THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL MANAGEMENT IN CONSTITUENCY DEVELOPMENT FUNDS IN KENYA

BY

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DECLARATION

I hereby declare that this project entitled “The effect of corporate governance on financial management in constituency development funds in Kenya” is my original work and has not been presented for academic purposes in any institution.

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D61/P/7121/03

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DEDICATION

This project paper is dedicated to my dear daughter Noelani Muthoni. She has borne through many days of my being away, many weekends when we could not play or “go somewhere” together. I dedicate this project to my brother, Antony Mwanza that he too may one day reach greater heights. I dedicate this paper also to the rest of my family and friends, for their support, encouragement, patience and faith in the completion of my studies. Last but definitely not least, to my supervisor for his guidance and commitment towards achievement of the research document.

ABSTRACT

The study is an assessment of the effect of corporate governance on financial management in constituency development funds in Kenya. There is an emerging need for CDF in Kenya to improve their financial management system .This has been demonstrated by the many complaints from stake holders such as citizens who have complained that there is misuse of the funds that have been allocated for particular projects.The objective of this study was to investigate the effect of corporate governance on effective financial management in CDF funds in Kenya.

The study adopted a descriptive survey design. The survey population was drawn from the eight 8 CDF committees within Nairobi county consisting of 15 members each. This is the number of CDF committees that was in place prior to the March 2013 election. A census of the 120 CDF committee members was conducted. The preferred data collection instrument for primary data was a questionnaire. Descriptive analysis techniques were used to produce frequencies, descriptive and inferential statistics. Specifically, regression modelling was used.

The findings indicated there was an overall goodness of fit. An Analysis of Variance (ANOVA) results indicated that the overall model was significant. Regression results indicate that there is a positive relationship between Financial Management and Corporate Governance. Overall results indicate that a unit change in budget, internal control and financial reporting led to a positive change in Financial Management.

The study recommends that CDFs should improve the budgeting practices as doing so would improve the financial management effectiveness. Study also recommends that the CDF committees should enhance their internal control practices since doing so would improve the financial management effectiveness. Finally, the study recommends that financial reporting of CDFs should be enhanced as doing so would improve the financial management.

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LIST OF ABBREVIATIONS

CDF -	Constituency Development Fund
CDFB -	Constituencies Development Fund Board
CDFC -	Constituency Development Fund Committee
CPC -	County Projects Committee
IIA -	Institute of Internal auditors
MP -	Member of Parliament
NARC -	National Rainbow Coalition
OECD -	Organization for Economic Cooperation and Development
ROA -	Return on assets

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CHAPTER ONE

INTRODUCTION

1.1 Background

Corporate governance is the international term associated with the trend towards greater corporate responsibility and the conduct of business within acceptable ethical standards. Transparency, accountability and openness in reporting and disclosure of information, both operational and financial, are internationally accepted to be vital to the practice of good corporate governance. The object of good corporate governance is attained when institutions demonstrate their public accountability and conduct their business within acceptable ethical standards. This demonstration will take the form of effective financial reporting, both internally and externally, and the unqualified encouragement of public debate in respect of such financial reports. (Fourier, 2006)

Governance is concerned with structures and processes for decision making, accountability, control and behavior at the top of organizations. Corporate governance is a concept that involves practices that entail the organization of management and control of companies. Corporate governance is the means by which an organization is directed and controlled. In broad terms, corporate governance refers to the processes by which organizations are directed, controlled and held accountable. Corporate governance encompasses authority, accountability, stewardship, leadership, direction and control exercised in corporations. It reflects the interaction among those persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long-term suppliers and subcontractors (Brownbridge, 2007).

Any organization that is given the responsibility of ensuring human welfare, development and creation of wealth for the citizens, protection of life and property and promotion of societal good through coordinated and cooperative efforts requires enough finance in order to achieve its target goals and objectives. One of such organisations is the constituency which does not only require funds but it also needs knowledgeable and skilled personnel to manage efficiently the money which is always insufficient to meet its needs. Finance and its prudent management are the bedrock of effective functioning of the constituencies. No one can doubt the need for efficient financial management in any modern system. Constituencies require finance to perform their statutory provisions which border on provision of services and bringing about development in their delimited areas. Availability of adequate fund, coupled with efficient financial management constitutes the required catalyst necessary for timely execution and completion of development projects. (Ojo, 2009)

1.1.1 Corporate Governance

Corporate governance is defined as the total of operations and controls of an organization Fama and Jensen (1983) or as an overall structured system of Principles according to which an enterprise operates and is organized, managed and controlled Dey committee (1994). Hart (1995) suggests that corporate governance issues arise in an organization whenever two conditions are present. First there is an agency problem or conflict of interest, involving members of the organization be it owners, managers workers or consumers. Secondly where transaction costs are such that agency problem cannot be dealt with through a contract. Organisation for Economic Cooperation and Development countries (OECD, 2004) defines Corporate governance as a system by which a business corporation (or a non profit organization) is directed and controlled as its senior level, in order to achieve its objectives, performance and financial management, but also accountability , integrity and openness.

Corporate governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. Conversely, weak corporate governance leads to waste, mismanagement, and corruption. It is also important to remember that although corporate governance has emerged as a way to manage modern joint stock corporations it is equally significant in state-owned enterprises, cooperatives, and family businesses. Regardless of the type of venture, only good governance can deliver sustainable good business performance Estanistao (2009). Corporate governance is an essential factor of the organizations. It is not only the required condition for the proper growth of the firm in the market, but also the most valuable item for the shareholders in order to keep up with the impartiality, accountability, disclosure and transparency of the different elements and parameters Base (2009). Corporate governance provides a structure by which the aims of the firm are defined. Additionally, this structure determines how to monitor the performance of the managers (Al-Najjar, 2010).

Corporate Governance is measured in various ways; financial efficiency, social legitimacy or more generally goal attainment Aguilera et al. (2008).In order to analyze the impact that Corporate Governance has on different measures of financial performance, academics and commercial providers have either used individual variables or have attempted to construct composite measures of corporate governance practices. Despite considerable efforts and despite considerable sophistication of measures and methods, the results so far are surprisingly ambiguous and contradictory Bhaghat et al. (2008). Lack of corporate governance principles such as transparency, integrity, openness, trustworthiness, honesty and accountability has led to the collapse of many business ventures and other projects in Africa .Thus the need to re- emphasize on the importance of integrity when running such projects and business ventures. Nepotism has been criticized since it negatively affects good corporate governance practices where those leaders and managers are giving first employment opportunities to their relatives and close friends.

1.1.2 Financial Management

Financial management refers to managing an organization or program's resources to meet goals and objectives as effectively as possible by using those resources to carry out planned activities. A financial management system is composed of a series of tools and processes that permit the control, conservation, allocation and investment of an organization's or program's resources.

Financial management in the public sector is defined as: “All decisions and activities of management, as guided by a chief financial officer, that impact on the control and utilization of limited financial resources entrusted to achieve specified and agreed strategic outputs.” The aim of financial management in the public sector is to manage limited financial resources with the purpose of ensuring economy and efficiency in the delivery of outputs required to achieve desired outcomes (effectiveness) that will serve the needs of the community (appropriateness)” (Fourier, 2006)

Financial management entails efficient use of funds. It is a method of showing and ascertaining the financial position of government projects or businesses from time to time. Traditionally, considerable importance was attached to what can be the money factor in the functioning of organizations in both public and private sectors. One important issue of concern is usually the management of available financial resources. Generally speaking, a number of various approaches for efficient finance management is available including; internal control, financial reporting and budgeting. However, the approach to be adapted must take into account the peculiar nature of the project, its environment, purpose and the public it is meant to serve (Nwankwo, 2004).

