</tr>
<tr>
<td>A good procurement plan will go one step further by describing the process you will go through to appoint those suppliers contractually.</td>
<td>15.0</td>
<td>34.6</td>
<td>31.8</td>
<td>14.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Most of the personnel who are employed in the public procurement departments are not properly trained and lack skills required to run the procurement and disposal processes in the public sector</td>
<td>10.6</td>
<td>16.3</td>
<td>25.0</td>
<td>22.1</td>
<td>26.0</td>
</tr>
</tbody>
</table>

From the study findings in Table 1, on how corruption affects management of county funds, a majority (33.0%) disagreed on purchasing function through which organization obtain products and services from external suppliers, 32.1% disagreed that all the staffs in central government are professionally qualified to conduct procurement functions, 34.6% disagreed a good procurement plan will go one step further by describing the process you will go through to appoint those suppliers contractually, 26.0% strongly agreed that most of the personnel who are employed in the public procurement departments are not properly trained and lack skills required to run the procurement and disposal processes in the public sector.

Descriptive Statistics for Accountability
The study sought to find whether accountability affect management of county funds. The results showed that a majority (99.1%) of the respondents affirmed that accountability affect management of county funds, while only 0.9% felt that it does not. The study further aske the respondents whether the finances are utilized fully for the purpose for which they are planned for. From the findings, 53.8% of the respondents affirmed that the finances are utilized fully for the purpose for which they are planned for, while 46.2% did not. The study also asked the respondents the extent to which accountability affect management of county funds and presented the results in Table 2.

Table 2: Extent to which accountability affect management of county funds

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little extent</td>
<td>10</td>
<td>9.3</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>20</td>
<td>18.7</td>
</tr>
<tr>
<td>Great extent</td>
<td>58</td>
<td>54.2</td>
</tr>
<tr>
<td>Very great extent</td>
<td>19</td>
<td>17.8</td>
</tr>
<tr>
<td>Total</td>
<td>107</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The study generated a descriptive statistics table using the SPSS data and the findings on how accountability affect management of county funds were summarized in Table 3.

**Table 3: Descriptive Statistics Table for Accountability**

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management commitment</td>
<td>11.1</td>
<td>25.0</td>
<td>30.6</td>
<td>24.1</td>
<td>9.3</td>
</tr>
<tr>
<td>Frequency attendance of meeting</td>
<td>11.0</td>
<td>22.0</td>
<td>34.9</td>
<td>26.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Level of involvement in decision making</td>
<td>14.3</td>
<td>29.5</td>
<td>29.5</td>
<td>22.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Most of the personnel who are employed in the public procurement departments are irresponsible and unaccountable</td>
<td>20.4</td>
<td>29.6</td>
<td>27.8</td>
<td>16.7</td>
<td>5.6</td>
</tr>
</tbody>
</table>

The findings showed that a majority 30.6% remained neutral that there is management commitment, 34.9% also remained neutral on frequency attendance of meeting, 59.0% either disagreed or remained neutral that there is level of involvement in decision making, and 29.6% disagreed that most of the personnel who are employed in the public procurement departments are irresponsible and unaccountable.

**Financial Regulations**

The study sought to establish whether treasury regulations on county governments had an effect on management of county funds. From the findings, 51.4% of the respondents were in affirmation that treasury regulations on county governments had an effect on management of county funds while 48.6% were not.

The study generated a descriptive statistics table and presented the findings in Table 4.

**Table 4: Descriptive Statistics Table for Financial Regulations**

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>This regulatory structure creates transparency between banking institutions and the individuals and corporations with whom they conduct business, among other things.</td>
<td>18.7</td>
<td>20.6</td>
<td>27.1</td>
<td>25.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Regulatory agencies to maintain control over the standardized practices of these institutions.</td>
<td>19.8</td>
<td>18.9</td>
<td>26.4</td>
<td>21.7</td>
<td>13.2</td>
</tr>
<tr>
<td>The regulations help to reduce the level of risk to which bank creditors are exposed</td>
<td>15.7</td>
<td>21.3</td>
<td>29.6</td>
<td>25.0</td>
<td>8.3</td>
</tr>
<tr>
<td>The remittance industry, like any other, is likely to flourish best when the general legal framework in which it operates is sound, predictable, non-discriminatory and proportionate.</td>
<td>21.3</td>
<td>26.9</td>
<td>30.6</td>
<td>14.8</td>
<td>6.5</td>
</tr>
<tr>
<td>A key form of regulation is for anti-money laundering and related purposes and involves &quot;know your customer” requirements and recording/reporting of individual transactions</td>
<td>19.2</td>
<td>20.2</td>
<td>26.0</td>
<td>26.0</td>
<td>8.7</td>
</tr>
</tbody>
</table>

