THE IMPACT OF THE PUBLIC FINANCIAL MANAGEMENT REFORMS ON FINANCIAL OPERATIONS OF THE MINISTRY OF FINANCE

A CASE OF MINISTRY OF FINANCE

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DECLARATION

This research project is my original work and has not been presented in part or whole in any other university for an award of a degree.

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DEDICATION

I dedicate this research project report to my wife Caroline, daughter and sons Catherine, Joel and Antony for their encouragement and support during the study.

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LIST OF ABBREVIATIONS AND ACRONYMS

EFMAP	Enhanced Financial Management Action Plan
ERS	Economic Recovery Strategy
EU	European Union
GDP-	Gross Domestic Profit
GFRP -	Government Financial Regulations and Procedures
GoK-	Government of Kenya
IFMIS -	Integrated Financial Management Information System
IMF –	International Monetary Fund
IPPS –	Integrated Personnel Payment System
MOF –	Ministry of Finance
MTEF –	Medium Term Expenditure Framework
ODI –	Overseas Development Institute
PBB –	Programme -Based Budgeting
PEFA –	Public Expenditure Financial Accountability
PFM –	Public Financial Management
PFMR-	Public Financial Management Reforms
PSR –	Public Service Reform
PSRP-	Public Sector Reform Programme
QPF –	Quality Public Finance
RBM –	Result – Based Management
ROSC-	Report on the Observance of Standard and Codes
SCP –	Stability and Convergence Programme

ABSTRACT

The purpose of this study was to establish the impact of financial management reforms on financial operation in the Ministry of Finance. This study adopted a descriptive survey design where the population comprised of 98 accountants at the Ministry's headquarters. The researcher used primary sources to collect the data through the use of a questionnaire which comprised of both open-ended and close-ended questions. The reliability coefficient was found to be 0.73 and thus the instruments were reliable. Thorough editing of data was done; data collected was analyzed both qualitatively and quantitatively. Qualitative data analysis considered inferences that were made from opinions of respondents that were then analyzed thematically where the collected data was analyzed, coded and classified into major topics from which summary report was made. Quantitative data was analyzed by use of descriptive statistics supported by tables, frequency distributions, percentages, mean, mode and variance that were established.

Findings revealed that, the Ministry of Finance has to a large extent improved on commitment control and reduced variance between budget provision and releases. The development of professional cadre, development of accounting reporting system and review of legal and regulatory framework are among the objectives that the Ministry of Finance has largely accomplished towards the PFM reforms. It was disclosed that, the Ministry of Finance has been able to establish workable institutional arrangements, develop legal and regulatory framework, ensure competition in tendering and support internal control and commitment control.

Therefore, there should be established budget stabilization fund through an Act of Parliament. There is also need to have capacity building and improved terms of service for public officers. The application of international standards and methods in macroeconomic analysis, budgeting, accounting, procurement and audit requires skilled staff that can apply new methods in professional manner. Introduction of IFMIS and other computerized system requires specific skills and training for public officers.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The public financial management reform system aims to facilitate the provision of essential public services to the people of Kenya. For this it needs to efficiently mobilize public resources through the revenue and tax systems and channel the public resources to the most needed and politically prioritized areas of services, such as education, health, security and justice, infrastructure for roads and water provision. The system ensures secure equity and transparency in the use of public funds and put efficient measures in place for control, payments, reporting and for efficient financial management at both service delivery and oversight levels (GoK, 2009).

The reform of public financial management by government of Kenya is the result of a period of diagnostic analysis and wide consultation within government and other stakeholders including development partners. The need for a reform of the public finance system was emphasized in the Economic Recovery Strategy for Wealth and Employment creation, the ERS for 2003 – 2007, as a key element to achieve; fiscal sustainability and balance in the public economy, restructuring and reallocations for growth and poverty alleviation, and improved public sector performance, efficiency and effectiveness in the public sector, leading to improved service delivery and results for Kenyans (ERSWEC, 2003-2007).

Over the past three decades, criticisms about government performance have surfaced across the world from all points of the political spectrum. Critics have alleged that governments are inefficient, ineffective, too large, too costly, overly bureaucratic, overburdened by unnecessary rules, unresponsive to public wants and needs, secretive, undemocratic, invasive into the private rights of citizens, self-serving and failing in the provision of either the quantity or quality of services deserved by the taxpaying public (Callendar and Mathews, 2000).

Jones and Thompson (1999) indicate that fiscal stress has also plagued many governments and has increased the cry for less costly or less expensive government, for greater efficiency, and for increased responsiveness. High profile members of the business community, financial institutions, the media, management consultants, academic scholars and the general public all have pressured politicians and public managers to reform (Pusey, 1991).

The Ministry of Finance (MOF) derives its mandate from the constitution of Kenya which provides for proper budgetary and expenditure management of government financial services. The function of the Ministry of Finance is strategic in several ways. As a main function, the ministry is charged with the responsibility for formulating financial and economic policies. It is also responsible for developing and maintaining sound fiscal and monetary policies that facilitate social-economic development. This responsibility make the Ministry strategic and central to the country's economic management, as all sectors of the economy look upon the Ministry to create an enabling environment in which they can operate efficiently and effectively. Another strategic function of the Ministry is the management of revenue, expenditures and borrowing by the government. The Ministry must ensure that it mobilizes adequate resources to support government programme and activities. GoK – GFRP (1989).

The Ministry of Finance represent the centre of PFM related processes and is normally responsible for the economic and fiscal policy. The MOF is the coordinator of the budget process including budget management, accounting and reporting systems, treasury functions and debt management. The mission of the Ministry of Finance is to pursue prudent economic, fiscal and monetary policies and effectively coordinate government financial operations for rapid and suitable development of Kenya. The responsibility for management, supervision, control and direction of all matters related to the financial affairs of Kenya are vested in the Ministry of Finance. The public financial management reform steering committee chaired by the Permanent Secretary in the Ministry of Finance was created to spear head the PFMR in the country GoK-GFRP, (1989).

The Paris declaration on aids effectiveness, the associated emphasize on the use of country systems, the increasing use of budget support and greater emphasize on governance and anti corruption issues have to place PFM reforms on the centre stage. For donors the importance of sound PFM reforms and system in recipient countries relates to concern about fund not being used for the intended purpose. The other triggers for PFM reforms include fiscal crisis, public pressure, donor pressure, political change including post-conflict situation and demand for regional coordination and affiliations such as East Africa Community, Africa Union OECD (2005a).

According to Paris Declaration on Aid Effectiveness which Kenya was represented it was resolved that participating countries should strengthen public financial management capacity in key area of financial operations. The partner countries committed themselves to intensify efforts to mobilize domestic resource, strengthen fiscal sustainability and create enabling environment for public and private investment, publish timely, transparent and reliable reporting on budget execution and take leadership of the public financial management process. The donors agreed to provide reliable indicative commitments of aid over multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules. OECD (2005a).

The PFM reform is needed to improve government's capability systems to utilize the public financial resources towards the ERS targets. It is a matter of modernization and putting a more efficient and useful public financial management in place. This effort needs the mobilization of all areas of PFM as the system needs better integration to become efficient. The different subsystem need to support each other rather than operate in isolation. It is also a matter of making use of technological gains and applying modern, purposeful and best practices. The reform represents a move away from bureaucratic, centralized and time-consuming methods and procedures towards accountability, efficiency and effectiveness as well as democratic participation and transparency (ERSWEC, 2003 – 2007).

The system includes several roles – players and institutions for its efficient functions such as parliament, the finance and planning ministries, units outside and inside these ministries responsible for macro-economic forecasting, debt management, budgeting, procurement, external resources, accounting, exchequer and payment functions, internal and external audit, the revenue authority and others. Equally important are the financial units and line managers in the ministries, regions, districts and spending institutions (GoK, Strategy of PFM system, 2009).

The PFM reform program is one of the several pillars of the public sector reform programme, which includes the introduction of Results-Based Management (RBM), leadership training, fiscal decentralization, privatization and pay reform. To some degree the PFM reform program is affected by the scope and sequencing of reform efforts in other areas under the public sector reform program, and so these will have to be reviewed as the strategies and action plans for these related reform efforts are completed (ERWC 2003-2007).

The PFM reform is meant to be comprehensive, have a time span of five to ten years and will be necessary to encompass the central financial ministries and institutions as well as line ministries, agencies, regional and local administration. It will cover virtually all aspects of public financial management. Important features of the reform include process re-engineering, automation, introduction of multiyear budgeting and programme budgeting, revised revenue patterns and taxes and the creation of new cadres of professionals, for example internal auditors, GoK (2009).

It will also include a substantial degree of empowerment and accountability for line managers throughout the public service with increased responsibilities and skills requirements (Jones and Kettl (2003). The Integrated Financial Management Information System (IFMIS) has been introduced in all line Ministry headquarters to improve financial management through better data accuracy, timelines and access to financial management information. Simultaneously an Integrated Personnel Payment System (IPPD) for efficient payment of salaries, payroll records and control has been implemented for central government. This has led to improved control of the payroll and more accurate salary payments. Also the budget classification has been improved with the adaptation of international standards and the financial reporting has become more timely (GoK, EFMAP, 2010). To manage the implementation of the reform programme requires harmonized and coordinates approach among cooperating partners supporting the reform program, therefore that necessitates the implementation of pertinent reform of PFM (Doolin and Lawrence, 1997).

