

Integrated Financial Information System (IFMIS) and National and County Government Performance in Kenya-A Critical Analysis

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Abstract

Due to the current changes in the modern world, ICT adoption is becoming unavoidable integral part in the overall operation of the government for effective public service delivery. ICT has been adopted in Kenya as one of the cornerstones of the government's strategy for making the services accessible to its citizens. Integrated Financial Management Information Systems (IFMIS) is one such idea which was conceived in 1998 but it was until 2003 and 2013 that it was rolled out in National and County governments respectively. The objective of IFMIS implementation in Kenya is to increase the efficiency and effectiveness of government financial management and facilitating the adoption of modern public expenditure management practices. Despite the benefits derived as a result of IFMIS adoption, it has experienced some challenges in terms of the inappropriate implementation strategy, inadequate capacity of human resources and lack of clear government policy for staff training. Politicians are also at the heart of mismanagement of IFMIS project funds and are known to benefit largely through the existence of bureaucratic systems and lack of accountability. Critical reviewed literature shows that most of the studies on IFMIS conducted so far have been carried out in the National government of Kenya with the County government having limited studies. It is also evident from the studies that the aspect of performance in both National and County governments did not come out clearly because correct statistical analysis of inferential statistics was not used thus the researchers limited their studies to descriptive statistics. This does not explain the extent to which adoption of IFMIS leads to national and county governments performance in Kenya. Further study is thus inevitable to find out the relationship of IFMIS on National and County governments performance in Kenya. The researcher reviewed theoretical and empirical literature leading to gap identification by use of desktop research methodology.

Keywords: IFMIS, County and National government, performance, ICT, computerization

1. Introduction

The National Treasury in Kenya is charged with the responsibility of ensuring there is a proper management of budgetary and expenditure of government resources. For this reasons, the National Treasury under the Ministry of Finance has been striving to improve financial management systems through introduction of public financial reform programmes to increase accountability, transparency and responsiveness of public financial. There is therefore a need to come up with information technology systems that bundles all the financial management functions into one suite of application designed to assist the national and county government entities on planning their budget, managing and reporting financial activities and delivery of public services more

effectively, efficiently and economically. This led to the introduction of Integrated Financial Management Information Systems (IFMIS) (GoK, 2011).

Several authors have defined IFMIS in different ways. Dorotinsky (2003) and Rozner (2008) see IFMIS as an information system designed to track events of financial nature and summarizes it for financial decision making. IFMIS supports adequate management reporting, aid in preparation of auditable financial statements, policy decisions and fiduciary responsibilities. IFMIS refers to the computerization of public financial management processes from preparation of budget and reporting and accounting execution with financial management system integration of line ministries and spending agencies (Government of Kenya (GoK), 2011; Casals and Associates, 2004).

IFMIS is also defined as a standardized reporting and monitoring system that consolidates all the information

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needs of the government into one information database. This facilitates consistent recording and reporting of government information for making micro decisions that affects the performance of the national and the county government (GoK, 2003). The basic feature of IFMIS is its ability to interface with a number of existing and planned automated systems such as Government Payments Solutions (G-pay), Integrated Personnel Payroll Data (IPPD) and Internet Banking (IB) through Central Bank.

1.1 History of IFMIS in Kenya

In order to manage the public finances effectively and efficiently in the 21st Century, most of the developing countries have resorted to computerizing their government operations through the introduction of Integrated Financial Management Systems (IFMIS). This has enabled the governments of the countries to find real time solutions to the problems faced by financial delays. Kenya has taken many financial reforms since 1998 through the assistance of the World Bank which includes rolling out of IFMIS which was introduced actively in 2003 in all government ministries.

The National Treasury and Economic Planning ICT Master Plan 2001-2005 was the origin of the implementation of IFMIS in Kenya after highlighting gaps and weaknesses within the system that was currently in use (Kwena, 2013). The master plan recommended the development of modules comprising: asset management, accounting management, revenue management and establishing interfaces with the Kenya Revenue Authority (KRA), National Payment Information system and the Ministry of Labour for payroll and human resource management modules.

Kenya in 2003 contracted an Entrepreneur Resource Planning (ERP) called Oracle Financials to help design IFMIS software which consolidated the core modules of the government ministries like purchasing, accounts payable, general ledger, cash management and public sector budgeting modules (Kinyua, 2003; GoK, 2003). Since the introduction of IFMIS in Kenya, it has greatly impacted on the financial management of the government resources in auditing, accounting, human resources, reporting and asset management (USIAD, 2008).

International Development Research Centre (IDRC) team, Kenyan researchers and organizations collaborated with the government of Kenya in identifying the technological, social and institutional structures needed for successful ICT policy implementation. This led to the development of effective IFMIS implementation strategies and detailed plans by creating awareness through workshops and training for senior government officials who then will cascade the same to junior employees of the government (Kanyungi, 2014). IFMIS was developed in 1998 in Kenya while its deployment to the government ministries and county governments

started in the year 2003 and 2011 respectively. Presently, IFMIS system is being re-engineered for improved management and financial reporting of data and information (Peterson *et al.*, 2008).