From Table 4, a majority (27.1%) were neutral on the regulatory structure creates transparency between banking institutions and the individuals and corporations with whom they conduct business, among other things, 26.4% remained neutral that the regulatory agencies maintain control over the standardized practices of these institutions, 29.6% remained neutral that the regulations help to reduce the level of risk to which bank creditors are exposed, 30.6% remained neutral that the remittance industry, like any other, is likely to flourish best when the general legal framework in which it operates is sound, predictable, non-discriminatory and proportionate,
and 52.0% either remained neutral or agreed that a key form of regulation is for anti-money laundering and related purposes and involves "know your customer" requirements and recording/reporting of individual transactions.

**Descriptive Statistics for Adoption of IFMIS**

The study sought to find out whether adoption of IFMIS has led to effective management of public funds in Nairobi City County. The findings presented showed that a majority (55.6%) did not affirm that the adoption of IFMIS has led to effective management of public funds in Nairobi City County, while 44.4% affirmed that adoption of IFMIS has led to effective management of public funds in Nairobi City County.

The study sought to find the extent to which adoption of IFMIS has led to effective management of public funds in Nairobi City County. The study findings showed that a majority (36.9%) of the respondents said adoption of IFMIS has led to effective management of public funds in Nairobi City County to a moderate extent, 26.2% said to a little extent, 18.4% said to a great extent, 9.7% said not at all, while 8.7% said to a very great extent.

The study generated a descriptive statistics table for Adoption of IFMIS and the results were tabulated in Table 5.

**Table 5: Descriptive Statistics Table for Adoption of IFMIS**

<table>
<thead>
<tr>
<th></th>
<th>Not at all (%)</th>
<th>Little extent (%)</th>
<th>Moderate extent (%)</th>
<th>Great extent (%)</th>
<th>Very great extent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration of government processes</td>
<td>35.8</td>
<td>27.5</td>
<td>21.1</td>
<td>11.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Automation of government processes</td>
<td>23.9</td>
<td>25.7</td>
<td>28.4</td>
<td>16.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Customization of government processes</td>
<td>19.4</td>
<td>31.5</td>
<td>25.0</td>
<td>18.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Enhanced communication</td>
<td>21.5</td>
<td>33.6</td>
<td>28.0</td>
<td>12.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Enhanced record keeping</td>
<td>25.9</td>
<td>26.9</td>
<td>24.1</td>
<td>18.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Enhanced reporting</td>
<td>23.6</td>
<td>25.5</td>
<td>29.2</td>
<td>17.9</td>
<td>3.8</td>
</tr>
</tbody>
</table>

From the findings in Table 5, a majority (35.8%) did not at all agree that adoption of IFMIS had enhanced integration of government processes, 28.4% said that adoption of IFMIS had enhanced automation of government processes to a moderate extent, 31.5% said that adoption of IFMIS had enhanced customization of government processes to a little extent, 33.6% said that adoption of IFMIS had enhanced communication to a little extent, 26.9% said that adoption of IFMIS had enhanced record keeping to a little extent, and 29.2% said that adoption of IFMIS had enhanced reporting to a moderate extent.

**Descriptive Statistics for Financial Management**

The study generated a descriptive statistics table for financial management and presented the findings in Table 6.

