An Investigation On The Influence Of Government Financial Management On Kenyan Public Secondary Schools: A Case Of Sameta Division.

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Abstract: This study assessed the effect of Government Financial Regulations on financial management practices in public secondary schools in Sameta Division of Gucha District, Kenya. The study investigated how principals managed the school cash, inventories, account receivables and account payables. The study also aimed at assessing problems principals encountered when applying these financial management practices. The principal and the bursar of each of the thirty secondary schools were interviewed. Questionnaires with open ended and closed ended questions were used to collect primary data. Secondary data were collected from the District Schools Auditor's financial records and from the financial records of the sampled schools. Descriptive statistics, especially, the use of frequency tables, percentages and means was used to analyze the data. Scaling method was used, particularly the use of Likert scale, to analyze the views gathered from the respondents. The findings indicated that most schools follow the recommended and acceptable financial management practices as per the Government Financial Regulations. The findings also indicated that the major problems arising from the government financial regulations include lack of monitoring and evaluation unit on financial usage, long procurement procedures, lack of financial management training, late disbursement of funds and lack of audit personnel in secondary schools. These problems hinder good Financial Management Practices in public secondary schools.

Index Terms: Government Financial Management, Public Secondary Schools, Financial Management Practices, Free Secondary Education

1. INTRODUCTION

1.1 Background of the Study

The Transparency International Kenya, (TI) (2009) observed that the Kenyan education system is burdened with financial management risks that comprise the qualities of education. The report assesses the significant risks at the various levels of decision making, resource allocation and utilization that create corruption opportunities. According to this report, seventy three percent of the government's social sector expenditure and forty percent of the national recurrent expenditure is channeled to the education sector. Households spend between five to seven percent of the GDP on education. This large budgetary allocation requires that accountable measures be instituted to ensure integrity and responsive service delivery in the sector. Sameta Division is situated in Gucha District in Nyanza Province of Kenya. The Division was created in 1990 from the larger Ogembo Division. Initially it had 20 Public Secondary schools. These Secondary schools have grown since then to currently 30 Public Secondary Schools with a total population of 10,300 students.

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The schools are categorized as either provincial secondary schools or district secondary schools. At the same time the schools are either day schools, boarding schools or both day and boarding. According to Gucha District Development Plan (2002 – 2008), the Division covers 110 Km^2 with eight (8) Locations and fifteen (15) Sub-locations. According to the Financial and Accounting Instructions for Educational Institutions (Revised Edition 1991) by the Ministry of Education, the school funds include parents' contribution in respect to tuition fees, medical fees, activity funds, boarding fees, personal emolument and contingencies, among others. Additional funds for the schools include hiring of school facilities like school bus, school hall, school farm, government donations in form of Free Primary Education (FPE) and of donor organizations. Official Ministry of Education Financial Records show that donor organizations and the government deposited Ksh. 28.3 billion in the School Instruction Material Bank Account (SIMBA) and Ksh. 19.2 billion in the School General Purpose Account between 2003 and 2008 for both secondary and primary schools' educational programs. It details that in 2008, the government paid Ksh. 1,020 per pupil in the public primary school under the Free Primary Funding Program (GOK 2008). Integrity concerns regard the financial management of resources allocated by the Ministry of Education. According to the Public Officer Ethics Act (2003), the Government Financial Regulations stipulate how the funds should be managed and accounted for. The Act directs that any money given out as an imprest should be accounted for; major purchases in schools should be done through tendering processes; auditing should be carried out in the school books of accounts; fees collection should be a responsibility of the bursar; and every payment must be supported by a voucher.

1.2 Problem of Research

Public Secondary Schools in Sameta Division receive substantial amount of money in form of school fees and Free Secondary Education (FSE) funding as provided for in the Education Sector Reform since 2008. There are other levies collected from the parents as agreed to by the Parents Teachers' Associations. Proper management of such funds requires financial professionalism as legislated by the government (GOK 1991). Despite the availability of these regulations, public secondary schools still suffer from inadequate learning and teaching facilities which are crucial for academic performance. The need for this study was based on a lack of knowledge on the influence of Government Financial Regulations on Financial Management Practices carried out in Public Secondary Schools in Sameta Division of Gucha District, Kenya. The study will provide data to the government and other stakeholders determine whether the schools are complying with the Financial and Accounting Instructions instituted by the Ministry of Education.