The government has been carrying out civil service reforms over the past decade focusing on downsizing the core civil services (excluding teachers and disciplined forces), harmonizing pay and benefits and putting in place interventions to enhance efficiency of the civil service. The government is committed to accelerating the public service reform to create a leaner, efficient, motivated and more productive public service that concentrates public finance and human resources on the delivery of core government services (ERSWEC, 2003-2007).

In Kenya, the identified component structure is secured that all the different aspects and dependencies of PFM reform are contained and managed in the programmme. For purposes of greater clarity components with high interdependency have been grouped together into main vertical pillar of reform areas, whereas cross cutting issues are found in horizontal arrangement. The choice and inclusion of components in the PFM reform programme is informed by two main factors, that is functional considerations and organizational structures pertaining to the government of Kenya. There are six PFM reform pillars which are then divided into fifteen reform components classified according to how they link and relate with each other.

1.2 Statement of the Problem

The effective public financial management PFM systems are required to maximize the efficient use of resources, create the highest level of transparency and accountability in government finances to ensure long-term economic prosperity. To date the reform measure on financial management including adoption of Media Term Expenditure Framework (MTEF) budget process has not achieved the desired results. External diagnostic coupled with work carried out through workshop and consultations have singled out some of the following main problem areas ERSWEC (2003-2007).

Political priorities as described in ministerial and sectoral strategic plans are not adequately reflection in the annual budget. The variance between the annual budget and the final expenditure outcome is high. Budget releases are not predictable and payments are delayed resulting in high arrears. Cash management and commitment control is still poor. Procurement systems are characterized by slow process, unclear mandates and lack of transparency and wasteful procurement. Manual and parallel systems used today lead to difficulties to comply with reporting format and timelines of report.

Good governance and efficient service delivery is reached by improved transparency, accountability and efficient controls in the PFM programs. The PFM reform is instrumental in the fight against wasteful spending and corruption as it improves access to financial data, audit related to risk and results, open and competitive procurement processes and commitment in control system, such as IFMIS (Campus and Paradtion, 1997). To manage the implementation of the reform programme requires harmonized and coordinated approach among cooperating partners supporting the reform program, therefore that necessitates this study of assessment the impact of these pertinent reforms of PFM on the ensuring financial operations at the Ministry of Finance. The government needs the PFM reforms to improve its capability and systems to utilize the public financial resources towards the ERS targets. It is a matter of modernization and putting a more efficient and useful public financial management in place. This effort needs the mobilization of all areas of PFM as the system needs better integration to become efficient (Kuria, 2007).

Andrews (2008) conducted a study to analyze the correlation between PFM performance and five selected variables. The variables represented key country characteristics i.e. level of income, and income growth rate, degree of country stability or fragility, nature of fiscal dependence, length of uninterrupted national reform period and type of colonial legacy. His finding revealed some apparent trends i.e. the economic growth rate especially per capital income has strong association with high quality PFM reforms. The study also established that countries with a Public Sector Reforms Programme (PSRP) for more than three years-achieve higher PEFA scores. His findings suggest several factors working in combination are likely to facilitate PFM reforms in a country and consequently boost PFM performance.

Kitati (2005) revealed that the implementation of public financial management reforms in state corporations and parastatals have an impact on the financial operation of the institution. Other studies conducted by Kuria (2007) addressed the budgeting process and financial management in public secondary schools in Kenya. This clearly depicts that no studies have been undertaken to establish the impact of public financial management reforms in the various government ministries in Kenya. It is on this background the government initiated specific public financial management reforms to address these problems and to improve financial operations. The identified problems necessitates the need for this study to be undertaken in order to establish the impact of PFM reforms on financial operations in various government ministries and especially the Ministry of Finance.

1.3 Objective of the Study

This study was guided by the following objectives:

i. To establish the impact of financial management reforms on financial operation in the Ministry of Finance;

ii. To investigate the factors influencing achievement of public financial management reforms in the Ministry of Finance.

1.4 Significance of the study

The study would be of benefit to the following:

Government and policy makers: Decision making arms of the government at the various level of management in both the ministries and state corporations. This will have an insight on how to spur economic growth, improve on service delivery to the people of Kenya, and also enhance good governance through improved transparency, accountability and efficiency controls.

Academic scholars: Academic scholars and researchers will be able to borrow from the findings of this research to support literacy citations as well as develop themes for further research undertakings. Specifically, the study hopes to make theoretical, practical and methodological contributions. The research findings will contribute to professional extension of existing knowledge of public financial management reforms and its impact on the financial operations in the public sector.

Business community, financial institutions, management consultants and the general public: High profile members of these institutions will benefit from this study, since most of them have pressured politicians and public managers to come up with these reforms. Since over the past three decades, criticisms about government performance have surfaced across the world from all points of the political spectrum.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This section draws on literature in the area of public financial management reform process and the impact of implementation on these reforms in relation to the financial operations in the public sector. Secondary material such as books, journals, and articles which carry previous research work on the study topic are analyzed. The material is of importance to this study as it forms a basis for observations which will be made during the study in line with the study aims and objectives.

2.2 Theoretical Review

Reforms to New Zealand's system of government management began in 1985. A consistent set of principles and approaches were applied comprehensively across all government organizations, although some variations reflecting the politics, policies and personalities involved in particular situations. We then briefly review the theoretical influences that shaped the reforms. The essential elements of the model as they apply to the core functions of government, (Scott; Ball and Dale, 1997).

2.2.1 Board Agency Theory

The broad agency theory perspective led reformers to emphasize the totality of the relationship between principals and agents and, therefore, to move beyond the previous attempts at reform that had focused on particular management improvements. Instead, the translation of these concepts into practical policy design emerged in a set of principles that were applied in a reasonable, uniform way across the government (Boston and Pallot, 1997). A government's public management reform strategy is clearly broad and diverse. It does not draw upon any single theory of how to improve organizational performance in the public sector (other than the meta –theory that central government can improve services by issuing management prescriptions to local agencies).

2.2.2 Political Economy Theory

Marguette and Scott (2005) argue that until the eighties, the politics of development was integral part of development discourse. At the beginning of twenty first century in response to increasing complexity and highly political nature of their work DFID and work bank developed model for political analyses. Political economy theory provides a framework to study the political context in which any type of civil service sector or PFM reform takes place. The theory tend to gravitate towards a focus on link between human rights, democracy and poverty reduction, formal verses informal institutions, agents and the importance of process. From political theory approach drivers of change model was developed which emphasizes the importance of political analysis to understand what is likely to bring about positive charge. The main conclusions of this theory were that the budget is a political process than just a technical one, and there is a gap between formal institutions (how things are supposed to work) and informal practices (how thing actually work) (DFID 2007b).

2.2.3 Classical Public Administration Theory

Classical public administration theory followed the common trends of behaviorism, structural functionalism and system theory and took in theoretical underpinning of welfare economics and decision theory. Practically they rather regular reforms of the machinery of government in these times followed the paths of the progressive and classical theory: organizations and jurisdictions were streamlined and consolidated, executive power was strengthened and unified (Simon, 1976). A third more theoretical argument relates to the logic of the reforms and their appropriateness in the context of the public sector. What is clear is that the reforms are driven by classical economic reasoning and the imposition of private sector models of markets and competition.

2.2.4 Descriptive Theory

Baumgarther and Jones (1993) descriptive theory of the public financial management process makes for a nice point of departure. First, it conceptualize reform as a process. Second, it captures path-dependent relations among the immediate effects of reform activity, for example, declared changes in policy subsystems, policy images, and domain structures, and the partial equilibrium situation obtaining after reforms have been implemented. Despite these attractions, we cannot rely exclusively on Baumgartner and Jones as a basis for theorizing the implementation of public financial management reforms. Their analysis of the post-decisional stage of reform cycles is not sufficiently detailed about how the legal enactment of a reform becomes a partial equilibrium situation, with its characteristic form of routinized organizational action (and newly established direction of policy making). Their account glosses over how actors make sense of the interruption in the flow of experience brought on by reform decisions and of the stream of new cues they encounter in the implementation process.

2.2.5 Public Expenditure Management Theory

The theory was developed in the late nineties and described as the contemporary approach to budgeting. It stresses the need to understand the rules of the game that govern the budget formulation and execution and the way institutions influence choices and achievement of government objectives (Schick 1998a). The theory focus shifted from the "due process approach" of conventional budgeting to a broader arena, which highlights the importance of the complex web of actors and institution involved in the budget process, and of linking expenditure with measurable results in terms of output and outcomes. The advocates of this theory emphasis that improvement in public expenditure management require changes in budgetary institutions, role of spenders and controllers, the rule under which they claim, allocate and use resources and the information available to them (Schide 1998a).