2. Benefits of IFMIS

The objective of IFMIS system implementation in Kenya is to increase the efficiency and effectiveness of government financial management and facilitating the adoption of modern public expenditure management practices. The benefits realized from an operational IFMIS system include: more optimal resource allocation, improved management of resources, reduced fraud and corruption, better fiscal management, lower transaction costs, improved transparency and accountability (GoK, 2003). According to GoK, (2011); Peterson *et al.*, (2008) IFMIS helps in strengthening government's financial controls, raises the budgetary process to higher levels of transparency and accountability, enables prompt and efficient access to reliable financial data and improving the provision of government services, and expediting government operations.

The integration of IFMIS in national and county governments in Kenya ensures that all users of the system adhere to common standards, rules and procedures, with the view to risks reduction of mismanagement of public resources (GoK, 2000). The government of Kenya has embraced the use of this tool in the county and national government in executing effective financial management in the various government ministries, county governments and public institutions (Kang'ethe, 2002). Implementation of IFMIS can strengthen the financial controls efficiency by making comprehensive, timely and reliable financial information available to the parliament, county assembly, auditor general investigative and prosecutorial agencies. This is because they improve accounting, recording and reporting practices to provide timely and accurate financial data. They also allow automation of bank reconciliation and allow a closer monitoring of outstanding bills and cash in bank accounts of the county and national government (Choe, 2003).

According to Diamond and Khemani (2008) further mention that IFMIS can generate all manner of reports; sources and uses of funds, balance sheets, cost reports, returns on investment, cash flow projections, budget variances, aging of receivables and payables and performance reports of all types. Managers of the public offices can use this information for a variety of purposes to; examine results against budgets and plans; plan and formulate budgets; manage cash balances; track the status of debts and receivables; and make revisions and adjustments as necessary, to name a few; monitor the use of fixed assets; monitor the performance of specific departments or units. Reports generated by IFMIS can also be tailored to meet the reporting requirements set by international institutions like the International Monetary Fund (IMF) and external agencies.

Kiilu and Ngugi (2014) noted that the adoption of IFMIS in Kenya has led to effective management of public funds in the National Treasury. It has enhanced automation of government processes, improved reporting, communication and record keeping, lead to customization of government processes and integration of government processes. IFMIS offers a standardized integrated financial management reporting system, enhances effectiveness and transparency of financial management system and provides timely and accurate financial information (Nzuve, 2012).

Generally, the main objective of implementing IFMIS in Kenya is adopt modern public expenditure practices in keeping with international standards and benchmarks and above all to increase the effectiveness and efficiency of the government financial management (Chumba, 2014).

2.1 Challenges of IFMIS Adoption in Kenya

Karanja and Ng'ang'a (2014) argued that Despite IFMIS introduction in Kenya, it did not achieve its key objectives within the set timelines hence the challenges that have had the devastating effect on the successful implementation and management of IFMIS and should not be underestimated. This scenario has led leto re-engineering of IFMIS in 2011.

Initially, the implementation of IFMIS was done correctly in some institutions in Kenya for example in the Central bank but encountered challenges in its implementation in the government ministries and county governments thus have not attained most of the intended objectives. The implementation of the systems has proved to be a very demanding undertaking due to large amounts of funds involved in the IFMIS projects (Karanja & Nganga, 2014).

According to the World Bank (2014), most of IFMIS reforms fail not only because of the technical or content aspects of the reform programs but due to the inappropriate implementation strategy, inadequate capacity of human resources and lack of clear government policy for staff training. Politicians are at the heart of mismanagement of IFMIS project funds and are known to benefit largely through the existence of bureaucratic systems and lack of accountability.

3. Empirical Literature

A study carried out by Njonde and Kimanzi (2014) on the effect of integrated financial management information system on performance of public sector, a case of Nairobi County Government, found out that 68% of the respondents agreed that accuracy and speed were some of the benefits realized from using the IFMIS while 84% of the respondents indicated that budgeting have improved as a result of use of IFMIS leading to timely preparation of the budget.

Musee (2011) study on the factors affecting effective implementation of IFMIS in government ministries in

Kenya which found out that 73% of the users of IFMIS felt that resistance and sabotage affected to 'greater extent' the effective use of the IFMS system. Miheso (2013) carried out a study on the adoption of IFMIS by the National government in Kenya. The study establishes the challenges facing the adoption of IFMIS in the national government in Kenya with respondents citing lack of training as a major challenge.

Diamond and Khemani (2008) study of IFMIS in developing countries identified different kinds of reports which can be generated by the system which includes; sources and uses of funds, cash flow projections, budget variances, cost reports, balance sheets, returns on investment, aging of receivables and payables, and performance reports of all types. Hashim (2006) study on the core functional requirements for fiscal management systems found out that IFMIS is implemented and used successfully almost at all time in the commercial world.

In a research by Kimwele in (2011), he found out that although there was a satisfactory level of awareness of the existence of IFMIS by employees of the Government ministries, 37% of employees were of the opinion that adoption of IFMIS leads to proper planning. The study also found out that there is an abuse of the system.