Financial Management can be measured by level of budgeting. A budget is a plan of activity expressed in financial terms; such plans are often short term, typically covering a period of one year. When approved, the budget becomes an authority to raise the amount of revenue and incur the amount of expenditure stated there in. The use of budget has been a long standing practice in the government system. Budgetary control is concerned with ensuring that the financial management plan that has been agreed on by the board of management is achieved. Control is affected through monitoring expenditure before and after commitment to prevent under expenditure or over expenditure. An effective use of the budget is good for achieving efficient financial management. Financial Management can also measured by level of internal control. An overall purpose of internal control over financial reporting is to foster the preparation of reliable financial statements. Reliable financial statements must be materially accurate.

Therefore, a central purpose of the assessment of internal control over financial reporting is to identify material weaknesses that have, as indicated by their very definition, more than a remote likelihood of leading to a material misstatement in the financial statements. Financial management can also measured by Financial reporting which connects the people that are involved in corporate governance such as the management including the board of directors, auditors, information distributors, analyst and shareholders. It is the bridge that communicates the company with the external parties and will be the measurement to determine the performance or outcome of the company. According Sloan (2001) the financial information is the first source of independent and true, communication about the performance of company managers. This relevance makes the financial reporting as the main attraction to management influence. The integrity of financial reporting is highly dependent on the performance and conduct of those involved in the financial reporting ecosystems, particularly directors, management and auditors Haat, Rahman & Mahenthiran (2008). In other words, the integrity of financial reporting relies on corporate governance. The Board of Directors has a primary responsibility of overseeing the firm‟s financial reporting process Yatim, Kent & Clarkson (2006).Those board of directors together with management will try to produce a financial statement that shows the company achieved a recommendable profit. The independent person that reviews the corporate reporting is the auditors. They need to follow the auditing standard with competence, diligence and integrity. They suppose to give their opinion of the reported information.

1.1.3 Constituency Development Fund

The Constituencies Development Fund management is administered by a Board of Directors (CDFB) at the National level. This Board considers project proposals submitted from various constituencies in accordance with the Act and approve them for funding. The board sends funds to the respective constituency Fund accounts with respect to the approved projects and ensures timely and efficient disbursement of funds to every constituency, efficient management of the Fund and receives and discusses annual report and returns from the constituencies. The board also ensures compilation of proper records, returns and reports from the constituencies.

At the County level, Constituency Development Fund management is administered by the county Projects committee(CPC).This committee receives and discusses project lists from various constituencies in the county for the purposes of aligning the projects with the County's Development plans and policies. The committee also ensures that no duplication projects occur, particularly where it is prudent to combine efforts for projects transversing more than one constituency. At the Constituency level, the Funds are administered by the Constituency Development Fund Committee (CDFC). The work of this committee is to deliberate on all project proposals from all wards in the constituency and any other project considered beneficial to the constituency, consult with the relevant government departments to ensure that the cost estimates for the projects are realistic as possible, rank project proposals in order of priority provided that ongoing projects take precedence, ensure that projects proposed for funding comply with the Ac, monitor the implementation of projects and recommend to the board the removal of a member of the CDFC in line with the Act (CDF Act,2013)

1.1.4 Relationship between Financial Management and Corporate Governance

Good Corporate Governance improves the financial managements of public and private organizations. The same can be said for CDF whereby good corporate governance in CDF improves effective financial management in CDF. Financial management is a core element of corporate governance. Without transparent, relevant, reliable information, stakeholders are not able to assess management performance, and to make the decisions they need to make .Financial reporting today is perceived no longer as a low-priority book keeping exercise, but a central function for directing a company under good corporate governance principles.

Agency theory is a concept that explains why behavior or decisions vary when exhibited by members of a group. Specifically, it describes the relationship between one party called the principal, that delegates work to another called the agent. It explains their differences in behavior or decisions by noting that the two parties often have different goals and, independent of their respective goals, may have different attitudes toward risk. The concept originated from the work of Adolf Augustus Berle and Gardiner Coit Means, who were discussing the issues of the agent and principle as early as 1932. Berle and Means explored the concepts of agency and their applications toward the development of large corporations. They saw how the interests of the directors and managers of a given firm differ from those of the owner of the firm, and used the concepts of agency and principal to explain the origins of those conflicts (Murtishaw and Sathaye, 2006).

Good corporate governance seeks to promotes efficient, effective and sustainable entities that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges, responsive and accountable institutions recognition and protection of stakeholder rights, an inclusive approach based on democratic ideals, legitimate representational and participation. (Fourier, 2006)

1.2 Problem Statement

Good Corporate Governance improves the financial managements of public and private organizations. The same can be said for CDF, good corporate governance in CDF improves financial management in CDF. In recent time, lack of funds has often been attributed as the major problem which had hindered effective and successful execution and completion of many public projects at the constituencies. However, experience has shown the contrary, that poor finance management, rather than inadequate finance is the bane of local governments' inability to achieve substantial development in their domain (Drury, 2001).

CDF in Kenya have been faced by poor financial management this has been demonstrated by the many complaints from various stake holders. For instant citizen have complain that corruption is very high, member of parliaments (MP) have been misusing the funds by develop their own projects or those affiliated to their relatives and friends.

Local studies related to corporate governance and financial management in public institutions include a study conducted by Owalla (2006) on Management of Devolved Funds a Case Study of Kisumu Municipality. The study however failed to underscore the effect of corporate governance on effective financial management Mohamed (2012) conducted a study on service delivery through stakeholder engagement and a citizen centric approach a case of Gatanga constituency Development fund .He noted that the challenges most of the CDF are facing in Kenya is interference by the area Member of Parliament (MP). Kimenyi (2005) conducted a study on Efficiency and Efficacy of Kenya's Constituency Development Fund. However the above studies did not touch the relationship between corporate governance and effective financial management within CDF management in Kenya. The study aimed to fulfil this research gap by answering the following research question: What is the effect of corporate governance on financial management with CDF funds in Kenya?

1.3 Objective of the Study

The objective of this study is to investigate the effect of corporate governance on effective financial management in CDF funds in Kenya.

1.4 Value of the Study

The study may be of value to practice. The study will help the CDFC and Fund managers to improve efficiency of financial management. This study attempts to give decision makers in constituencies options to consider as they deal with the complex and ever changing questions of financing for developmental projects within the local community.

The study has value for policy formulation. The government may use the finding of this study to craft policies on the effective financial management of CDF funds.

The study will have value for theory building. Findings of this research will be of useful reference to other researchers or for further research in the same field. This study will also increase the existing body of knowledge on financial management with CDF funds.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses theories relevant to the study. Literature related to the study is also reviewed with the aim of identifying literature gaps. Section 2.2 discusses the theories that are relevant to the research problem while section 2.3 discusses the literature on measures of corporate governance and financial management. Section 2.4 discusses Empirical literature touching on an International as well as a local perspective while section 2.5 discusses in summary the chapter of literature review.