1.3 Research Focus

The general objective of the study was to assess the influence of Government Financial Regulations on Financial Management Practices in Public Secondary Schools in Sameta Division. The specific objectives were to assess the influence of Government Financial Regulations on cash management; determine the influence of Government Financial Regulations on inventory management; determine the influence of Government Financial Regulations on accounts payable; determine the influence of Government Financial Regulations on accounts receivable; and determine problems arising from the Government Financial Regulations.
To achieve these objectives, the study suggested the following five research questions.

1. What is the influence of the Government Financial Regulation on cash management?
2. What is the influence of the Government Financial Regulation on inventory management?
3. What is the influence of the Government Financial Regulation on accounts payable?
4. What is the influence of the Government Financial Regulations on accounts receivable?
5. What problems arise from the Government Financial Regulations?

2. Literature Review

2.1 Financing Education

A recent study of six countries (Bangladesh, Kenya, Nepal, Sri Lanka, Uganda and Zambia) concluded that for both the poor and better off groups, the high cost of education is the predominant reason for children not attending school. Funding of education by the government and other stakeholders is not only desirable but also necessary as it is laudable. However, proper Financial Management Regulations should be adhered to (EFA, 2003). In Kenya, the missionaries introduced formal education. Some missionary pioneers like Dr. Ludwig Kraph and John Rebman built elementary schools to provide education. Communities where these schools were established contributed land, building materials, labour and fees levied on pupils who attended these schools to run and build school (Olembo, 2005). Financing education has been and continues to be a burden to all countries and, therefore, various sources should be sought to finance education (Oduog 2003). Running schools is expensive because they are poorly managed (GOK 2003). Karan (2005) observed that private schools tend to perform better compared to public schools. He attributed this to the fact that in private schools, parents are able to pay the fees charged and therefore these schools have enough learning and teaching resources needed.

2.2 Duty of Principals in Financial Management

Principals, who are appointed by the Ministry of Education (MOE), are responsible for managing the day-to-day activities of their schools assisted by school committees. The Kenya Education Staff Institute (KESI) enhances management skills of school principals. The institute provides management training aimed at improving performance and efficiency. The training program offered includes educational management, financial management, personnel management and legal matters affecting education. (MOE1987) According to the MOE manual for head teachers of primary schools and principals of secondary schools in Kenya are the financial controllers and accounting officers and are responsible for all financial collections and expenditure (MOE 1991). The head teacher should be familiar with book keeping procedures (Alomba 2003). According to the Ministry of Education, heads are supposed to ensure efficient and effective management of school finances to provide and promote educational service. (Olembo 2005)

2.3 Management of Secondary School Finances and Resources.

Underperformance of principals in financial management may result from employing less qualified accounting staff that maintain poor records and who fail to adhere to accounting procedures (MOE, 2007). The report further observed that private secondary schools in contrast, demonstrate better financial mismanagement because of sound accountability system. Ngaba (1990) concluded that there was a lack of professionalism in some areas of management of schools' finances and called for qualified personnel in the management of school finances. It is important for school administration to realize that business management goes beyond allocating cash items, but has to look at the school as an investment which would eventually pay dividends to the government (Alomba 2003). Reeder (1998) maintained that educational investment should be well handled to ensure maximum production from it and that the little funds available be well expended to ensure careful financial planning, control and administration. According to Pandey (1999) investment in current assets should be adequate, Imbalance investment may cause excess or shortages of working capital which may lead to wastages in case of excess or deficit in case of shortages and thus losses to the organization.

2.4 Inventory Management

Inventory may take the form of raw materials, work-in-progress and finished goods (Pandey, 1999) and it is held for transaction, precautionary and speculative purposes (Star and Miller 2005). Hussain (2001) also states that the aim of inventory management is to avoid excessive and inadequate levels of inventories and at the same time maintain sufficient inventory for the smooth production and sales operations. Mclaney (1991) points out that irrespective of the nature of trade, firms should seek to balance the costs of holding stock with those of holding no or low levels of stocks. Inventory management should be undertaken to maximize the value of the firm. The firm should, therefore, consider costs, returns and risk factors in establishing inventory policy. Inventories represent a significant investment for many organizations. The principal, who is the financial manager, would not normally have control over inventory management alone; but, instead other functional departments will usually share decision-making authority regarding inventory (Reeder 1998). Smith (2000) observed that business firms are confronted with the dilemma of attempting simultaneously to meet ever-increasing demands for improved customer service; maintain stable production operations; and keep the investment in inventory at a reasonable level.