Table 2.1: PEM Paradigm Shift

Conventional budgeting	**Public Expenditure Management**
Budget process	Budget polices and institutions
Rules	Incentives
Inputs	Output/outcomes
Compliance	Performance
Centralized control	Decentralized
Bureaucratic	Transparency and accountability

Source: ODI 2004

2.3 Public Financial Management Reform Program

The new approach to conditionality in the context of PFM reform takes the view that conditionality relating to PFM should be agreed by governments and based on government-owned PFM reforms programs, rather than being imposed by donors. Because this approach allows greater local ownership, it should in turn increase the likelihood that government reforms will be successfully implemented. In addition, if donors are increasingly harmonized with each other and simultaneously aligned with government PFM systems, this should mean that those government systems become relatively more important to government stakeholders than door-specific processes (Koerberle et al, 2006).

However, there many indications that the reforms undertaken have not yet reached the desired end results. External diagnostics coupled with the problem analysis carried out through workshops and consultations to design this reform indicate that many problems remain. In the essence the PFM system is still not a sufficiently supportive element of the public service (Spicer; Emanuel and Powell, 1995).

The reforms have been transpired, however, have taken a toll on civil servants, on how they perceive their institution and their own contributions". Indeed, many were "often independently incompatible". But if there were underlying theme to them all, it is that the private sector is, by definition, superior to the public sector (Upton, 1999).

Public management reform is never done. Analysts and practitioners a like have sometimes been tempted to view the reforms with cynicism. For some, the lack of clear of full success led to the conclusion that the reforms had failed. For others, the evaluation of new strategies led to the conclusion that earlier efforts had been abandoned. In fact, history shows that public management reforms recur, with each new piece woven, sometimes seamlessly, into the next. There are several reasons for this. First, no reform can ever fully solve the problems that led to its creation lingering issues tend to breed the next generation of reforms. Seconds, public management is not so much a problem-solving activity as a problem-balancing enterprise (Jones and Kettl, 2003).

2.4 Budget Formulation and Preparation

The budget process in actual settings may not represent this ideal. Where there are major disagreements among local officials, the budget process is more practical exercise than a planning one. In this case, budgeting involves bargaining among participants who represent different points of view, and the results may not be the most effective or rational allocation of resources but a compromise that decision makers and different community groups resign themselves to live with for another year (Vogt and Rivenbark, 2007).

The adoption of this new budgeting approach, popularly referred to as programme – based budgeting (PBB), follows a number of public financial management reforms the government has adopted over the last decades. The reforms have been aimed at improving transparency, accountability and efficiency in the allocation of resources with the overall purpose of ensuring that citizens derive maximum value from public spending (Boston, 2000). A government budged (approved spending) should reflect what it says it will do (government policies). A medium term perspective is crucial for improving links between policy, planning and budgeting.

The appeal of MTEFs lies in their potential to link the often competing short term demands on the macro-economic stabilization with the medium and long term demands on budget to contribute to improve policy making and planning, and to the effectiveness of service delivery (Home and Evans 2003). In practice, Brumby (2008) states that 9 working MTET requires; creation of macro-economic and fiscal envelop, determine and articulation of high levels policy (reallocation between sectors), bidding by departments in the context of the agreed amounts (relocation within sectors, interactive bidding process and finally, achievement of a credible budget reconciling policy and available resources. This requires a significant amount of capacity building including adequate data and skill, ability to set priorities and discipline and control in both the management of bids and in budget execution.

A key reform in budgeting is the move from emphasis on inputs, to a focus on performance, outcomes or result. OECD (2008c) defines performance budgeting as a budget that links the funds allocated to measurable results. Based on an research and country experience OECD (2008c) notes that there is need to customize the approach to the country context design reforms with the end user in mind and involve key stakeholders in the design process.

2.4.1 Budget Execution or Implementation

Modern budgeting concepts focus on the budget as a multifaceted document. Among other uses, it serves as a planning tool. Budget formulation and implementation are becoming ever more closely linked to one another and to many administrative functions. The result is more efficient and effective use of information. At the budget implementation stage, the administrator needs timely and accurate expenditure and revenue data to insure productive use of the monies allocated to his or her organization or organizational subunit. In addition, records created as part of budget implementation should be thought of as the basis for future budget formulation work (Grafton and Permaloff, 1985).

Budget releases are not predictable and payments are delayed resulting in high arrears. The financial records do not provide sufficient information for decision-makers and have been limited in scope by one-dimensional hierarchical accounting structures on one hand and in access by the lack of automation on the other hand. Quality of financial records is low and timeless and design of reports is inaccurate. Available data does not allow tracking of expenses to district levels. The production of annual reports ready to audit, are often delayed or incomplete. There is poor payroll control and poor integration between new payroll and IFMIS system (Ryan, 1999). In medium to large size organization budget implementation tends to be viewed somewhat differently by the central administrative structure (the chief executive officer and the finance office) and by middle and first line administrators. Several budget implementation tasks can benefit from analytical techniques whose applications are facilitated by microcomputers (Grafton and Permaloff, 1985).

2.5 Accounting and Reporting

Basis of accounting has to do with when revenues and expenditures are recorded in the accounting records and reported in the financial statements. It is of particular significance for revenue and expenditure transactions that occur near the end of one fiscal year or at the beginning of the next one. Basis of accounting provides criteria for determining the fiscal year in which such transactions should be recorded. There are three general basis of accounting: cash basis; revenue and expenditures are recorded when cash is received or disbursed. Accrual basis; revenues are recorded when they are earned, regardless of when they are received in cash, and expenditures are recorded when the liability is incurred. Modified accrual basis; revenues are recorded when they are measurable and available, and, as with the accrual basis, expenditures, with few exceptions, are recorded when the liability is incurred (Vogt and Rivenbark, 2007).

Recently several studies have asserted that specific applications of accounting have significant consequences for both the activities of the organizations concerned as well as for society (Hopwood, 1990; Miller and O'Leary, 1990; Parker and Guthrie, 1990).

Accounting regulators appears to have given some consideration to implementing a form of modified accrual reporting for such organizations. These systems involved the assessment of performance and accountability against mission statement and published objectives of the organizations concerned rather than conventional accounting-based measures traditionally associated with profit-seeking entities in the commercial domain. It is maintained here that the failure to evaluate more deeply the relevance of commercial accounting information for public sector organizations can be understood by reference to institutional thinking, a theoretical perspective introduced by Douglas (1986), while Young (1996) maintained that "financial accounting" was the institution at work.

According Young (1996), the last two decades have seen a "revolution" in financial markets, during which time a number of new financial instruments and transactions have developed. Consolidated yearend financial statements are critical for transparency and accountability in the PFM system (PEFA 2005). Allen and Tommasi (2001) list the principles of good reporting as completion, legitimacy user friendliness, reliability relevance, consistency, timeliness, comparability and usefulness. The debate on the use of the accrual basis in the public sector has a long history. Many developing countries are considering or are in the process of moving to accrual accounting. However many others view its introduction in developing countries as inappropriate because of the lack of technical capacity, the need for sophisticated judgements, vested interests and greater potential for creative accounting (Diamond 2002a, Athukorala and Reid 2003).

2.6 Public Procurement System

The functioning of the public procurement system is obviously important in all the possible components of fiduciary risk discussed above, given that in many partner countries a high proportion of budget countries a high proportion of budget expenditure flows through the public procurement system. In this sense the procurement system is an integral part of the PFM system. But in practice procurement operates as a professional activity somewhat separate from the rest of the PFM system (Koerberle; Starvereski and Walliser, 2006).

While governmental entities and public procurement professional associations have published numerous procurement reports and training texts, public procurement has been a neglected area of research interest by academicians. Instead of debating whether government procurement is a profession, first, it identifies common elements of public procurement knowledge through a brief analysis of the literature and provides a summary of government efforts to improve public procurement practices (Callender and Mathews, 2000).

Public procurement is an extremely complicated function of government, and it requires interdisciplinary skills and knowledge (or multiple disciplines), including economics, political science, public administration, accounting, marketing, law, operations research, engineering, and architecture, among others. It is impossible to integrate these disciplines into the public procurement knowledge. Thus, a very important task of public procurement professionals is to communicate effectively with those professional who are involved in procurement projects. But according to Ostrom (1999), it is extremely difficult to achieve meaningful communication across these disciplines.

A well organized, efficient and transparent public procurement system is a vital component of sound PFM system and transcends the budget process from procurement planning to audit. Public procurement systems are at the center of the way public money is spent since budgets get translated into services largely through the government's purchase of goods, works and services (OECD) Organization for Economic Cooperation and Development 2005b: Procurement reform is taking place through out the world. Industrialized countries are refining and improving their procurement systems to reflect changes in their purchasing profile (how and what they buy) middle income countries are modernizing their systems in responses to growing public demand for greater efficiency and effectiveness and transition economies, moving from a state driven to market based economy are developing competitive public procurement practices. Lack of success in competitive procurement systems in developing countries is attributed to deeply vested interests, lack of political will, paucity of technical knowledge and the complexity institutional issues involved (Hunja 2001).