Chebet (2013) carried out a study on the critical success factors in the implementation of the re-engineered IFMS in government ministries, Kenya. The study findings showed that research respondents had worked long enough in the ministries thus had intricate knowledge and understanding of how IFMIS works. The study also found that most government corporations that had adopted IFMIS reported an increase in their financial performance.

Muigai (2012) investigated the effect of IFMIS on the financial management of public sector in Kenya: a case of the Kenyan ministries. The researcher found out that IFMIS has greatly contributed Kenyan improvement in financial management. Chuma (2014) study on the IFMS and Its Effect on Cash Management in Eldoret West District Treasury, Kenya found out that flexibility of IFMIS positively affects cash management. The findings of the study also showed that a reliable IFMIS is basically one that is accurate, consistent, timely and complete in collection of information and the infrastructure as a result securing the system from destruction, unauthorized access, breach of confidentiality and corruption for efficient cash management.

Nyabuto (2009) Survey on the Extent of Implementation of IFMIS as a Tool for Sustainable Financial Management in Government revealed that there was resistance in the Ministries for the use of IFMIS due to lack of training and fear of unknown. Consequently, the government of Kenya has immensely enjoyed the advantages of a computerized accounting system because it is more reliable than the former stand-alone legacy systems. The study by Dener and Young (2013) study on the effects of IFMIS on publishing open budget data and effective use of IFMIS platforms to

publish open budget data noted that despite the widespread availability of 176 IFMIS platforms used by 198 governments around the world, good practices in presenting open budget data from reliable IFMIS solutions are highly visible in only 24 countries which is 12% of 198 countries sampled in the world.

3.1 Critiques of Empirical Literature

Analysis of the empirical literature revealed that there exists a gap that need to be filled by further study as pertained to the relationship between IFMIS and National and County government performance in Kenya. The gaps identified are in terms of the limited scope of the study, the area of the study and the variables of the study.

Njonde and Kimanzi (2014) study on the effect of integrated financial management information system on performance of public sector, a case of Nairobi County Government used descriptive statistics of percentages to bring out the performance variables of Nairobi County government in terms of accuracy and speed of the financial information and report budgets. This study did not bring out the relationship between IFMIS and performance of county government because correlation and regression analysis should have been considered instead of use of percentages only.

Musee (2011) and Miheso (2013) studies on the IFMIS and National government investigated majorly the challenges of IFMIS adoption in Kenya like lack of training and resistance of the usage of IFMIS. This study did not talk about the performance aspect of the national government as a result of IFMIS adoption thus a further study need to be undertaken relating IFMIS and national government performance.

Diamond and Khemani (2008) study of IFMIS in developing countries was only limited to reports generated by IFMIS but did not focus on the quality of these reports and how these reports have benefited the developing countries. Hashim (2001) study on the core functional requirements for fiscal management systems focused majorly the usage level of IFMIS and failed to undertake a research on how IFMIS correlated with the organization performance.

Kimwele in (2011) on IFMIS by employees of the Government ministries was concern with level of awareness and use of IFMIS for planning purposes hence descriptive statistics of percentages was used. This study did not relate IFMIS to performance which necessitates a further study. Chebet (2013) carried out a study on the critical success factors in the implementation of the re-engineered IFMS in government ministries, Kenya. The study was based on the level of adoption of IFMIS and financial performance. The study did not tell us to what extent does IFMIS affects performance.

Muigai (2012) investigated the effect of IFMIS on the financial management of public sector in Kenya: a case of the Kenyan ministries. The researcher found out that IFMIS has greatly contributed Kenyan improvement in

financial management but this is less convincing because it did not show to what extent in terms of percentages and regression coefficient which need to be undertaken further. Chuma (2014) study on the IFMIS and Its Effect on Cash Management in Eldoret West District Treasury, Kenya found out that flexibility of IFMIS positively affects cash management. The study focused on the reliability and usage of IFMIS system and failed to relate it with organization performance using financial and non-financial indicators.

Nyabuto (2009) Survey on the Extent of Implementation of IFMIS as a Tool for Sustainable Financial Management in Government focused on resistance in the Ministries for the use of IFMIS due to lack of training and fear of unknown. It also highlighted the reliability of IFMIS as compared to former stand-alone legacy systems. This study was meant to identify reasons for resistance in use of IFMIS and did not at all relate it to the performance of the national government thus a further study is inevitable to find out the relationship between IFMIS and government performance. Dener and Young (2013) on the effects of IFMIS on publishing open budget data and effective use of IFMIS platforms to publish open budget data was concern with use of IFMIS around the globe with little emphasis placed on how it leads to country performance.

In general, most of the studies conducted so far have been carried out in the National government of Kenya with the County government having limited studies. It is also evident from the studies that aspect of performance in both National and County government did not come out clearly because correct statistical analysis of inferential statistics was not used thus the researchers limited their studies to descriptive statistics. This does not explain the extent to which adoption of IFMIS leads to national and county government performance in Kenya.

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