2.2 Theoretical Review

2.2.1 Agency Theory

Agency theory is a concept that explains why behaviour or decisions vary when exhibited by members of a group. Specifically, it describes the relationship between one party called the principal, that delegates work to another party called the agent. It explains their differences in behaviour or decisions by noting that the two parties often have different goals and, independent of their respective goals, may have different attitudes toward risk. The concept originated from the work of Adolf Augustus Berle and Gardiner Coit Means, who were discussing the issues of the agent and principle as early as 1932. Berle and Means explored the concepts of agency and their applications toward the development of large corporations. They saw how the interests of the directors and managers of a given firm differ from those of the owner of the firm, and used the concepts of agency and principal to explain the origins of those conflicts (Murtishaw & Sathaye,2006).

Jensen & Meckling shaped the work of Berle and Means in the context of the risk-sharing research popular in the 1960s and '70s to develop agency theory as a formal concept. Jensen and Meckling formed a school of thought arguing that corporations are structured to minimize the costs of getting agents to follow the direction and interests of the principals. The theory essentially acknowledges that different parties involved in a given situation with the same given goal will have different motivations, and that these different motivations can manifest in divergent ways. It states that there will always be partial goal conflict among parties, efficiency is inseparable from effectiveness, and information will always be somewhat asymmetric between principal and agent. The theory has been successfully applied to myriad disciplines including accounting, economics, politics, finance, marketing, and sociology (Nikkinen & Sahlström, 2004).

In the case of CDF management the Principal are the members of a given constituency or a local community while the Agent in the CDFC. The agency problem arises when the two parties have different goals or different attitudes towards the usage of the CDF funds. Information dissemination may also be asymmetrical between the principal and the agents leading to conflict.

2.2.2 Efficiency Theory

In economics, the term economic efficiency refers to the use of resources so as to maximize the production of goods and services Sullivan and Shefrin (2003). An economic system is said to be more efficient than another (in relative terms) if it can provide more goods and services for society without using more resources. In absolute terms, a situation can be called economically efficient if a) No one can be made better off without making someone else worse off (commonly referred to as Pareto efficiency).b) No additional output can be obtained without increasing the amount of inputs. c) Production proceeds at the lowest possible per-unit cost. These definitions of efficiency are not exactly equivalent, but they are all encompassed by the idea that a system is efficient if nothing more can be achieved given the resources available

There are two main strains in economic thought on economic efficiency, which respectively emphasize the distortions created by governments (and reduced by decreasing government involvement) and the distortions created by markets (and reduced by increasin*g* government involvement). These are at times competing, at times complementary – either debating the *overall* level of government involvement, or the effects of specific government involvement. Broadly speaking, this dialog is referred to as economic liberalism or neoliberalism, though these terms are also used more narrowly to refer to particular views, especially advocating laissez faire. Further, there are differences in views on microeconomic versus macroeconomic efficiency, some advocating a greater role for government in one sphere or the other (Barr, 2004).

A market can be said to have allocative efficiency if the price of a product that the market is supplying is equal to the value consumers place on it, represented by marginal cost. Because productive resources are scarce, the resources must be allocated to various Industries in just the right amounts, otherwise too much or too little output gets produced. When drawing diagrams for firms, allocative efficiency is satisfied if the equilibrium is at the point where marginal cost is equal to average revenue. This is the case for the long run equilibrium of perfect competition. Productive efficiency is when units of goods are being supplied at the lowest possible average total cost. When drawing diagrams for firms, this condition is satisfied if the equilibrium is at the minimum point of the ATC curve. This is again the case for the long run equilibrium of perfect competition (Barr, 2004).

Efficiency theory applies to the allocation of scarce resources (CDF allocations& Disbursement) to the numerous projects proposed by the CDFC (CDF committees). This has to be done in just the right amounts otherwise too little or too much outputs (successful project implementation) gets produced. The funds that are received by the CDFC have to be efficiently utilized. Efficiency can be measured by looking at two projects that have received equal funding with an aim to see which project has produced more goods/services for the community.

2.2.3 Accountability Theories.

Accountability is a contract between an agent and a principal and arises from a duty upon the agent and the rights of the principal. Gray, Bebbington & Collison (1987). The principal may be entirely passive and this will not matter to the agent whose duty nevertheless is to account- the passive principal is merely waiving his or her rights to the information Stewart (1984). On the other hand, it has been argued that an agent only has a duty to account to principals who demand information and are willing to enforce the contract. (Tricker, 1983)

Agency accountability is a dynamic concept and arguably more complex than simply making agents transparent and allowing public scrutiny. Agency accountability highlights the issue of competing stakeholder interests. Organizations must deal with competing requirements of various stakeholders and must often choose to satisfy the needs of the primary stakeholders first often at the expense of secondary stakeholders since their principle goal is aligned with the needs of these primary stakeholders. (Ebrahim, 2003)

According to Brown and Moore (2001) the issue of multiple stakeholders while at best making accountability more complex can be an additionally problematic for agents because such competing demands can actually lead to poorer performance. Satisfying clients and donors can at times be in conflict with the organization's long term goal. These agents should commit themselves to more accountability to their clients rather than donors.

Slim (2002) outlines two kinds of accountability for agents i.e. Performance accountability and voice accountability. Performance accountability requires agents to be accountable for what they do. This kind of accountability is focused on accountability to donors and clients and is similar to corporate style accountability that firms have to their primary stakeholders(stakeholders and investors) which they discharge via published accounts and other reporting that indicates how much has been spent, and whether they have been achieved.

The CDFC is required by law to be accountable to the CDF board that in turn is accountable to the National Assembly Select committee on Constituency Development Fund. Records of amounts received by each constituency and the record of expenditure of amounts so received shall be prepared by the CDFC and submitted to the CDF board within thirty days after the close of the relevant financial year together with a copy of the relevant bank statements. The Board shall on a monthly basis, submit to the National Assembly Select Committee summary of project proposals received from constituencies status of disbursement of funds to the constituencies, status of disbursements from Treasury to the National Account any restrictions imposed on a constituency account. (CDF, Act 2013)

2.3 Measures of Corporate Governance and Financial Management

2.3.1 Measures of Corporate Governance

Corporate governance is a mechanisms that lead to financial efficiency, social legitimacy or more generally goal attainment (cf. Judge2010 for the two former, Aguilera et al.2008 for the latter).In order to analyze the impact that CG has on different measures of corporate performance, academics and commercial providers have either used individual variables (such as board independence and ownership structure) or have attempted to construct composite measures of corporate governance practices. Despite considerable efforts and despite considerable sophistication of measures and methods, the results so far are surprisingly ambiguous and contradictory Bhaghat et al. (2008). In particular, it has proven very difficult to show that even sophisticated professional measures of the quality of a company's corporate governance system produced by different commercial providers are indeed able to predict future performance.

The object of good corporate governance is attained when institutions demonstrate their public accountability and conduct their business within acceptable ethical standards. This demonstration will take the form of effective financial reporting, both internally and externally, and the unqualified encouragement of public debate in respect of such financial reports. Effective corporate governance in the public sector means that public officials must be composed of people with the knowledge, ability and commitment to fulfill their responsibilities. They understand their purpose and whose interests they represent and understand the objectives and strategies of the organization. They understand what constitutes reasonable information for good government and do everything possible to obtain it .They fulfill their accountability obligations to those whose interests they represent by regularly and adequately reporting on their department's activities and effectiveness. (Fourier, 2006).