The key principles of public procurement reforms include the promotion of rule based systems, competition, transparency, economy and efficiency and accountability. A well function procurement system is therefore one that has a strong legal framework institutional arrangement that ensures consistency in policy formulation and implementation, and a professional cadre of procurement personnel. (Pretorious C. (2008)

2.7 Integrated Financial Management Information System

Manual and parallel system used today lead to difficulties to comply with expected reporting formats, timeliness of reports and multi-dimensional studies of financial data. It also means that retrieval of financial data is tedious and that financial records are inaccurate. The envisaged final communication infrastructure to be used for IFMIS and other functions of government is not yet in place. The implementation of the new systems requires back-up, maintenance and measures which also are not yet fully in place (Pallot, 1998).

The quality, accuracy and timeliness of financial reports and accounting are still not up to standard. The roll-out of the IFMIS system has been hampered by problems related to the communication infrastructure and there is no integration with the new payroll system. Also the pension record system is still largely manual and hence unreliable creating problems for pensioners (Boston, 2000).

2.8 Empirical Review

Over the past few years, management accounting researchers have paid increasing attention to the implications of public sector reforms for the design and implementation of systems for performance measurement. Several authors have proposed a multidimensional approach to performance management, reflecting the interests of a broader range of stakeholder interest, as a means of widening the conception of public sector performance from financial, efficiency-based measures (Lawton, 2000).

Over the past three decades, criticisms about government performance have surfaced across the world from. all points of the political spectrum. Critics have alleged that governments are inefficient, ineffective, too large, too costly, overly bureaucratic, overburdened by unnecessary rules, unresponsive to public wants and need, secretive, undemocratic, invasive into the private rights of citizens, self serving, and failing in the provision of either the quantity or quality of services deserved by the tax paying public (Jones and Thompson, 1999: Osborne and Gaebler, 1993).

According to Lee (1995) developing nations have different management reform problem than developed nations. For at least some observers, the convergence argument suggests that nations that are serious about performance pursue management reform and that most reforms are moving in at least loose synchronization.

It has been only ten years since public management reforms were first launched where authors have sought to balance and analyze the state of implementation and their achieved results 10 years. The 1970s reforms have partly been grouped under the label of the 'active state' due to reformist efforts at both parting from old bureaucratic styles of administering and managing the public sector and at finding a new, more active style of policy making and governing within the framework of the growing welfare state (Reichard, 2003).

The measurement of organizational performance has resulted in long standing and widespread debate amongst public management Scholars (Kelly and Swindell, 2002: Ostrom, 1973; Park, 1984). One clear message to result from these debates is that performance is a multidimensional construct. Both external and internal measures of performance have been used in studies of the determinants of performance in public organizations.

In most Western countries, principles of "new public financial management" were introduced in the 1990s in response to documented inefficiency and ineffectiveness in the public sector. Decentralization, privatization and management accounting became crucial elements in the revised public government structures, which were re-organized in attempt to make them goal-driven and client – oriented. To a large extent, new public financial management theories were derived from economic organization theories, like public choice and principal-agent models. Public sector agencies are assumed to be "self-interested bodies that need to be controlled". (Laegrei; Roness and Rubeckson, 2006).

Andrews (2008) used data from PEFA assessment to analyze the correlation between PFM performance and five selected variables the variable represent key country characterize i.e. level of income, and incomc growth, degree of country stability or fragility, nature of and fiscal dependence, length of uninterrupted national reform period and type of colonial legacy. By organizing 31 African countries into five separate PFM performance league according to their average PEFA score. Andrew investigates the influence of each contextual variable upon PFM system strength.

His finding revealed some apparent trends that is the economic growth rate and especially per capita income has strong association with high quality PFM that absolute levels of income; country stability appears conducive to PFM progress, fragile states identified using IMF classification dominate the lowest league of PFM performance, displaying particular weakness in strategies budgeting budget transparency, budget execution and internal control; rentier states (i.e. those which accrue most of revenue from external sources and down funding) tend to have weak PFM systems as compared with fiscal states (i.e. those which collect a majority of their revenue from domestic citizen);

countries with a PRSP for more than three years achieve higher PEFA scores in almost all PFM process areas.

The economic downturn that began in 2001 resulted in sizeable budget shortfalls and arguably the worst fiscal condition for state government in decade. The use of saving to stabilize cyclical fluctuations in the budget has been institutionalized in most state in the form of budget stabilization funds. In this article the authors explore how state expenditure volatility is affected by existence, size and structure of stabilization funds using multiple measures of expenditure cyclicality over the period from 1969 to 1999. The results indicate that while most states have not witnessed a reduction in expenditure volatility over the business cycle, the states with rule-bound stabilization funds experience significantly less expenditure volatility from using a budget stabilization fund. In fact the finding where that state expenditures are approximately 20 percent less volatile following the adoption of a rule bound budget stabilization fund. The quality of public finance as a key factor for fiscal consolidation. Blanka, (2009).

The concept of Quality of Public Finance (QPF) has become of high importance in recent time. It focuses on the role that public finance and fiscal policy can play to sustain economic growth, employment and competitiveness. In the context of European strategy starting from both normative and theoretical framework a questionnaire was developed to make an assessment of the quality of public finance disclosure offered by the EU 27 members in their Stability and Convergence Programmes (SCP) updated for the 2009-2012. The result of the analysis is a specific index (QPF, index) that detect how the qualitative and quantitative information provided are fair and reliable. From the analysis carried out it emerges that variables affect the goodness of the disclosure of countries such as; consolidate debt level, the entry year in the EU and belonging or not belong to monetary union (Banca 2009).

Strong budget institutions (rules and procedures of the budget process) were associated with more fiscal discipline even when politics was unfavourable to such discipline. The study established that fiscal deficits do not focus the attention of policy markers on undertaking reform. Fabrizio (2006) constructed a quantitative index of overall quality of budget institutions for 23 European countries. The three steps of budget process i.e. the preparation stage, authorization stage, and the implementation phase. A larger value of the index implies greater check and balances. The conclusion of this study is that countries could enter into fiscal virtuous or vicious cycle depending on its fiscal stance. In favourable fiscal times; when fiscal performance is good reforms are easier to undertake. But in bad fiscal times reforms are actually delayed.

These finding are in line with Alesina (1991) who urged that when budgetary resources are limited and there are many claimants, there is a war of attrition; no policy make wants to give in so no reforms are pashed forward. Data sources for this study include annual fiscal budget laws, Reports on the Observance of Standards and Code (ROSC), fiscal. Transparency modules, produce by the international monetary funds. The economic variables were data for public debt as percentage of GDP, the unemployment rate, inflation rate.

2.9 Chapter Summary

This chapter has reviewed literature on the various public financial management reforms in the public sector. These include the theories related to various reforms in the public sector and their assessment on performance management. The study relied on Board Agency Theory; Political Economy Theory; Classical Public Administration Theory; Descriptive Theory as well as Public Expenditure Management Theory.

The chapter has also addressed the budget formulation and preparation, budget execution or implementation, accounting and reporting, public procurement system and integrated financial management information system. These components addresses issues on the budget polices and institutions, incentives, output/outcomes, performance, decentralized and the transparency and accountability. The chapter also addressed the empirical data where critics alleged that governments are inefficient, ineffective, too large, too costly, overly bureaucratic, overburdened by unnecessary rules, unresponsive to public wants and need, secretive, undemocratic, invasive into the private rights of citizens, self serving, and failing in the provision of either the quantity or quality of services deserved by the taxpaying public.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter briefly highlights the methods and procedures to be used in carrying out the study. It includes the survey research design, population and technique used, data collection methods (instruments and procedures), and data analysis and presentation methods. It also includes data validity and reliability.

3.2 Research Design

This study adopted a descriptive survey design to establish the impact of the public financial management reforms on financial operation of the ministry of finance in Kenya. A survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. It is a method through which data is collected from members of targeted population by use of questionnaires, interviews and observation schedule (William (2003). Descriptive survey research was intended to produce statistical information and aspects of education that interest policy makers and educators at the Ministry of Finance.

3.3 Population

The population of this study comprised of 98 accountants at the Ministry of Finance headquarters. According to Ministry's Human Resource Establishment of 2011/2012, there are 98 (nine eight) accountants distributed in the various departments. The researcher did not sample since this is a case study. Mugenda and Mugenda (2003) refer to population as the 'universe'. Borg and Gall (1999) define population as all the members of a real hypothetical set of people, event or object to which a research wishes to generalize the results of the study. Since the target population was small in size, the study was a census survey thus no sampling was required. A census is the procedure of systematically acquiring and recording information about the members or items of a given population. This method gave the researcher a comprehensive picture of the variable relationship since the method is the only means of accurately measuring and giving statistical inferences.

3.4 Data Collection Instruments and Procedures

The researcher used primary sources to collect the data. Primary sources entailed the use of a questionnaire comprising of both open-ended and close-ended questions completed by targeted respondents working in the various Accounts departments of the Ministry of Finance. Further, the use of questionnaires allows the respondents time on questions that would require reflection on, to avoid hasty responses. The questionnaire was divided into two sections. Section A sought to establish the background information. Section B sought to establish the impact of public financial management reforms on financial operations.