2.5 Cash Management
Cash management involves the management of cash flow into and out of the firm; cash flow within the firm; and cash balances held by the firm at a point in time by financing deficit or investigating surplus cash (Pandey, 1999). Cash management involves the management of cash flow into and out of the firm; cash flow within the firm; and cash balances held by the firm at a point in time The school should evolve strategies regarding: cash planning, managing the cash flows, optimum cash level and investing surplus cash. Ideal cash management system will depend on the firm's product, organization structure, competition, culture, and options available (Pandey 1999). The basic objective in cash management is to keep investment in cash as low as possible while keeping the firm operating efficient. Managing cash includes the following: management of cash collection which involves over the counter collection of cash, pre-authorized arrangement, on line terminals, lock boxes, and concentration banking. Managing cash disbursement includes: maintaining zero balance accounts and controlled disbursements. (Oduog 2003)

2.6 Management of Accounts Payable
A firm will always wish to tie up as little cash as possible in disbursement. The idea in these systems is to have no more than the minimum amount necessary to pay bills on deposit in the Bank (Ross, Westerfield, & Jordan, 2003). According to Pandey (1999) the most significant source of short-term finance is the trade credit and that it is relatively easy to obtain; that it varies with the amount granted; and that trade credit is an informal, spontaneous source of finance. It does not require any negotiations and formal agreement. It does not have the restrictions which are usually part of negotiated sources of finance. Ngaba (1990) defines credit terms as the conditions under which the school allows students to have fee arrears. The conditions include the due date and the cash incentives (discounts) given for prompt payment.

2.7 Management of Accounts Receivable
When goods or services are transferred to a customer the firm becomes a trade debtor of the supplying firm until such time that it settles its debt by making payment (Mclaney, 1991). Pandey (1999) indicated that trade credit is considered as an essential marketing tool, acting as a bridge for the movement of goods through production and distribution stages to customers. Additionally, a firm grants trade credit to protect its sales from the competitors and to attract potential customers to buy its products at favorable terms. While cash sales continue to dominate in certain industries, situations where customers purchase goods and services on credit are increasing. Determining credit terms, selecting credit customers and monitoring the level of accounts receivable become important area for managerial decision making (Smith, 2000). In determining credit policy, the firm must try to strike the balance between the cost of granting credit and those associated with denying or restricting credit (Mclaney, 1991). Kallberg (1993) states that one of the central issues in modern financial management is the proper evaluation of risk and return. The profitability of many firms depends very much on the institution's ability to evaluate and control credit risk.

2.8 Conceptual Framework
Figure 1 indicates a conceptual framework. Good FMP which involves imprest authorization, fees collection, purchase of inventories, payment of suppliers, auditing, budgeting and book keeping depends on the GFR (which includes FMP, management of account payable, management of account receivable, cash management and financial education). Monitoring and evaluation is an intervening variable (ITV) which may affect the influence of the two variables, that is, the dependent variable (DV) and independent variable (IV)

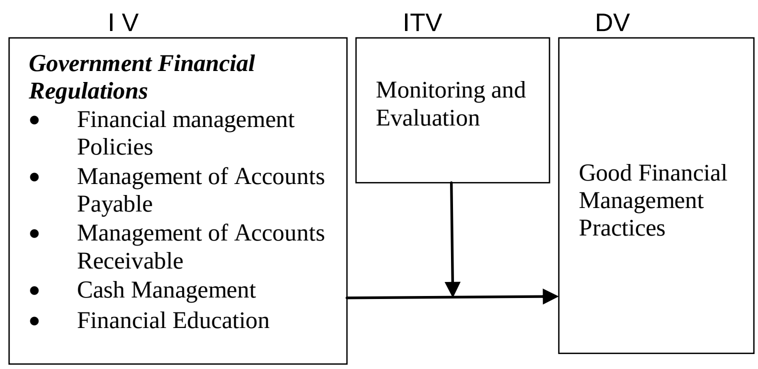

Fig. 1 Conceptual framework on influence of Government Financial Regulations on Financial Management Practices in Secondary Schools

3. Research Methodology

3.1 Target Population
The study was undertaken in Sameta Division in Gucha District. The Division has thirty (30) Public Secondary Schools (as at January 2010) with a population of 10,300 students. According to Gucha District Development Plan (2002 – 2008), the Division occupies 110 Km^2 with eight locations and 15 sub-locations. The study targeted all the 30 head teachers and the 30 bursars in Public Secondary Schools in Sameta Division hence a total of sixty (60) respondents were targeted.