There are four pillars on which good governance is based. Firstly there must be an effective body responsible for governance separate and independent of management to promote accountability, efficiency, effectiveness, integrity, responsibility. The leadership should be transparent and open with accurate and timely disclosure of information relating to all economic and other activities of the corporation. Secondly there must be an all-inclusive approach to governance that recognizes and protects the rights of members and all stakeholders-internal and external. Thirdly the institution must be governed and managed in accordance with the mandate granted to it by its founders and society, and take seriously its wider responsibilities to enhance sustainable prosperity and finally the institutional governance framework should provide an enabling environment within its human resource which can contribute and bring to bear their full creative powers towards finding innovative solutions to shared problems. The main players in corporate governance include the Board of Directors, Board Committees, the Company Secretary, the Management team, the External and Internal auditors, the Shareholders and other Stakeholders

2.3.2 Measures of Financial Management

The absence of the profit measure in the public sector makes analysis and evaluation of management performance more difficult than in profit orientated firms. In the public performance can be measured by level of economy, efficiency, effectiveness and appropriateness. Economy is measured by the relationship between quantity and quality of resources inputs and its related cost. Efficiency is measured by the relationship between resource inputs and outputs. Effectiveness is to be measured by the extent that outputs accomplish set outcomes. Appropriateness is to be measured by the extent that outcomes of a program are the priority of Government and addresses the real needs of the community. (Fourier, 2006)

Financial management of not-for-profits is similar to financial management in the commercial sector in many respects; however, certain key differences shift the focus of a not-for-profit financial manager. A for-profit enterprise focuses on profitability and maximizing shareholder value. A not-for-profit organization's primary goal is not to increase shareholder value; rather it is to provide some socially desirable need on an ongoing basis. A not-for-profit generally lacks the financial flexibility of a commercial enterprise because it depends on resource providers that are not engaging in an exchange transaction. The resources provided are directed towards providing goods or services to a client other than the actual resource provider. Thus the not-for-profit must demonstrate its stewardship of money donated for a specific purpose must be used for that purpose. Budgeting and cash management are two areas of financial management that are extremely important exercises for not-for-profit organizations. The organization must pay close attention to whether it has enough cash reserves to continue to provide services to its clientele. It is difficult to forecast contribution revenue in a reliable manner from year to year. For that reason, the control of expenses is an area of increased emphasis. Budgeting therefore becomes a critical activity for a not-for-profit. (Black baud 2011)

2.4 Empirical literature

2.4.1 Empirical literature-International perspective

Corporate governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. Conversely, weak corporate governance leads to waste, mismanagement, and corruption. It is also important to remember that although corporate governance has emerged as a way to manage modern joint stock corporations it is equally significant in state-owned enterprises, cooperatives, and family businesses. Regardless of the type of venture, only good governance can deliver sustainable good business performance (Estanistao, 2009)

Al-Haddad, Alzurqan & Al_Sufy (2011) conducted a study on The Effect of Corporate Governance on the Performance of Jordanian Industrial Companies an empirical study on Amman Stock Exchange. The study found that there is a direct positive relationship between profitability -measured either by Earnings per share (EPS) or Return on assets (ROA)-and corporate governance, also a positive direct relationship between each of liquidity, dividend per share, and the size of the company with corporate governance, finally the study found a positive direct relationship between corporate governance and corporate performance.

Karagiorgos, Drogalas, Gotzamanis &Tampakoudis (2010) conducted a study on internal auditing as an effective tool for corporate governance. They explored the different definitions of internal audit and noted that as per the institute of internal auditors IIA definition in 2004 Internal audit activity should evaluate and contribute to the improvement of risk management, control and governance. They noted that the contribution of internal auditing to corporate governance is depicted via demarcating the relationship between internal audit and key elements of corporate governance. The board of directors has been recognized as the key player in corporate governance and the board is ultimately responsible for the entity's accomplishment of its objectives. The internal auditor's contribution is to provide information to the board of directors through the audit Committee of the board. The study has established a positive relationship between corporate governance and internal auditing

Among the inter-firm variation studies, Gompers et al. (2003), Marry and Stange land (2003), Klapper and Love (2004), and Bauer et al. (2003) examine the impact of the governance standards on firm performance approximated by profitability ratios as well. All of them document a positive relationship between governance scorecard and performance except for Bauer et al. (2003) who surprisingly detect a significant negative relationship.

Hayat *et al*. (2010) find the relationship between corporate governance and capital structure and corporate governance and firm performance in Pakistani Textile sector. 100 manufacturing investigate the relationship companies listed at Karachi Stock Exchange (KSE) and Lahore Stock Exchange (LSE) from Textile sector are included in sample. Data on Corporate Governance internal mechanisms is collected through self administrated survey, interviews etc. Data related to financial part of the study is collected from Annual Reports and time horizon of the data is from 2005 to 2009 Regression Analysis and Structural Equation Modeling are used to determine the relationship between corporate governance and capital structure and corporate governance and firm performance. Corporate Governance is measured by fourteen internal governance mechanisms. They found a negative association between ownership, cash flow sensitivity, size and leverage.

2.4.2 Empirical literature-Local perspective

Wambua (2011) conducted a study on the effects of corporate governance on savings and credit co-operatives (saccos) financial performance in Kenya and found that good corporate governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. Indicators of Good Corporate Governance identified in the study include independent directors, independence of committees, board size, split chairman/CEO roles and the board meetings. He concluded that better corporate governance is correlated with better operating performance and market valuation. Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments evidence suggests that corporate governance has a positive influence over corporate performance.

Wanyama (2013) conducted a study the Effects of Corporate Governance on Financial Performance of Listed Insurance Firms in Kenya .The study found that a strong relationship exist between the Corporate Governance practices under study and the firms' financial performance. Board size was found to negatively affect the financial performance of insurance companies listed at the NSE. There was a positive relationship between board composition and firm financial performance. However, the most critical aspect of board composition was the experience, skills and expertise of the board members as opposed to whether they were executive or non executive directors. Similarly, leverage was found to positively affect financial performance of insurance firms listed at the NSE. On CEO duality, the study found that separation of the role of CEO and Chair positively influenced the financial performance of listed insurance firms. Miring'u (2011) conducted a study on the Analysis of the Effect of Corporate Governance on Performance of Commercial State Corporations in Kenya. The findings were that the board size mean for the sample was found to be ten while a minimum of three outside directors is required on the board. The study thus discloses that there is a positive relationship between Return on Investment(ROE) and board size and board compositions of all State corporations.

2.5 Summary of literature review

There are a number of studies that have been conducted on corporate governance and financial management. There have been local studies on the effects of Corporate Governance on Financial Performance of Listed Insurance Firms in Kenya. Other studies focused on the effect of corporate governance on savings and credit co-operatives

(Saccos) financial performance in Kenya. International studies on Corporate Governance have also been conducted with focus on the effect of corporate governance performance on firm performance and capital structure. Other studies have also been conducted on internal auditing as an effective tool for corporate governance.

However the above studies did not touch the relationship between corporate governance and effective financial management within CDF management in Kenya. The study aims to fulfil this research gap by answering the following research question: What is the effect of corporate governance on financial management with CDF funds in Kenya?

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this section the research identifies the procedures and techniques that were used in the collection, processing and analysis of data. Section 3.2 looks at the research design. Section 3.3 looks at the population and the sample size while section 3.4 discusses the data collection instruments. Section 3.5 presents the way data was analysed.

3.2 Research Design

Research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence economically (Chandran, 2004; Cooper and Schindler, 2006).

This study took a descriptive survey design. Descriptive survey research is a research design that attempts to show the status quo of the study units. It describes the study units without making an attempt to manipulate the data that results from the study units. (Sekaran 2006; Cooper and Schindler, 2006).