3.5 Data Validity and Reliability

Validity is defined as the accuracy and meaningfulness of inferences which are based on the research results (Mugenda and Mugenda, 2003). According to Kothari (2004), it is the degree to which a test measures what it purports to measure. The questionnaires were pre-tested among 3 senior accountants selected randomly from the population. This was used to confirm if the questions were well understood by the entire group of respondents. The questionnaires were then improved based on the outcome of the pre-testing. Reliability is a measure of the degree to which a research instrument yields constant results or data after repeated trials (Borg and Gall, 1999). A split half technique was used at piloting to determine the reliability of the questionnaire. This was used for Likert type items. Split half technique involves splitting the statement of the test into two halves (odd and even items), then calculating the Pearson's correlation coefficient between the two halves of the test. Reliability of an instrument is strong when the coefficient is close to 1, while the instrument is unreliable if the co-efficient is close to 0. A coefficient of above 0.5 was deemed appropriate. For this study, the reliability coefficient was found to be 0.73 and thus the instruments were reliable.

3.6 Data Analysis

Thorough editing of data was done; data collected was analyzed both qualitatively and quantitatively. Qualitative data analysis considered inferences that were made from opinions of respondents that were then analyzed thematically where the collected data was analyzed, coded and classified into major topics from which summary report was made. Quantitative data was analyzed by use of descriptive statistics supported by tables, frequency distributions, percentages, mean, mode and variance that were established through the use of SPSS version 17.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents research findings, interpretation and presentation. The purpose of the study was to investigate the impact of the public financial management reforms on financial operation in the ministry of finance. Data analysis was done using SPSS; interpretation guided by frequencies, percentages, means and standard deviation while presentation was done by use of tables, pie charts and bar graphs. For the inferential findings, a statistical model was used while correlation was done to indicate the extent of relationship between the different variables. Targeted respondents were the accountants drawn from the Accounts Department and the Accounts General Department. Out of the ninety eight (98) targeted respondents, seventy seven (77) were able to fill and return questionnaires to the researcher giving a response rate of 78.6 percent which was adequate for the purpose of this study. This chapter is presented in sections based on the research variables.

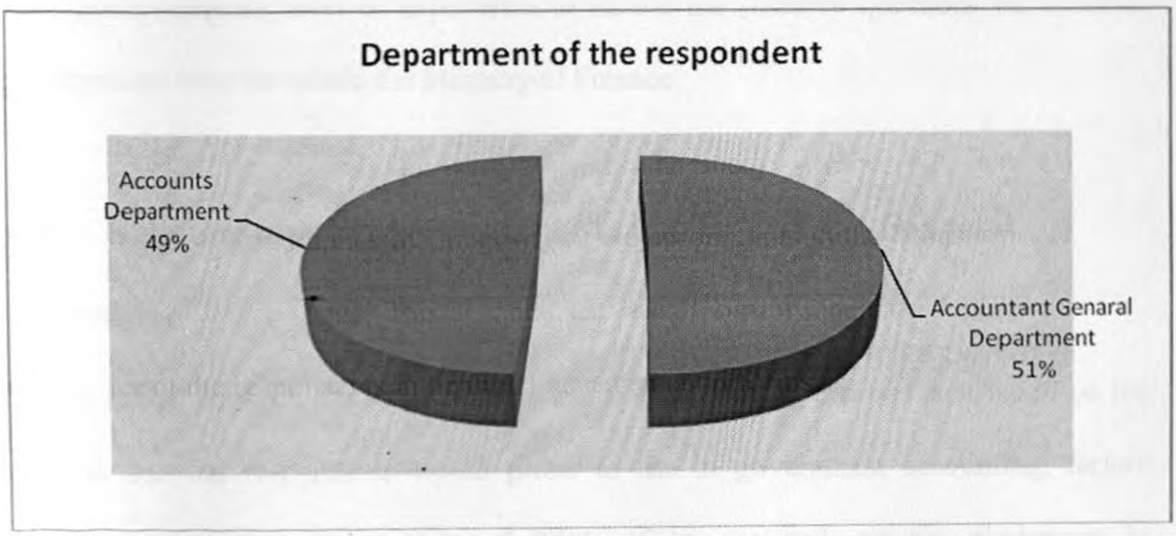
4.2 Demographic Information

Demographic information was based on the gender of the accountants, their ages, the department to which they belonged as well as their level of experience in the public finance management.

4.3 Age of the respondents

From the study, 60 percent of all respondents were male while the remaining 40 percent were female. This implies that, majority of accountants in the Ministry of Finance are male. Regarding the age brackets of the respondents, 41.6 percent were aged between 40 and 49 years while 32.5 percent were 50 years and above. The rest (26 percent) were below 40 years. This implies that majority of the accountants in the Ministry of Finance are at least 40 years of age. This age bracket would possibly indicate the high level of experience of the respondents in financial management reforms.

Figure 4.1: Department of the respondent



The study indicated that, 51 percent of the selected accountants were drawn from the Accounts Department with the remaining (49 percent) being from the Accountant General Department. This exhibit the magnitude to which the two department are important in contributing to the financial management reforms.

Table 4.1: Level of experience of the respondents in the public finance management

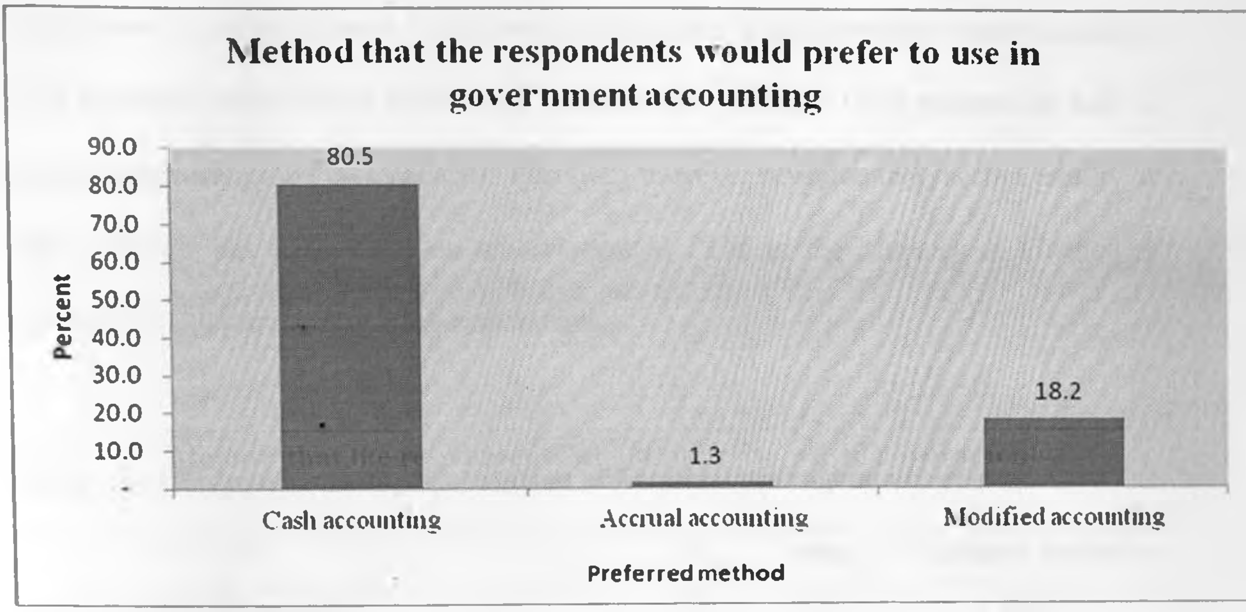
	Frequency	Percent
5 to 9 years	12	15.6
10 to 14 years	22	28.6
15 years and above	43	55.8
Total	**77**	**100.0**

On the level of experience of the respondents in the public finance management, 55.8 percent were found to have at least 15 years while 28.6 percent had between 10 and 14 years of experience in the public finance management. Only 15.6 percent had less than 10 years of experience. This implies that majority of accountants in the Ministry of Finance hold quite adequate level of experience to handle the research questions on financial management reforms within the Ministry of Finance.

4.4 Relationships between the PFM reforms and the financial operations

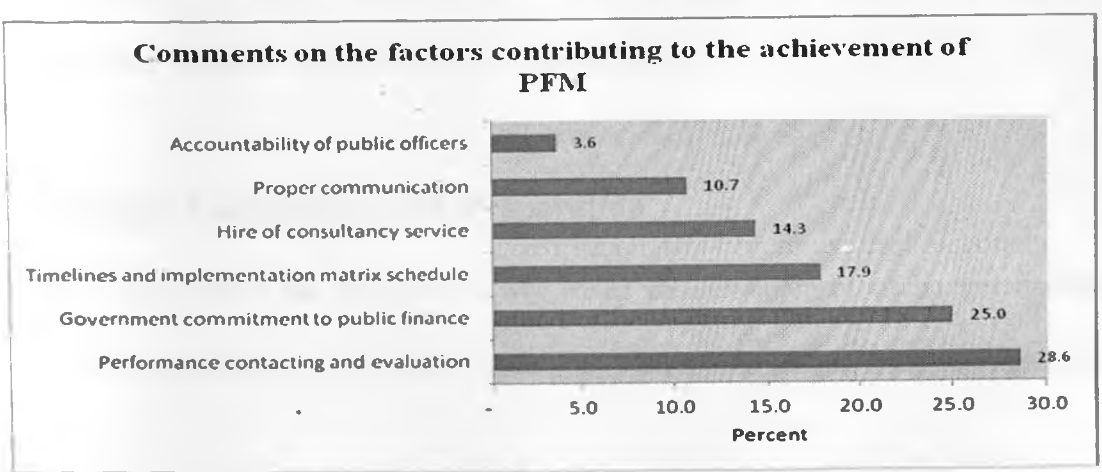
Relationships between the PFM reforms and the financial operations was based on the method that the respondents would prefer to use in government accounting; factors contributing to the achievement of PFM reforms as well as the hindrances in implementation of financial management reforms.