3.2 Data Collection
Both primary and secondary data were collected. Primary data was obtained using questionnaire which consisted of both closed and open ended questions. Secondary data was obtained from the District Schools Auditor and from the sampled schools. The questionnaires were pre-tested to a

selected sample which was similar to the actual sample used in the study to enhance validity of the instrument. We worked with other research experts in the field to enhance reliability of the instrument. The questionnaires were administered to all thirty secondary school principals and bursars.

3.3 Data Analysis

The data was summarized using the means, frequencies and percentages to establish the relationship between the GFR and the FMPs in public secondary schools. Tables were used to present the result into comprehensive information. Data was analyzed using descriptive statistics. Scaling method, particularly the use of a five point Likert scale was used to determine the weight of the perception and attitude of respondents towards the FMPs.

4. Findings

4.1 Data Analysis and Findings

The questionnaire responses were summarized using tables. Some questions requested for a single answer and these were reported as percentages in terms of the total number of respondents. Those questions that requested for a ranking of possible responses, the points for each criteria, characteristics and variables were expressed as percentage of total points for each question. The respondents indicated that 40% of the schools were District Day Schools; 33.33% were Provincial Day schools; 16.67 were Provincial Boarding Schools; 6.67% were District Boarding Schools. The rest of the schools were only 6.67%. Of the principals, 43.33% reported holding a baccalaureate degree, while 6.67% have a masters degree. More than a third of bursars (36.67%) hold accounting certificate while 13.33% hold a diploma. The researcher was interested in knowing how many in service seminars on school financial management that hand seen attended by the respondents. It was reported that 43.33% of the principals had attended in-service seminars on school financial management once while 28.33% had attended twice. Just about a third of the principals (28.33%) reported attending three or more times. The respondents were asked to indicate the fees charged in their institutions. Their responses were compared with the government fees directive. A majority of the schools (70%) charged more than the government recommended fees while 26.67% reported charging the recommended fees. Only 3.33% of the schools charge fees below the government fees directive. On whether the respondents' school benefited from any other source of finance apart from Government bursary and school fees, 85% agreed while only 15% disagreed. These sources include hiring the school bus and school facilities, sale of farm produce, donations and Constituency Development Fund (CDF). The respondents were asked to indicate how adequately the funds received by their schools met various needs. Performance improvement need was the most adequately met by these funds with a weighted mean of 4.27; utilities need was adequately met at 3.9; non-teaching staff salary was adequately met at 3.1; and teaching resources and teacher motivation were met at 2.85 and 2.82 respectively. Respondents were asked to indicate factors influencing re-order quantity decisions for inventories. Re-order schedule was ranked highest at 45%. While inflationary effect was ranked at 31.67%. Seasonality of demand and storage cost were ranked at 20% and 3.33% respectively. Re-order schedule was therefore a major criteria considered by institutions on deciding on re-order quantity for inventory. Respondents indicated the criteria they utilize in evaluating proposed changes in their inventory policy. The effect on school performance was ranked at 58.33% while that on inventory was ranked at 28.33%. The effect on inventory cost and the effect on return on investment were ranked at10% and 3.33% respectively. It was therefore observed that the effect on school performance was the most used criteria by schools. The institutions were asked to rate the extent to which they practice various financial regulations. Fees collection was rated very extensively at a weighted mean of 3.5 followed by credit management and inventory management at 3.5 and 3.17 respectively. Qualified accounts clerk, book keeping, financial auditing, imprest management and budgetary procedures followed each other at 3.13, 3.1, 2.92, 2.82 and 2.52 respectively. The respondents indicated that 71.67% of schools do not follow government policies on financial management when tendering while only 28.33% indicated that they do follow the government policies. Less than a half of the schools (40%) indicated that their books of accounts are audited annually white 28.33% indicated that their books are audited semi-annually. About a third of the schools (31.66%) indicated that their books are audited whenever necessary or have never been audited. The schools were asked to indicate the technique they use on their decisions to grant credit to their customers. Credit scoring was ranked at 65% while sequential credit analysis was ranked at 35%. Credit scoring was therefore the main criteria used by the schools in their decisions to grant credit to their customers. The schools were asked to indicate the technique they utilize to reduce their negative float. It was found that the use of cash discounts was the major technique utilized by schools to reduce negative float with a ranking of 55% whereas use of verbal or written request was ranked at 45% On what measures the schools used in monitoring the payment behavior of customers granted credit, collection period criteria received a frequency of 46.67% while aging schedule received a frequency of 36.67% and that of accounts receivable received 16.67%. The respondents indicated how they rate their book keeping records. The findings indicate that 56.67% of the schools have their school books of account records incomplete while 43.33% of the schools indicate that they either have their books of account records complete and comprehensively kept. The study sought to know the average percentage of fees not paid. More than a third (36.67%) of schools experience fees arrears of over 50% while 21.67% experience fees arrears of less than 40%. The respondents also indicated that 16.67% of the schools had fees arrears of less than 30% while 13.33% experience fees arrears of less than 20%. Only 11.67% of schools experience fees arrears of 10% or less. The respondents were asked to state how their schools pay the creditors. They results indicated that 60% of schools pay their creditors through either bank or cash, 30% through bank only and only 10% pay through cash only. The study also sought to know what induces institutions to pay creditors in good time. 40% of the institutions pay in good time when cash is available while 25% pay when there is after sales services. Reduced prices and discounts are considered at 20% and 15% respectively. Institutions were asked to indicate the shortest interval of time for which they utilize cash budgeting. The results indicated that 55% of the institutions prepare cash budgets on daily basis, 31.67% on a weekly basis, and 13.33% on a monthly basis. Institutions were asked to indicate the use of cash budgeting. The use of cash budgeting to plan for shortage and surplus of cash was ranked at 81.67%. The use of cash budgeting to explore the implications of alternative credit terms was ranked at 11.67% while the use of cash budget to explore implications of alternative inventory on policy was ranked at 3%. The use of cash budget to explore the implications of alternative sales forecast was ranked 1.67%. The respondents indicated the extent to which various problems have been faced towards proper financial management practices. Lack of monitoring and evaluation unit from the MOE on financial management was ranked as the number one problem with a weighted mean of 4.52 followed by lack of audit personnel in secondary schools at 4.43. Long procurement procedures, late disbursement of funds and lack of financial management training by personnel handling funds followed at 4.38, 4.1 and 3.93 respectively.