This kind of design is used to obtain information about the current state of a phenomenon. The reason that descriptive survey design was been adopted is because it is cost effective as compared to other research design

3.3 Population and Sample

3.3.1 Population

A population refers to an entire group of individuals, events or objects having a common observable characteristic Mugenda & Mugenda (2003). Population is very often used interchangeably with the universe and they both refer to the same thing. Sometimes the terminology survey population is used to refer to the final population from which a sample is drawn. The main difference between the two is that not all units in a population may be included in the survey population (Henry, 2010)

The survey population of this study was drawn from CDF committees within Nairobi. This introduced a slight bias but the bias is expected to have a minimal impact on the final results due to the fact that Nairobi is a metropolitan city with a fairly good mixture of Kenyans from different social, cultural and economic background.

The survey population was drawn from the eight 8 CDF committees within Nairobi county consisting of 15 members each. This was the number of CDF committees in place prior to the March 2013 election. A census of the 120 CDF committee members was conducted. The 120 respondents were as follows:

Constituency	**Number of members in the CDFC**
MAKADARA	15
KAMUKUNJI	15
STAREHE	15
LANGATA	15
DAGORETTI	15
WESTLANDS	15
KASARANI	15
EMBAKASI	15
TOTAL	**120**

3.3.2 Sample size and technique

There was no sampling done since all of the survey population was targeted as respondents.

3.4 Data and Data Collection Instruments

Both Primary and Secondary data was used in this study. Secondary data for the financial years 2006/07 and 2007/08 was used to establish effective financial management.

Financial Management was measured by the secondary data that gives the rating of a constituency using the performance contracting methodology and citizen's assessment reports. The Citizens assessment is usually done by National Taxpayers Association which prepares report cards on the performance of CDF s within the country. This performance is based on the percentage of funds that were well spending on the projects out of the total budget allocated to a particular CDF. The Constituency that has the highest percentage of budget spend on well built and complete projects is ranked highly.

The preferred data collection instrument for primary data was a questionnaire. A questionnaire is a list of research or survey questions asked to respondents and designed to extract specific information. Each item in the questionnaire has been used to address a specific objective, research question or hypothesis study. A questionnaire can contain open or closed questions or it can be a mix of both closed and open questions (Cooper and Schindler, 2007).

In this study closed questions have been used to structure the information obtained from the respondents by making it easy and quick for respondents. They have also been used to test the understanding of the respondents on the study area. The main advantage of close ended questions is that they are easier to analyze since they are in an immediate usable form, they are easy to administer as each item is followed by an alternative answer and they are economical in terms of time saving. The questions will measure the three independent variables i.e. budgeting, internal controls and financial reporting.

Data Processing and Analysis

3.5.1 Conceptual Model

Data Analysis is the processing of data to make meaningful information Sounders, Lewis and Thornbill (2009). Burns and Grove (2003) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. According to Hyndman (2008) data processing involves translating the answers on a questionnaire into a form that can be manipulated to produce statistics. This involves coding, editing, data entry, and monitoring the whole data processing procedure.

After data has been collected through questionnaires, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keying it into the Statistical Package for Social Sciences (SPSS) computer software for analysis. SPSS was used to produce frequencies, descriptive and inferential statistics which was used to derived conclusions and generalizations regarding the population.

The conceptual model is as follows.

$y = f(x1, x2, x3)$

Where y was measured using secondary data and represented financial management. financial management was measured using ranking based on the performance of the CDF funds. x1,x2,x3 were measured using questionnaires . The questions were designed to capture information that enabled the researcher to numerically measure the independent variables

The expected theoretical relationship between the dependent and the independent variables was positive. Empirical literature suggested that financial management is positively related to increased levels of corporate governance.

3.5.2 Analytical model

The multivariate model was as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Where;

Y = Financial Management, X_1 = Budgets, X_2 = Internal control, X_3 = Financial reporting

In the model, β_0 = the constant term while the coefficient $\beta_i i = 1\ldots.3$ was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. μ is the error term which captures the unexplained variations in the model. In its complete form, the model is;

Financial Management = a+b_1 Budget +b_2 Internal control +b_3 Financial reporting + e

Financial Management was measured by the secondary data that is the rating of a constituency using the performance contracting methodology and citizens assessment reports.

In this model Corporate Governance was measured by Budgets, Internal control and financial reporting as depicted by empirical evidence discussed earlier.

The sign of the regression coefficient indicated whether the relationship is positive or negative. The strength of the relationship was measured by the reported p values. A p value of less than 0.05 indicated that a relationship was strong or significant.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

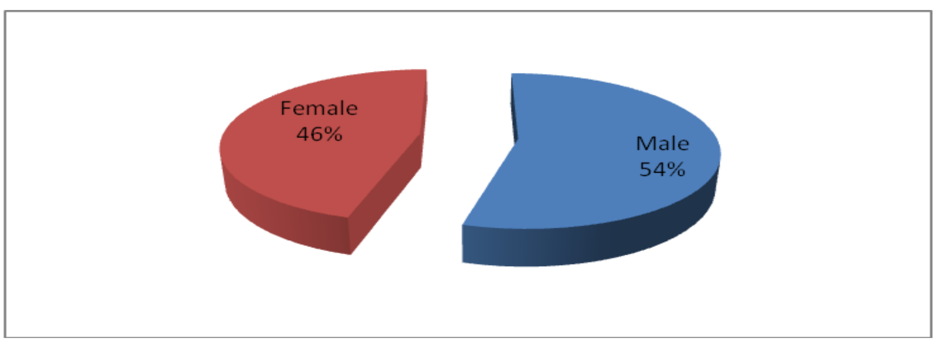
This chapter contains details of the analysis of the data collection and discussion of the results. Section 4.2 is a summary of statistics and presents the behaviour of the data . Section 4.3 gives the results of regression analysis. Section 4.4 is a discussion of the findings and Section4.5 is the chapter summary

4.2 Summary Statistics

4.2.1 Gender Distribution of Respondents

Results on Figure 4.1 below indicate that 54% of the respondents were male while 46% were females.

Figure 4. 1: Gender distribution amongst CDF committees



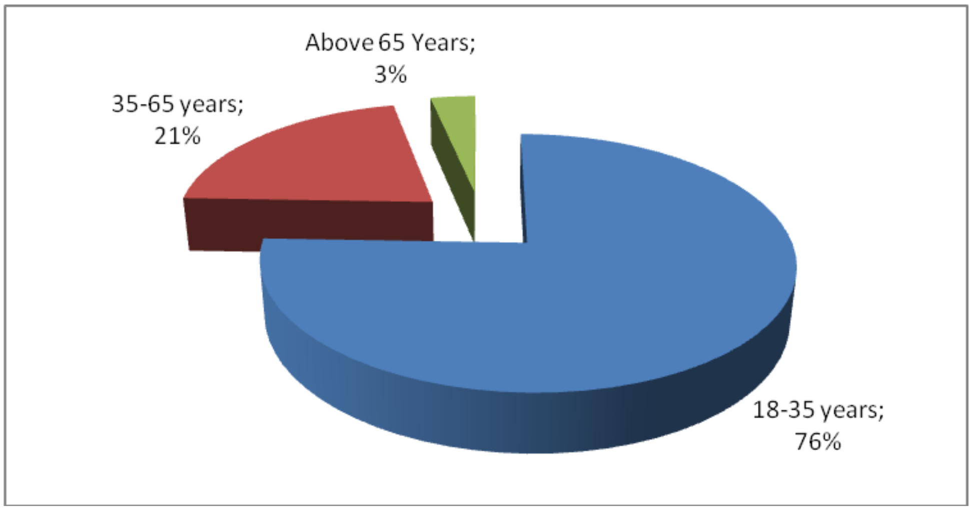
Source: Authors own interpretation

These results are indicative of a male dominated workforce amongst CDF committee members.