Figure 4.2: Method that the respondents would prefer to use in government accounting



On the method that the respondents would prefer to use in government accounting, majority (80.5 percent) of all the selected accountants preferred cash accounting with only 1.3 percent going for accrual method of accounting. Others (18.2 percent) would prefer the modified accounting, which is a blend between cash and accrual accounting.

Figure 4.3: Factors contributing to the achievement of PFM reforms



The researcher observed that, among the factors contributing to the achievement of PFM reforms most were the performance contacting and evaluation (28.6 percent); government commitment to public finance (25.0) and timelines and implementation matrix schedule (17.9 percent). Other factors were hiring of consultancy service (14.3 percent) as well as proper communication (10.7 percent). The study however revealed that, accountability of public officers has little effect on achievement of PFM in the Ministry of Finance as indicated by 3.6 percent of all the respondents.

Table 4.2: Hindrances in implementation of financial management reforms

	N	Mean	Standard deviation
Lack of technical capacity	77	3.77	0.88
Lack of sophisticated judgment	77	3.57	0.81
Vested interest for public officers	77	4.26	0.71
Greater potential for creative accounting	77	4.40	0.65

Regarding hindrances in implementation of PFM reforms, greater potential for creative accounting, vested interest for public officers and lack of technical capacity were mentioned as the most prevalent hindrances in implementation of financial management reforms with mean of 4.40, 4.26 and 3.77 respectively.

4.5 Budget Formulation and Preparation

Budget formulation and preparation was based on development of budget document which is comprehensive and within multiyear framework, budget entailing inputs from district level, credibility of the budget process and development of budget document reflective of policy objectives.

Table 4.3: Budget Formulation and Preparation

	N	Mean	Standard deviation
Development of budget document which is comprehensive	77	4.04	0.63
Budget developed within multiyear framework	77	4.14	0.68
Budget entailing inputs from district level	77	2.99	0.93
Credibility of the budget process	77	3.34	0.77
Development of budget document reflective of policy objectives	77	3.92	0.66

Findings indicated that, PFM reforms was largely influenced by the budget developed within multiyear framework (4.14), development of budget document which is comprehensive (4.04) and development of budget document reflective of policy objectives (3.92). It was however, disclosed that, budget entailing inputs from district level had little influence on public financial management reforms as indicated by mean of 2.99.

4.6 Budget Execution

The objective of budget execution is to ensure timely budget release, improved commitment control, increased efficiency, better predictability for spending units as well as reducing variance between budget provision and releases.

Table 4.4: Budget Execution

	N	Mean	Standard deviation
Timely budget release	77	3.17	0.75
Improved commitment control	77	3.77	0.72
Increased efficiency	77	3.26	0.73
Better predictability for spending units	77	2.82	0.73
To reduce variance between budget provision and releases	77	3.68	0.69

Findings in this study indicate that, the Ministry of Finance has to a large extent improved on commitment control (3.77) and reduced variance between budget provision and releases (3.68). However, the Ministry has achieved very little on predictability for spending units (2.82). This indicates that, most of the budget execution objectives are largely not achieved by the Ministry of Finance towards PFM reforms.

4.7 Accounting and Reporting

Objectives on accounting and reporting entailed development of accounting reporting system, review of legal and regulatory framework, development of professional cadre, record management and filing, monthly reporting and bank reconciliation as well as completeness of financial statements.

Table 4.5: Accounting and reporting

	N	Mean	Standard deviation
Development of accounting reporting system	77	3.99	0.63
Review of legal and regulatory framework	77	3.91	0.63
Development of professional cadre	77	4.13	0.71
Record management and filing	77	3.75	0.87
Monthly reporting and bank reconciliation	77	3.18	0.96
Completeness of financial statements	77	3.39	0.90

The study indicated that the development of professional cadre, development of accounting reporting system and review of legal and regulatory framework are among the objectives that the Ministry of Finance has largely accomplished towards the PFM reforms as given by mean of 4.13, 3.99 and 3.91 respectively. On the other hand, monthly reporting and bank reconciliation has fairly been achieved with mean of 3.18.

4.8 Procurement

Procurement in the Ministry of Finance was based on establishing workable institutional arrangements, developing legal and regulatory framework, creating professional cadre, competition in tendering and integrity of procurement system (addressing security issues) as well as supporting internal control and commitment control.

Table 4.6: Procurement

	N	Mean	Standard deviation
Establish workable institutional arrangements	77	4.10	0.71
To develop legal and regulatory framework	77	4.03	0.85
Create professional cadre	77	2.78	0.78
Competition in tendering	77	3.97	0.93
Integrity of procurement system (addressing security issues)	77	3.81	0.82
Support internal control and commitment control	77	3.95	0.66

Regarding procurement objectives, the study revealed that, The Ministry of Finance has been able to establish workable institutional arrangements (4.10), develop legal and regulatory framework (4.03), ensure competition in tendering (3.97) and support internal control and commitment control (3.95). At the same time, integrity of procurement system (addressing security issues) has been adequately met by the Ministry. However, less has been achieved in creating professional cadre (2.78)

4.9 Integrated Financial Management Information System (IFMIS)

Integrated Financial Management Information System (IFMS) was aimed to improve public expenditure management, provide accurate and timely financial report, enhance transparency and accountability as well as minimize risks. In addition the system was to facilitate financial control.

Table 4.7: Integrated Financial Management Information System (IFMIS)

	N	Mean	Standard deviation
To improve public expenditure management	77	4.18	0.70
Provision of accurate and timely financial report	77	3.13	0.69
To enhance transparency and accountability	77	4.32	0.67
Minimize risks	77	4.03	0.72
Facilitate financial control	77	4.12	0.81

Results indicated that, most of the objectives IFMS towards PFM reforms have been achieved including enhancing transparency and accountability (4.32), improving public expenditure management (4.18), facilitating financial control (4.12) and minimizing risks (4.03). The study, however, indicated that, provision of accurate and timely financial report in the Ministry of Finance has been achieved only to a moderate extent.

4.10 Financial Operations

The overall objectives on financial operations were based on aggregate fiscal discipline, allocative efficiency and operational efficiency.

Table 4.8 Financial Operations

	N	Mean	Standard deviation
Aggregate fiscal discipline	77	4.08	0.68
Allocative efficiency	77	4.00	0.68
Operational efficiency	77	3.97	0.85

From the findings, aggregate fiscal discipline was found to have been achieved to a very large extent (4.08). Other largely achieved objectives were the allocative efficiency (4.00) and operational efficiency (3.97).

4.11 Inferential findings

This section presents the correlation coefficients for variable relationship. Correlation is an indication of the degree to which analytical variables relate to each other in influencing the dependent variable. The dependent variable in this case included the financial operations while the independent (explanatory) variables were the budget formulation and preparation, budget execution, accounting and reporting, procurement and Integrated Financial Management Information System (IFMS). The correlation was done at 95 percent confidence interval, 2-tail test.

Table 4.9: Correlation coefficients

	Budget formulation and preparation	Budget execution	Accounting and reporting	Procurement	Integrated Financial Management Information System (IFMS)	Financial operations
Budget formulation and preparation	1.00	0.07	0.17	0.16	0.38	0.27
Sig. (2-tal test)		0.57	0.14	0.17	0.00	0.02
Budget execution	0.07	1.00	0.46	0.11	0.20	0.05
Sig. (2-tal test)	0.57		0.00	0.35	0.08	0.65
Accounting and reporting	0.17	0.46	1.00	0.46	0.01	0.58
Sig. (2-tal test)	0.14	0.00		0.00	0.90	0.00
Procurement	0.16	0.11	0.46	1.00	0.38	0.54
Sig. (2-tal test)	0.17	0.35	0.00		0.00	0.00
Integrated Financial Management Information System (IFMS)	0.38	0.20	0.01	0.38	1.00	0.26
Sig. (2-tal test)	0.00	0.08	0.90	0.00		0.02
Financial operations	0.27	0.05	0.58	0.54	0.26	1.00
Sig. (2-tal test)	0.02	0.65	0.00	0.00	0.02	

From the findings, the correlation was between financial operations and accounting and reporting (0.58) as well as financial operations and procurement (0.54). On the other had the study revealed the existence of negative correlation between budget execution and IFMIS (0.20) as well as budget execution and procurement (0.11). This indicates that, by attaining accounting and reporting by 1 unit, financial operations objectives are achieved by 58 percent. At the same time, spending 1 more unit of resources on procurement would enhance financial operations by 54 percent.