5. Discussion, Conclusion and Recommendations

5.1 Discussion
The aim of the study was to assess the influence of Government Financial Regulations on Financial Management Practices in Public Secondary Schools in Sameta Division of Gucha District. The Financial Management Practices researched included cash management, inventory management, account receivable and account payable. The kind of Government Financial Regulations in schools were found to include Financial Management Policies, which involves tendering and procurement policy, imprest management policy, fees collection policy, financial auditing policy, book keeping policy, credit management policy and inventory management policy. Other regulations includes Management of Account Payable, Management of Account Receivable, Cash Management and Financial Education The findings indicated that 67.67% of the schools studied follow the recommended and acceptable financial management practice as per the government financial Regulations. The effect of this proper utilization of the funds received by schools is the realization of good academic performances which is in line with the previous researches. The findings also indicate that the major problems arising from the government financial regulations includes lack of monitoring and evaluation unit on financial usage, long procurement procedures, lack of financial management training, late disbursement of funds and lack of audit personal in secondary schools. These problems hinder good Financial Management Practices in Public Secondary Schools.

5.2 Conclusion
The study has shown that government financial regulations influence cash management, inventory management, accounts payable and cash receivable in secondary schools with notable problems From the study, we can conclude that the Financial Management Practices in public secondary schools are greatly influenced by the Government Financial Regulations.

5.3 Recommendations
The study recommends that further research be carried out to find out the impact of the Government financial management regulations on public schools of various districts in Kenya.
There should be continuous training, seminars, and workshops on financial management for the head teachers and bursars. The study recommends that disbursement of funds from the ministry should be done in time without unnecessary delays. More qualified and competent audit personnel should be deployed in secondary schools. The study further recommends that there should be proper monitoring and evaluation of the financial management in public secondary schools

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