4.2.2 Age Distribution of Respondents

Based on the analysis presented on Figure 4.2 majority of the respondents had ages lying between 18 years to 65 years which comprised of 97% of the respondents. This indicates that majority of the CDF committee are young and middle aged people who are able to manage CDF capital properly.

Figure 4. 2: Age distribution amongst CDF committee members

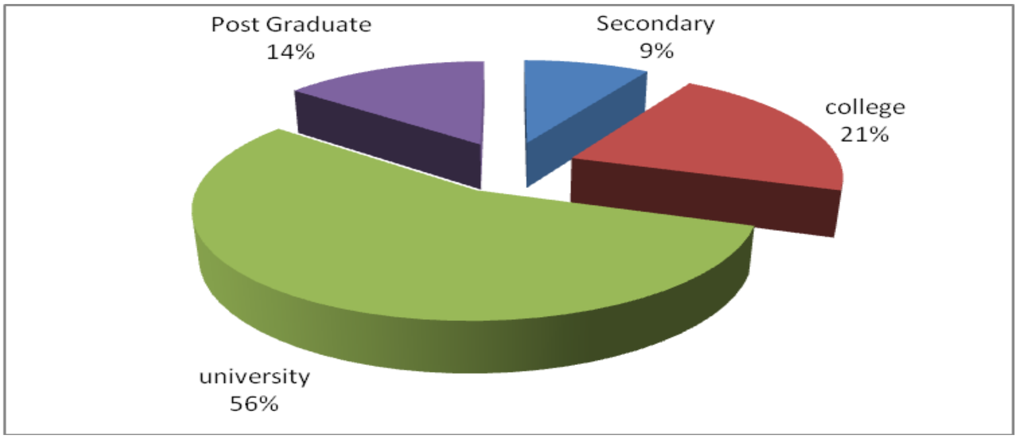


Source: Authors own interpretation

4.2.3 Level of Education of Respondents

Based on the results presented on Figure 4.3 below, a majority of the CDF committee had level of educations beyond College Level (77%). This could be explained by the fact that CDF committee require knowledge on allocation of scarce CDF resources amongst various project proposals.

Figure 4.3: Level of Education amongst CDF committee members



Source: Authors own interpretation

4.2.4 Budget Practices amongst CDFs in Nairobi

Table 4.1 displays results of data analysis regarding the views of the respondents on Budget. Results indicate that 75% of the respondents disagreed that the CDF committee in their constituency emphasizes on the creation of budgets for the funds received for various projects, 74% agreed that an effective use of the budget is good for achieving efficient financial management and 80% disagree that they the CDF committee carries out and discusses an analysis of the planned expenditure verses actual expenditure periodically. 72% percent disagreed that the CDF committee investigate the sources of budgetary variance, 71% disagreed that the CDF committee makes corrective recommendations and actions toward variances and 71% disagreed that the CDF committee makes corrective recommendations and actions toward variances. 82% agreed that the funds for the projects are released as per budget provision while 70% disagreed that budgets are prepared in line with approved work plans. On a 5 point scale the mean score of the responses was 2.67 indicating a higher overall level of disagreement with the questionnaire statements by the respondents. The overall standard deviation was 1.10 which indicates that approximately 57% of the respondents were spread within one standard deviation from the mean.

Table 4. 1: Budget practices at CDF Committees in Nairobi.

Statements	Strongly Disagree	Disagree	Neither agree nor Disagree	Agree	strongly Agree	Mean	Std
The CDF committee in our constituency emphasizes on the creation of budgets for the funds received for various projects.	61.1%	14.4%	6.7%	12.2%	5.6%	1.87	1.29
An effective use of the budget is good for achieving efficient financial management	5.6%	14.4%	5.6%	26.7%	47.8%	3.97	1.28
The CDF committee carries out &discusses an analysis of the planned expenditure verses actual expenditure periodically	14.4%	65.6%	12.2%	4.4%	3.3%	2.17	0.85
The CDF committee investigate the sources of budgetary variance	16.7%	55.6%	15.6%	6.7%	5.6%	2.29	1.01
The CDF committee makes corrective recommendations and actions toward variances	24.4%	46.7%	15.6%	6.7%	6.7%	2.24	1.11
Funds for projects are released as per budget provision and not all at once to the various project managers	4.4%	7.8%	5.6%	53.3%	28.9%	3.94	1.03
Budgets are prepared in line with approved work plan for various projects	26.7%	43.3%	15.6%	8.9%	5.6%	2.23	1.11
Average	**21.9%**	**35.4%**	**11.0%**	**17.0%**	**14.8%**	**2.67**	**1.10**

Source: Authors own interpretation

4.2.5 Internal Control mechanisms in CDFs in Nairobi

The analysis of the responses presented on Table 4.2 below indicates that 78% of the respondents agreed that there is segregation of duties amongst CDF financial management staff and specific targets have been assigned to the staff. While 85% disagreed that there is proper authorization of expenditure in their CDF and the authorization is done by more than one appointed member. 85% agreed that the account of CDF are frequently audited either by internal or external auditors and 83% agreed that they exists an Asset register for Assets which is regularly updated with purchase, depreciation and disposals. Regarding whether Cheques or cash disbursements to the project is authorized by two or more signatories/committee members 88% agreed and 91% agreed that findings of Internal/External Audit are presented to the CDF board for ratification and recommendations. 90% disagreed that implementation of recommendations from Internal/External Audit is evaluated periodically and 85% disagreed that the CDF Committee prepares periodic financial report to be presented to the CDF board. The overall mean score for the responses was 3.17 on a 5 point likert scale. This means that there were more respondents agreeing with the statements on the questionnaire. This also means that that more respondents agreed that there were some indications of Internal control within the CDF. The responses were spread from the mean at 0.88 standard deviations.

Table 4. 2: Internal Control mechanism at CDF committees in Nairobi

Statements	Strongly Disagree	Disagree	Neither agree nor Disagree	Agree	strongly Agree	Mean	Std
There is segregation of duties among CDF financial management staff and specific targets have been assigned	5.6%	7.8%	7.8%	51.1%	27.8%	3.88	1.079
There is proper authority for of expenditure in our CDF and this authorization is done by more than one appointed member	17.8%	67.8%	5.6%	6.7%	2.2%	2.08	0.838
The account of CDF are frequently audited either by internal or external auditors	4.4%	5.6%	4.4%	56.7%	28.9%	4	0.983
There exists an Asset register for Assets which is regularly updated with purchase, depreciation and disposals	4.4%	3.3%	8.9%	62.2%	21.1%	3.92	0.915
Cheques or cash disbursements to the project is authorized by two or more signatories/ members	3.3%	3.3%	4.4%	51.1%	37.8%	4.17	0.915
Findings of Internal/external audit are presented to the CDF board for ratification and recommendations.	2.2%	3.3%	3.3%	46.7%	44.4%	4.28	0.862
Implementation of recommendations from Internal/External Audit is evaluated periodically.	32.2%	57.8%	6.7%	2.2%	1.1%	1.82	0.743
The CDF Committee prepares periodic financial report to be presented to the CDF board	35.6%	48.9%	8.9%	3.3%	3.3%	1.9	0.937
Average	**14.3%**	**27.1%**	**6.0%**	**32.7%**	**19.8%**	**3.17**	**0.88**

Source: Authors own interpretation

4.2.6 Financial Reporting practices within CDF committees in Nairobi

Table 4.3 indicates that 83% disagreed that they exists a financial management system for capturing financial information which is capable of producing reports on financial performance of the CDF. While 86% of the respondents disagreed with the statement that financial report are prepared in accordance with international public sector financial reporting standard/Public Finance Act/CDF Act. 80% of the respondent agreed with the statement that financial report is frequently audited by internal/external auditors. Regarding whether the financial reports are free from any material misstatement and frauds 87% agreed and 88% of the respondent disagreed that financial reports are easily accessible and are available to the stakeholders of the constituency upon demand. 91% disagreed to the fact that spot checks of accounts vis a vis cash are regularly done at their Constituency. The overall mean score for the responses was 2.59 on a 5 point likert scale. This means that there were just slightly more respondents agreeing with the statements on the questionnaire. The responses were spread from the mean at 0.93 standard deviations.