**Table 6: Descriptive Statistics Table for Financial Management**

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>County budgets are executed in accordance with the appropriations and rules so as to prevent corruption and overspending</td>
<td>8.3</td>
<td>30.3</td>
<td>28.4</td>
<td>27.5</td>
<td>5.5</td>
</tr>
<tr>
<td>There is enhanced effectiveness and transparency of financial management system</td>
<td>18.9</td>
<td>28.3</td>
<td>33.0</td>
<td>15.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Counties have timely and accurate financial information</td>
<td>13.9</td>
<td>33.3</td>
<td>33.3</td>
<td>16.7</td>
<td>2.8</td>
</tr>
<tr>
<td>There is standardized integrated financial management reporting system</td>
<td>13.5</td>
<td>35.6</td>
<td>30.8</td>
<td>15.4</td>
<td>4.8</td>
</tr>
<tr>
<td>There is enhanced financial controls and accountability</td>
<td>25.7</td>
<td>34.9</td>
<td>27.5</td>
<td>10.1</td>
<td>1.8</td>
</tr>
</tbody>
</table>
From Table 6, a majority (30.3%) disagreed that county budgets are executed in accordance with the appropriations and rules so as to prevent corruption and overspending, 33.0% remained neutral that there is enhanced effectiveness and transparency of financial management system, 66.6% either disagreed or remained neutral that the county has timely and accurate financial information, 35.6% disagreed that there is standardized integrated financial management reporting system, 34.9% disagreed that there is there is enhanced financial controls and accountability.

Reliability Analysis
The study carried out a reliability analysis using Cronbach’s alpha and presented the findings in Table 7.

**Table 7: Reliability Analysis of the Variables**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>.852</td>
<td>4</td>
</tr>
<tr>
<td>Accountability</td>
<td>.771</td>
<td>4</td>
</tr>
<tr>
<td>Financial regulations</td>
<td>.787</td>
<td>5</td>
</tr>
<tr>
<td>Adoption of IFMIS</td>
<td>.884</td>
<td>6</td>
</tr>
<tr>
<td>Financial Management</td>
<td>.776</td>
<td>5</td>
</tr>
</tbody>
</table>

From Table 7 all the variables had Cronbach’s Alpha above the threshold of 0.7 and were therefore considered to be reliable.

Correlation between the Variables
The study carried out a bivariate correlation analysis using SPSS software and presented the findings in Table 8.

**Table 8: Correlation analysis between the variables**

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Financial Management</th>
<th>Corruption</th>
<th>Accountability</th>
<th>Financial regulations</th>
<th>Adoption of IFMIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management</td>
<td>Pearson</td>
<td>-0.049</td>
<td>0.644**</td>
<td>0.583**</td>
<td>0.661**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>109</td>
</tr>
<tr>
<td>Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.614</td>
<td>0.000</td>
<td>0.294</td>
<td>0.878</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>Accountability</td>
<td>Pearson</td>
<td>0.644**</td>
<td>0.076</td>
<td>1</td>
<td>0.599**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.574**</td>
</tr>
<tr>
<td>N</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>Financial regulations</td>
<td>Pearson</td>
<td>0.583**</td>
<td>0.101</td>
<td>0.599**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.601**</td>
</tr>
<tr>
<td>N</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>Adoption of IFMIS</td>
<td>Pearson</td>
<td>0.661**</td>
<td>-0.015</td>
<td>0.574**</td>
<td>0.601**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>N</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td>109</td>
<td></td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).**
From the findings presented in Table 8, Accountability, Financial regulations and Adoption of IFMIS had an above average, positive and significant correlation coefficient implying the Financial Management was positively related to each of them and any variability in any of them caused a positive significant variability in the dependent variable, Financial Management. The effect of corruption was found to be insignificant and negative, meaning that an increase in corruption would lead to a decline in the variability of the dependent variable, Financial Management.

**Assumptions of Linear Regression Analysis**

Green (2007) observed that, ahead of conducting regression analysis, it is important to investigate the basic assumptions of regression. Teddlie and Tashakkori (2010) adds that, approximating the research equations when the assumptions of linear regression are violated is dangerous because it may result in the risk of prejudiced, incompetent and incompatible parameter estimates. These tests include; normality, autocorrelation, multicollinearity, homoscedasticity and outliers in the dependent variable.

**Multiple Linear Regression Analysis**

A joint effect of the independent variables was sought using multiple linear regression analysis. The results were presented in Table 9, Table 10 and Table 11.