Table 4.10: Attainment Index

	Average Mean	Percent
Budget formulation and preparation	3.69	73.71
Budget execution	3.34	66.75
Accounting and reporting	3.73	74.50
Procurement	3.77	75.45
Integrated Financial Management Information System (IFMIS)	3.96	79.12
Financial operations	*4.02*	*80.35*

To establish the extent to which PFM reforms in the Ministry of Finance have been achieved, objective attainment index was established for each of the explanatory component. This was done by finding the mean score for every component and then weighing it against the 5-point likert scale. Percentages were then calculated accordingly. From the findings, objectives related to Integrated Financial Management Information System had been achieved most (79.12 percent) followed by procurement (75.45 percent) and then accounting and reporting (74.50 percent). Other components including budget formulation and preparation as well as budget execution had been achieved up to 73.71 percent and 66.75 percent respectively.

This implies that, while the Ministry of Finance has achieved little on budget execution, much has been accomplished on IFMIS towards PFM reforms. The study also revealed that objectives on financial operations have been achieved up to 80 percent. This implies that the overall objective of PFM reforms has largely been attained despite low attainment on budget execution. This could also imply that, other factors affecting financial operations and not investigated in this study have great impact on financial operations.

4.12 Summary and interpretation of findings

The study indicated that majority (80.5 percent) of all the selected accountants preferred cash accounting with only 1.3 percent going for accrual method of accounting. Allen and Tommasi (2001) list the principles of good reporting as completion, legitimacy user friendliness, reliability relevance, consistency, timeliness, comparability and usefulness. The debate on the use of the accrual basis in the public sector has a long history. Many developing countries are considering or are in the process of moving to accrual accounting. However many others view its introduction in developing countries as inappropriate because of the lack of technical capacity, the need for sophisticated judgements, vested interests and greater potential for creative accounting (Diamond 2002a, Athukorala and Reid 2003).

Among the factors contributing to the achievement of PFM reforms most were the performance contacting and evaluation (28.6 percent); government commitment to public finance (25.0) and timelines and implementation matrix schedule (17.9 percent). It is clear from this study that, at the budget implementation stage, the administrator needs timely and accurate expenditure and revenue data to insure productive use of the monies allocated to his or her organization or organizational subunit. In addition, records created as part of budget implementation should be thought of as the basis for future budget formulation work (Grafton and Permaloff, 1985).

Regarding hindrances in implementation of PFM reforms, greater potential for creative accounting, vested interest for public officers and lack of technical capacity were mentioned as the most prevalent hindrances in implementation of financial management reforms with mean of 4.40, 4.26 and 3.77 respectively. As indicated by Doolin and Lawrence, (1997), to manage the implementation of the reform programme requires harmonized and coordinates approach among cooperating partners supporting the reform program, therefore that necessitates the implementation of pertinent reform of PFM.

Findings in this study indicate that, the Ministry of Finance has to a large extent improved on commitment control (3.77) and reduced variance between budget provision and releases (3.68). The study indicated that the development of professional cadre, development of accounting reporting system and review of legal and regulatory framework are among the objectives that the Ministry of Finance has largely accomplished towards the PFM reforms as given by mean of 4.13, 3.99 and 3.91

respectively. As indicated by this study, the PFM reform is instrumental in the fight against wasteful spending and corruption as it improves access to financial data, audit related to risk and results, open and competitive procurement processes and commitment in control system, such as IFMIS (Campus and Paradtion, 1997).

Hunja (2001) however argues that, lack of success in competitive procurement systems in developing countries is attributed to deeply vested interests, lack of political will, paucity of technical knowledge and the complexity institutional issues involved. Several budget implementation tasks can benefit from analytical techniques whose applications are facilitated by microcomputers.

According to Kuria, (2007), the government needs the PFM reforms to improve its commitment controls to utilize the public financial resources towards the ERS targets. It is a matter of modernization and putting a more efficient and useful public financial management in place. This effort needs the mobilization of all areas of PFM as the system needs better integration to become efficient. Regarding procurement objectives, the study revealed that, The Ministry of Finance has been able to establish workable institutional arrangements (4.10), develop legal and regulatory framework (4.03), ensure competition in tendering (3.97) and support internal control and commitment control (3.95).

Results indicated that, most of the objectives IFMS towards PFM reforms have been achieved including enhancing transparency and accountability (4.32), improving public expenditure management (4.18), facilitating financial control (4.12) and minimizing risks (4.03). This indicates that the reforms have been aimed at improving transparency, accountability and efficiency in the allocation of resources with the overall purpose of ensuring that citizens derive maximum value from public spending (Boston, 2000). Therefore, a government budged (approved spending) should reflect what it says it will do (government policies).

A medium term perspective is crucial for improving links between policy, planning and budgeting. From the findings, aggregate fiscal discipline was found to have been achieved to a very large extent (4.08). Other largely achieved objectives were the allocative efficiency (4.00) and operational efficiency (3.97). From the findings, the correlation was between financial operations and accounting and reporting (0.58) as well as financial operations and procurement (0.54). Consolidated yearend financial statements are critical for transparency and accountability in the PFM system (PEFA 2005).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary of the study

The purpose of this study was to establish the impact of financial management reforms on financial operation in the Ministry of Finance. This study adopted a descriptive survey design where the population comprised of 98 accountants at the Ministry's headquarters. The researcher used primary sources to collect the data through the use of a questionnaire which comprised of both open-ended and close-ended questions. Questionnaires were pre-tested among 3 senior accountants selected randomly from the population to confirm if the questions were well understood by the entire group of respondents. The reliability coefficient was found to be 0.73 and thus the instruments were reliable.

Thorough editing of data was done; data collected was analyzed both qualitatively and quantitatively. Qualitative data analysis considered inferences that were made from opinions of respondents that were then analyzed thematically where the collected data was analyzed, coded and classified into major topics from which summary report was made. Quantitative data was analyzed by use of descriptive statistics supported by tables, frequency distributions, percentages, mean, mode and variance that were established.

The study indicated that majority of all the selected accountants preferred cash accounting with only a few going for accrual method of accounting. Among the factors contributing to the achievement of PFM reforms most were the performance contacting and evaluation; government commitment to public finance and timelines and implementation matrix schedule. Regarding hindrances in implementation of PFM reforms, greater potential for creative accounting, vested interest for public officers and lack of technical capacity were mentioned as the most prevalent hindrances in implementation of financial management reforms.

Findings in this study indicate that, the Ministry of Finance has to a large extent improved on commitment control and reduced variance between budget provision and releases. The study indicated that the development of professional cadre, development of accounting reporting system and review of legal and regulatory framework are among the objectives that the Ministry of Finance has largely accomplished towards the PFM reforms. Regarding procurement objectives, the study revealed that, The Ministry of Finance has been able to establish workable institutional arrangements, develop legal and regulatory framework, ensure competition in tendering and support internal control and commitment control.

Results indicated that, most of the objectives IFMS towards PFM reforms have been achieved including enhancing transparency and accountability, improving public expenditure management, facilitating financial control and minimizing risks. From the findings, aggregate fiscal discipline was found to have been achieved to a very large extent. Other largely achieved objectives were the allocative efficiency and operational efficiency. From the findings, the correlation was between financial operations and accounting and reporting as well as financial operations and procurement.

5.2 Conclusions

From the study we can conclude that cash accounting is preferred to accrued and modified accounting bases. Among the factors contributing to the achievement of PFM reforms are the performance contacting and evaluation government commitment to public finance and timelines and implementation matrix schedule. Vested interest for public officers and lack of technical capacity are the most prevalent hindrances in implementation of financial management reforms.

Findings also revealed that, the Ministry of Finance has to a large extent improved on commitment control and reduced variance between budget provision and releases. The development of professional cadre, development of accounting reporting system and review of legal and regulatory framework are among the objectives that the Ministry of Finance has largely accomplished towards the PFM reforms. It was disclosed that, the Ministry of Finance has been able to establish workable institutional arrangements, develop legal and regulatory framework, ensure competition in tendering and support internal control and commitment control.

Most of the objectives of IFMS towards PFM reforms have been achieved including enhancing transparency and accountability, improving public expenditure management, facilitating financial control and minimizing risks. At the same time, aggregate fiscal discipline has been achieved to a very large extent. Other largely achieved objectives were the allocative efficiency and operational efficiency. From the findings, the correlation was between financial operations and accounting and reporting as well as financial operations and procurement. Objectives related to Integrated Financial Management Information System in the Ministry of Finance have been achieved most (79.12 percent) followed by procurement (75.45 percent) and then accounting and reporting (74.50 percent).

5.3 Policy Recommendations

The following are policy recommendations

There should be established budget stabilization fund through an Act of Parliament. This fund will go a long way to enhance the practicability of exchequer release to the spending units. Budget stabilization fund can be used to make sure that there are no delays in budget execution and programme implementation.

There is need to have capacity building and improved terms of service for public officers. The application of international standards and methods in macroeconomic analysis, budgeting, accounting, procurement and audit requires skilled staff that can apply new methods in professional manner. Introduction of IFMIS and other computerized system requires specific skills and training for public officers.