Table 4. 3: Financial Reporting practices at the CDF committees

Statements	Strongly Disagree	Disagree	Neither agree nor Disagree	Agree	strongly Agree	Mean	Std
There exists a financial management system for capturing financial information which is capable of producing reports on financial performance of the CDF.	36.7%	46.7%	8.9%	4.4%	3.3%	1.91	0.97
Financial report are prepared in accordance with international public sector financial reporting standard/Public Finance Act/CDF Act	37.8%	48.9%	5.6%	4.4%	3.3%	1.87	0.95
Financial report frequently audited by internal/external auditors	5.6%	6.7%	7.8%	37.8%	42.2%	4.04	1.13
The financial report are free from any material misstatement and frauds	4.4%	2.2%	5.6%	54.4%	33.3%	4.1	0.94
Financial reports easily accessible and are available to the stakeholders of the constituency upon demand.	46.7%	42.2%	8.9%	1.1%	1.1%	1.68	0.78
Spot checks of accounts vis a vis cash are regularly done at our Constituency	23.3%	67.8%	2.2%	4.4%	2.2%	1.94	0.80
Average	**25.7%**	**35.7%**	**6.5%**	**17.8%**	**14.3%**	**2.59**	**0.93**

Source: Authors own interpretation

4.3 Results of regression Analysis

Table 4.4 shows the initial regression results regarding the robustness of the regression model. It indicated that correlation between the dependent and the independent variable is 0.880 is positive. The R square is 0.744 (74.4%). This means that the independent variables (Budget, Internal Control and Financial Reporting) of the study can explain 74.4% of the variations in the dependent variable (Efficient Financial Management) while the rest is explained by other factors or variables not captured in this current study.

Table 4.4 Regression Model Fitness

Indicator	**Coefficient**
R	**0.880**
R Square	**0.774**
Adjusted R Square	**0.767**

Source: Authors own interpretation

Analysis of Variance (ANOVA)

Anova statistics in table 4.5 indicate that the overall model was significant. This was supported by an F statistic of 98.445 and p value of 0.000. The reported probability was less than the conventional probability of 0.05 (5%) significance level. The ANOVA results imply that the independent variables are good combined predictors of Efficient Financial Management

Table 4.5 Analysis of Variance (ANOVA)

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3.81	3	1.27	98.445	0.000
Residual	1.109	86	0.013		
Total	**4.92**	**89**			

Source: Authors own interpretation

Findings in Table 4.6 indicate that that there is a positive relationship between Efficient Financial Management and Budget, Internal Control and Financial Reporting as indicated by the beta coefficients of; 0.146, 0.091 and 0.057 respectively. Budget (0.000) is statistically significant in explaining Efficient Financial Management. Results indicate that a unit change in budget, internal control and financial reporting led to a positive change in Efficient Financial Management.

Table 4.6 Regression Coefficient

Variable	Beta	Std. Error	Beta	T	Sig.
Constant	-0.278	0.108		-2.566	0.012
Budget	0.146	0.034	0.571	4.334	0.000
Internal Control	0.091	0.046	0.19	1.976	0.051
Financial Reporting	0.057	0.035	0.162	1.619	0.109

4.4 Discussion

The findings indicate that the average budget mean score on a 5 point scale of the responses was 2.67 indicating a higher overall level of disagreement with the questionnaire statements by the respondents. The overall standard deviation was 1.10 which indicates that approximately 57% of the respondents were spread within one standard deviation from the mean.

Result shows that the average internal control mean score of the responses was 3.17 on a 5 point likert scale. This means that there were more respondents agreeing with the statements on the questionnaire. The responses were spread from the mean at 0.88 standard deviations.

According to the findings financial reporting mean score of the responses was 2.59 on a 5 point likert scale. This means there were just slightly more respondents agreeing with the statements on the questionnaire. The responses were spread from the mean at 0.93 standard deviations.

Result indicated that correlation between the dependent and the independent variable is 0.880 which is a positive. The R square is 0.744 (74.4%). This means that the independent variables (Budget, Internal Control and Financial Reporting) of the study can explain 74.4% of the variations in the dependent variable (Efficient Financial Management) while the rest is explained by other factors or variables not captured in this current study.

According to the findings the overall model was significant. This was supported by an F statistic of 98.445 and p value of 0.000. The reported probability was less than the conventional probability of 0.05 (5%) significance level. The ANOVA results imply that the independent variables are good combined predictors of Efficient Financial Management

4.5 Summary

The Findings indicate that there is a positive correlation between the dependent and the independent variable of 0.880 (88%). The R square is 0.744 (74.4%). This means that the independent variables (Budget, Internal Control and Financial Reporting) of the study can explain 74.4% of the variations in the dependent variable (Efficient Financial Management) while the rest is explained by other factors or variables not captured in this current study.

These findings agree with those of Al-Haddad, Alzurqan & Al_Sufy (2011) who found that there is a direct positive relationship between profitability -measured either by

Earnings per share (EPS) or Return on assets (ROA)-and corporate governance, also a positive direct relationship between each of liquidity, dividend per share, and the size of the company with corporate governance, finally the study found a positive direct relationship between corporate governance and corporate performance.

Results concur with those of Karagiorgos, Drogalas, Gotzamanis &Tampakoudis (2010) who conducted a study on internal auditing as an effective tool for corporate governance. They noted that the contribution of internal auditing to corporate governance is depicted via demarcating the relationship between internal audit and key elements of corporate governance. Internal auditing is always a strong measure of internal control mechanisms within any organization.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.1 Introduction

This Chapter discusses in brief the summary and conclusions that have been made from the project paper. Section 5.2 discussed in brief a summary of the previous chapters while section 5.3 gives the authors conclusion based on the findings and data analysis. Section 5.4 gives the limitations to the study while section 5.5 gives recommendation for further areas of research that may touch on areas that this study was not able to touch on.

5.2 Summary of the study

The study is an assessment of the effect of corporate governance on financial management in constituency development funds in Kenya. There is an emerging need for CDF in Kenya to improve their financial management system .This has been demonstrated by the many complaints from stake holders such as citizens who have complained that there is misuse of the funds that have been allocated for particular projects.The objective of this study was to investigate the effect of corporate governance on effective financial management in CDF funds in Kenya.

The study adopted a descriptive survey design. The survey population was drawn from the eight 8 CDF committees within Nairobi county consisting of 15 members each. This is the number of CDF committees that was in place prior to the March 2013 election. A census of the 120 CDF committee members was conducted. The preferred data collection instrument for primary data was a questionnaire. Descriptive analysis techniques were used to produce frequencies, descriptive and inferential statistics. Specifically, regression modelling was used.