**Table 9: Model Summary Table for the Independent Variables against the Dependent**

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>.751</td>
<td>.564</td>
<td>.547</td>
<td>.51761</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Adoption of IFMIS, Corruption, Accountability, Financial regulations

b. Dependent Variable: Financial Management

Results on Table 9 indicated that 56.4% of variation in financial management was explained by variation in Adoption of IFMIS, Accountability, Corruption, Financial regulations (R Square = .564).

The study also generated an ANOVA table where F-test was carried out to determine whether there was a relationship between the independent variables i.e., Adoption of IFMIS, Accountabilty, Corruption, Financial regulations and the dependent variable Financial Management. The results were presented in Table 10.

**Table 10: ANOVA Table for the Independent Variables against the Dependent Variable**

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regression</td>
<td>36.056</td>
<td>4</td>
<td>9.014</td>
<td>33.644</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>27.864</td>
<td>104</td>
<td>.268</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>63.919</td>
<td>108</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Management

b. Predictors: (Constant), Adoption of IFMIS, Corruption, Accountability, Financial regulations

According to Table 11, the independent variables were found to significantly influence the dependent variable ($F = 33.644, p < 0.05$). This led the study to confirm that all the independent variables had a significant influence on the dependent variable.

The study also generated a coefficient Table 11 as guided by the equation $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$. 
Table 11: *Coefficient Table for the Independent Variables against the Dependent Variable*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.732</td>
<td>.214</td>
<td>3.418</td>
</tr>
<tr>
<td></td>
<td>Corruption</td>
<td>-.057</td>
<td>.042</td>
<td>-.088</td>
</tr>
<tr>
<td></td>
<td>Accountability</td>
<td>.304</td>
<td>.077</td>
<td>.338</td>
</tr>
<tr>
<td></td>
<td>Financial regulations</td>
<td>.153</td>
<td>.075</td>
<td>.183</td>
</tr>
<tr>
<td></td>
<td>Adoption of IFMIS</td>
<td>.301</td>
<td>.074</td>
<td>.354</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Financial Management*

Table 11 showed that only $\beta$ for Accountability, Financial regulations, and Adoption of IFMIS were significant except for Effects of Corruption ($X_1$) which was negative and statistically insignificant ($\beta = -.057, p = .184$). Therefore, the optimal model equation becomes $Y = .732 + .304X_2 + .153X_3 + .301X_4$.

**CONCLUSION AND RECOMMENDATIONS**

The first objective of the study was to establish the effects of corruption in the management of devolved funds in Nairobi City County. From the findings, the study concludes that financial management of Nairobi County is negatively affected by corruption to a very great extent.

In the second objective, the study sought to determine the effect of accountability in the management of devolved funds in Nairobi City County. From the results obtained the study concluded that accountability significantly and positively affect management of county funds.

In the third objective the study sought to determine the effect of financial regulations in the management of devolved funds in Nairobi City County. The study findings led the study to conclude that treasury regulations on county governments had an effect on management of county funds.

The fourth objective was to establish the effects of adoption of IFMIS in the management of devolved funds in Nairobi City County. From the results, the study concluded that adoption of IFMIS led to effective management of public funds in Nairobi City County.

The aim of this study was to establish the factors that are detrimental to the management of devolved funds in Kenya using a case of Nairobi County Government. Some the factors that were considered included the effect of Corruption, Accountability, Adoption of IFMIS, and Financial Regulations. Accountability, Adoption of IFMIS, and Financial Regulations was found to have positive and significant effect on Financial Management while the effect of corruption was found to have a negative relationship with financial management. From the findings and conclusions therefore, this study recommends that Nairobi County Government consider Accountability, Adoption of IFMIS, and Financial Regulations as the key factors that could determine the management of devolved funds.

**Recommendations for Further Studies**

This study sought to find the factors detrimental to the management of devolved funds in Kenya. This study used Nairobi County Government. Therefore, a similar study can be carried out using a different county in Kenya or another geographical location. Also, this study used Corruption, Accountability, Adoption of IFMIS, and Financial Regulations as its study variables. A similar study can be carried out using different variables. The study findings also established that the effect of corruption was not statistically significant. A study can therefore be carried out to confirm this finding.
REFERENCES