The government should employ professional supply chain officers to handle the procurement services in public sector. This will ensure that the procurement is done according to the law and best practices. In addition, employment of professional procurement officers will ensure that there is competition in tendering and government get value for money in procuring, goods, services and works.

The government should develop and improve IFMIS in order to generate accurate and timely financial report for decision making. This will enable the officers to monitor the budget execution.

5.4 Limitations of the study

The study was limited.to establishing the impact of the public financial management reforms on financial operation of the Ministry of Finance. It involved accountants some of who were not conversant with the ongoing public management reforms. The was the limitation of time given the respondent need more time to understand the new public financial management reforms so that they could accurately fill the questionnaire.

There was a possibility of some accountant giving minimal cooperation, fearing that the study would detect their administrative incompetence. This was mitigated by ensuring that the information given was kept confidential. It is also possible that some respondents will not give honest information for fear that they would be exposing negative qualities of their employer. The researcher however assured respondents that findings would be used for academic purpose but not for policy decisions.

Given the little time schedule given for the report writing, time was a limiting factor. This demanded employment of more resources to address the limitation. At the same time, some tasks had to be performed concurrently to ensure that the events fall within the mapped time schedule.

5.5 Suggestions for further studies

Given the scope and limitation of this study, the following areas are suggested for further study:

Given that this study considered only (5) PFM reform components there is need to carry out a study on the remaining financial reforms. The remaining ten (10) PFM reforms components include macroeconomic policies, external debts, payroll and pensions, oversight reforms, taxes custom and excise and cross cutting issues should be studies to establish their impact on financial operation. The inclusion of components in PFM reform programme is informed by two main factors. This includes functional considerations and organizational structures pertaining to the Government of Kenya.

The study has revealed that budget execution reforms have not achieved the desired objectives. In this regard there is need for a study to be carried out to find out the challenges hindrance the implementation of budget execution reform especially on predictability of exchequer releases to spending units.

For comparative purpose, a replica of the study should be done but on a cross sectional data that would involve other public semi autonomous institutions involved in the PFM reforms like Central Bank of Kenya and Kenya Revenue Authority.

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APPENDICES

Appendix I: Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

1) Gender of the respondents

Male [ ] Female [ ]

2) Age of the respondent

Less than 30 years [ ]

30 – 39 years [ ]

40-49 years [ ]

50 years and above [ ]

3) Department of the respondents

Accountant General Department [ ]

Accounts Department [ ]

Any other (Kindly specify)________________________________

4) Kindly indicate your position in the organizations

____

5) Level of experience of the respondent in the public finance management

Less than 5 years [ ]

5 to 9 years [ ]

10 to 14 years [ ]

15 years and above [ ]

SECTION B: RELATIONSHIPS BETWEEN THE PFM REFORMS AND THE FINANCIAL OPERATIONS

6) In your opinion, how would you describe the financial operation environment in the institution in relation to public financial management? (Tick as applicable)

Stable [ ] Not stable [ ] Irregular [ ]

7) Which accounting method would you prefer to use in government accounting?

Cash accounting [ ]

Accrual accounting [ ]

Modified accounting [ ]

8) To what extent do you think the following factors hinder implementation of accrual accounting in government accounting? Kindly tick where appropriate along the following scales:

1. Not at all 2. Less extent 3. Moderate extent 4. Large extent 5. Very large extent

	1	2	3	4	5
1. Lack of technical capacity					
2. Lack of sophisticated judgment					
3. Vested interest for public officers					
4. Greater potential for creative accounting					

9) To what extent in your opinion have the following objectives on PFM reforms impacted on financial operation in the Ministry of Finance? Kindly tick where appropriate along the following scales:

1. Not at all 2. Less extent 3. Moderate extent 4. Large extent 5. Very large extent

	1	2	3	4	5
BUDGET FORMULATION AND PREPARATION					
1. Develop budget document which is comprehensive					
2. Budget developed within multiyear framework					
3. Budget entailing inputs from district level					
4. Credibility of the budget process					
5. Develop a budget document reflective of policy objectives					
BUDGET EXECUTION					
6. Timely budget release					
7. Improved commitment control					
8. Increased efficiency					
9. Better predictability for spending un its					
10. To reduce variance between budget provision and releases					
ACCOUNT AND REPORTING					
11. Development of accounting reporting system					
12. Review of legal and regulatory framework					
13. Development of professional cadre					
14. Record management and filing					
15. Monthly reporting and bank reconciliation					
16. Completeness of financial statements					

PROCUREMENT					
17. Establish workable institutional arrangements					
18. Development of legal and regulatory framework					
19. Create professional cadre					
20. Competition in tendering					
21. Integrity of procurement system (addressing security issues)					
22. Support internal control and commitment control					
INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM					
23. To improve public expenditure management					
24. Provision of accurate and timely financial report					
25. To enhance transparency and accountability					
26. Minimize risks					
27. Facilitate financial control					
FINANCIAL OPERATIONS					
28. Aggregate fiscal discipline					
29. Allocative efficiency					
30. Operational efficiency					

In your opinion, to what extent has the following factors contributed to the achievement of PFM reforms?

	Not at all	Less extent	Moderate extent	Large extent	Very large extent
31. Technological advancement					
32. Product/ programs reforms					
33. Sociological/cultural reforms					
34. Donor support					
35. Public pressure					
36. Training and development					
37. Regional requirements EAC, AU etc					

Any other?

____

10) Any other comment? ____

Appendix II: Raw data

Hindrances to implementation of accrual accounting method

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Total
Lack of technical capacity	-	9.1	26.0	44.2	20.8	100.0
Lack of sophisticated judgment	-	9.1	36.4	42.9	11.7	100.0
Vested interest for public officers	-	-	15.6	42.9	41.6	100.0
Greater potential for creative accounting	-	-	9.1	41.6	49.4	100.0

Budget formulation and preparation

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Total
Development of budget document which is comprehensive	-	-	18.2	59.7	22.1	100.0
Budget developed within multiyear framework	-	-	16.9	51.9	31.2	100.0
Budget entailing inputs from district level	-	40.3	24.7	31.2	3.9	100.0
Credibility of the budget process	-	10.4	53.2	28.6	7.8	100.0
Development of budget document reflective of policy objectives	-	-	26.0	55.8	18.2	100.0

Budget Execution

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Total
Timely budget release	-	14.3	61.0	18.2	6.5	100.0
Improved commitment control	-	-	40.3	42.9	16.9	100.0
Increased efficiency	-	10.4	59.7	23.4	6.5	100.0
Better predictability for spending units	-	36.4	46.8	15.6	1.3	100.0
To reduce variance between budget provision and releases	-	2.6	37.7	49.4	10.4	100.0

Accounting and Reporting

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Total
Development of accounting reporting system	-	-	20.8	59.7	19.5	100.0
Review of legal and regulatory framework	-	3.9	13.0	71.4	11.7	100.0
Development of professional cadre	-	3.9	7.8	59.7	28.6	100.0
Record management and filing	-	3.9	41.6	29.9	24.7	100.0
Monthly reporting and bank reconciliation	-	24.7	46.8	14.3	14.3	100.0
Completeness of financial statements	-	15.6	42.9	28.6	13.0	100.0

Procurement

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Total
Establish workable institutional arrangements	-	-	20.8	48.1	31.2	100.0
To develop legal and regulatory framework	-	2.6	27.3	35.1	35.1	100.0
Create professional cadre	-	40.3	45.5	10.4	3.9	100.0
Competition in tendering	-	6.5	24.7	33.8	35.1	100.0
Integrity of procurement system (addressing security issues)	-	-	45.5	28.6	26.0	100.0
Support internal control and commitment control	-	-	24.7	55.8	19.5	100.0

Integrated Financial Management Information System

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Total
To improve public expenditure management	-	-	16.9	48.1	35.1	100.0
Provision of accurate and timely financial report	-	18.2	50.6	31.2	-	100.0
To enhance transparency and accountability	-	-	11.7	44.2	44.2	100.0
Minimize risks	-	-	24.7	48.1	27.3	100.0
Facilitate financial control	-	-	27.3	33.8	39.0	100.0

Financial Operations

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Total
Aggregate fiscal discipline	-	-	19.5	53.2	27.3	100.0
Allocative efficiency	-	-	23.4	53.2	23.4	100.0
operational efficiency	-	1.3	33.8	31.2	33.8	100.0

Factors influencing implementation of financial reforms

	Not at all	Less extent	Moderate extent	Large extent	Very large extent	Total
Technological advancement	-	3.9	15.6	58.4	22.1	100.0
Product/ programs reforms	-	5.2	32.5	44.2	18.2	100.0
Sociological/cultural reforms	1.3	20.8	31.2	44.2	2.6	100.0
Donor support	-	14.3	18.2	36.4	31.2	100.0
Public pressure	-	24.7	28.6	42.9	3.9	100.0
Training and development	-	3.9	49.4	20.8	26.0	100.0
Regional requirements EAC, AU etc	-	1.3	39.0	29.9	29.9	100.0