The findings indicated there was an overall goodness of fit. An Analysis of Variance (ANOVA) results indicated that the overall model was significant. Regression results indicate that there is a positive relationship between Financial Management and Budget, Internal Control and Financial Reporting practices. Overall results indicate that a unit change in budget, internal control and financial reporting led to a positive change in Financial Management.

The study recommends that CDFs should improve the budgeting practices as doing so would improve the financial management effectiveness. Study also recommends that the CDF committees should enhance their internal control practices since doing so would improve the financial management effectiveness. Finally, the study recommends that financial reporting of CDFs should be enhanced as doing so would improve the financial management.

5. 3 Conclusions

From the findings, it is clear that CDFs should improve the budgeting practices as doing so would improve the financial management effectiveness. Specifically, it is seen that the CDF committee in constituencies should emphasize on the creation of budgets for the funds received for various projects. In addition, it is noted that the CDF committee should carry out and discuss an analysis of the planned expenditure verses actual expenditure periodically. Furthermore, the CDF committee should investigate the sources of budgetary variance and make corrective recommendations and actions toward these variances. Finally, the budgets should be prepared in line with approved work plan for various projects. The above practices will improve financial management effectiveness through a reduction in the money not accounted for and the money badly spent.

Study also reveals that the CDF committees should enhance their internal control practices since doing so would improve the financial management effectiveness. CDF committees should ensure that there is proper authorization of expenditure and this authorization should be done by more than one appointed member. Implementation of recommendations from Internal/External Audit should be evaluated periodically. The study recommends that the CDF Committee should prepare periodic financial report to be presented to the CDF board. All this internal control practices would improve financial management effectiveness through a mechanism that will ensure that there is uniformity in how the day to day operations of the CDF are run and seal loopholes for fraudulent activities.

The study also concludes that financial reporting of CDFs should be enhanced as doing so would improve the financial management effectiveness. Specifically, CDF committees should ensure that there exists a financial management system for capturing financial information which is capable of producing reports on financial performance of the CDF. An ideal situation would be where the CDF books of accounts are kept using the same financial management system through the country. CDF committees should also ensure that financial reports are prepared in accordance with either the international public sector financial reporting standards, the Public Finance Act or in the very least the CDF Act. It is recommended that financial reports should be easily accessible and available to the stakeholders of the constituency upon demand. Finally, it is recommended that spot checks of accounts vis a vis cash should be regularly done at the Constituencies by both internal and external auditors. The overall improvement of financial reporting would improve the financial management effectiveness through transparency and involvement of the stakeholders.

5.4 Limitations of the study

The limitations of the study arise from a number of challenges that were encountered mostly at the data collection stage. Firstly because of the time constraint only Nairobi County was chosen. This may have limited the scope of the study since an ideal study would cover a wider area. The introduction of this bias is expected to have a minimal impact on the final results due to the fact that Nairobi is a metropolitan city with a fairly good mixture of Kenyans from different social, cultural and economic background.

Secondly while collecting the data from some committee members there was lack of free will experienced in some constituencies. This lead to some CDF committee members going to the extent of denying they were CDF committee members and those who did fill the questionnaire albeit unwillingly would give blanket responses to all the questions posed. It was evident that some thought the research was a cover for an investigation for the embezzlement of funds.

Thirdly the former eight (8) constituencies have currently been split into seventeen (17) constituencies after the March 2013 election and this formed a challenge of firstly identifying the current location and the new constituencies had new committee members who were unable to give us information on previous practices on budgets, internal control and financial reporting. Secondly some CDF were yet to receive funding from the National Government for this financial year and therefore had not yet convened their first financial meeting. This resulted in scattered committee members since they are not and eventually not all the committee members filled the questionnaire. This lead to less than 100% census as had been anticipated.

5.5 Recommendation for Further Research

The research lays foundations on effective financial management; therefore areas for future research could use other corporate governance measures such as the size of CDF committee, the distribution of independent committee members and leverage.

It is recommended that research could be conducted in another county to increase the scope or comparison can be done between various counties to see the relationship between corporate governance and effective financial management in the country as a whole.

It is recommended that a study of the extent that the internal audit and Audit committees in Constituency Development Fund play a role to promote corporate governance can be conducted.

Another area of study would be to investigate relationship between effective management of funds by county government and the mechanism for intergovernmental fiscal transfer. One may also want to investigate the role of citizen participation in the effective financial management of the same funds.

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QUESTIONNAIRE

PART 1: GENERAL /DEMOGRAPHIC DATA

1. Gender
   a) Male ☐ b) Female ☐
2. Highest level of education
   a) Secondary level ☐ b) College level ☐
   c) University level ☐ d) Post graduate level ☐
3. Age
   a) 18-35 years ☐
   b) 36-65 years ☐
   c) Above 65 years ☐

PART 2: THIS PART IS DIVIDED INTO THREE SECTIONS

Section A: Budget

This section aims at determining whether budgeting as a measure of corporate governance affects financial management in constituency development funds in Kenya

Please indicate your agreement or otherwise with the following statements using the following likert scale.

Strongly Agree=5, Agree=4, Neither Agree nor Disagree=3, Disagree=2, Strongly disagree=1

Statement	1	2	3	4	5
The CDF committee in our constituency emphases on the creation of budgets for the funds received for various projects.					
An effective use of the budget is good for achieving efficient financial management					
The CDF committee carries out &discusses an analysis of the planned expenditure verses actual expenditure periodically					
The CDF committee investigate the sources of budgetary variance					
The CDF committee makes corrective recommendations and actions toward variances					
Funds for projects are released as per budget provision and not all at once to the various project managers					
Budgets are prepared in line with approved workplan for various projects					

Section B: Internal control

This section aims at determining whether internal control affects financial management in constituency development funds in Kenya (CDF)

Please indicate your agreement or otherwise with the following statements using the following likert scale.

Strongly Agree=5, Agree=4, Neither Agree nor Disagree=3, Disagree=2, Strongly disagree

Statement	1	2	3	4	5
There is segregation of duties among CDF financial management staff and specific targets have been assigned to the staff.					
There is proper authorization of expenditure in our CDF and this authorization is done by more than one appointed member					
The account of CDF are frequently audited either by internal or external auditors					
Spot checks of accounts vis a vis cash are regularly done at our Constituency					
There exists an Asset register for Assets which is regularly updated with purchase, depreciation and disposals					
Cheques or cash disbursements to the project is authorized by two or more signatories/committee members					
Findings of Internal/external audit are presented to the CDF board for ratification and recommendations					
Implementation of recommendations from Internal/External Audit is evaluated periodically.					

Section C: Financial reporting

This section aims at determining whether Financial reporting affects financial management in constituency development funds in kenya. Please indicate your agreement or otherwise with the following statements using the following likert scale.

Strongly Agree=5, Agree=4, neither Agree nor Disagree=3, Disagree=2, Strongly disagree=1

Statement	**1**	**2**	**3**	**4**	**5**
The CDF Committee prepares periodic financial report to be presented to the CDF board					
There exists a financial management system for capturing financial information which is capable of producing reports on financial performance of the CDF.					
Financial report are prepared in accordance with international public sector financial reporting standard/Public Finance Act/CDF Act					
Financial report frequently audited by internal/external auditors					
The financial report are free from any material misstatement and frauds					
Financial reports easily accessible and are available to the stakeholders of the constituency upon demand.					