RISK ASSESSMENT AND PUBLIC EXPENDITURE MANAGEMENT IN KERICHO COUNTY GOVERNMENT, KENYA

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ABSTRACT

During the decade from 1990 to 2000, a large number of well performing firms failed in their business performance possibly due to non-compliance with internal control systems in carrying out their day-to-day business operations. However, such non-compliance mounted pressure on financial regulators and professional bodies such as the Institute of Certified Public Accountants of Kenya, the Institute of Internal Auditors, Kenya Chapter, the County Government along with other similar organizations to come up with rules and regulations to strengthen management of public resources to ensure compliance with internal control systems and best practices for good corporate governance and prosperity. This study sought to establish the effect of internal control systems on public expenditure management in Kericho County Government. Particularly, the study sought to establish the effect of risk assessment on public expenditure management. The target population for this study comprised of 1140 employees of the Kericho County Government. A random sampling of 288 staff in various ministries and departments returned 277 (96.18%) valid responses. Research data was collected by use of a structured questionnaire. The data obtained was analyzed using both qualitative and quantitative analysis. Multiple regression models were used to test whether risk assessment has any influence on public expenditure management. The study recommended that managers should embrace enterprise risk management and good corporate governance to maximize on the financial benefits of internal control systems.

INTRODUCTION

Background of the Study

According to the Committee of Sponsoring Organization of Treading Commission (COSO) (2013). Internal Control System (ICS) is a processes designed and put in place by an organization’s top management to provide attainable goals and targets on the achievement of corporate goals by timely and accurate management of operations, reliability on financial reporting, and compliance with laid down rules and regulations.

Millichamp and Taylor (2012) state that ICS is not limited to a set of procedures and checks, but instead includes a whole range of activities and attitudes. The five components of ICS include; control environment, risk assessment, control activities, information and communication, and monitoring. A paradigm shift in internal control systems has occurred due to high public demand for transparency as well as accountability; more so by expectations of auditing standards.

Evolution of management control towards reorganization and recognition of demand for better control of organizational resources is another possible cause which has continuously re-engineered the evolution of internal control systems in both private and public sector (Millichamp & Taylor, 2012). According to Committee of Sponsoring of Treading Commission,
COSO (2013), American Institute of Certified Public Accountants (AIPCA) was the first institution to come up with professional guidelines and definition of internal control systems in 1949; then referred to as internal checks and balances, thereafter followed by further definition in 1958 and 1972 respectively. In 1977, the guidelines and definition of ICS was recognized and incorporated into the companies Act as law by the United States government due to public pressure necessitated by the findings of Watergate scandal whereby more than 400 companies incurred illegal payments amounting to over 300 million dollars (COSO, 1992).

According to Millichamp and Taylor (2012), a further evolution was witnessed in USA in 2002 by the enactment of the SOX Act fronted by two congressmen; Paul Sarbanes and Michael Oxley following the collapse of big companies like Enron, WorldCom, and Tyco International all of which sunk with billions of dollars belonging to American investors. The purpose of the SOX Act was to enforce internal control systems on corporate accountability on management of public resources by placing personal liability on the perpetrators of internal control systems through misuse, misallocation, and or embezzlement of public resources resulting from their ego and parochial interests.

The Committee of Sponsoring of Treading Commission (2013), indicate that Britain from which Kenya borrows a leaf on the enactment of laws governing management of public resources; financial or otherwise was not very keen on internal control systems up until around 1953 when the Institute of Chartered Accountants of England and Wales (ICAEW) came up with a broad definition of internal control systems although it had no binding effect on auditing standards requiring the examination of internal control systems. The scenario of the United Kingdom being keen on internal control systems became more serious in the early 1990s through the appointment of the Cadbury Commission whose mandate was task to look into the reasons companies performing exceptionally better in the 1980s were now going into reverse (Millichamp & Taylor, 2012). The other countries such as Australia, New Zealand and other English speaking countries adopted either the United States or United Kingdom scenario of tackling issues related to internal control systems while managing public resources.

In Kenya, implementation of internal control systems in the public sector which is the responsibility of the County Government in conjunction with ICPAK has not been very effective (Odhiambo, 2017). The County Government comes up with guidelines detailing how public resources should be managed; it thus prepares and submits national budgets to National Assembly for approval and thereafter disburses funds to the various public entities based on their needs. The County Government under whose docket the internal audit department employs and posts qualified internal audit personnel to government Ministries Departments and Agencies to review and report on the effectiveness of ICS to the Principal Secretaries in various ministries for necessary action.

Statement of the Problem

An internal control system is considered to be a significant factor in public expenditure management. An effective ICS is therefore supposed to ensure that public expenditure is properly budgeted for, directed towards projects identified through public participation by the civil society to help improve their livelihood, and that payments must be properly supported. ICS in the public sector in Kenya has been wanting for so long. Based on the Auditor General’s report of financial year 2014/2015, government MDAs incurred an estimated expenditure of Kshs.67 billion which did not have support documents to justify payment. In Kericho County Government a total of Kshs. 88,884,418.30 incurred by MDAs on various projects in the financial year 2014/2015, was not properly supported, consequently, there is some doubt as to whether the funds were applied on the intended projects hence the need to determine the effect of ICS on public expenditure management in Kericho County Government.

Objective of the Study

To establish the effect of risk assessment on public expenditure management in Kericho County Government.

Theoretical Literature Review

Agency Theory

Agency theory was brought by Alchian and Demsetz (1972) in their economic theory exposition and further developed by Jensen and Meckling (1976). In their auditing textbook, Millichamp and Taylor (2012), the writers characterize office hypothesis as the training through which profitable assets claimed by one individual or gathering are controlled by someone else or gathering of people.

Reinforcement of agency theory was necessitated by the introduction of corporate governance in the early 1990s through the publication of the Cadbury report by a commission chaired by Sir Andrian Cadbury to look into what caused the collapse of blue chip companies that were making super profits in the early 1980s that were going into reverse in the early periods of 1990s (Millichamp & Taylor, 2012).
According to Orina (2011), agency theory is the relationship which exists whenever one party known as the principal appoints another party known as agent and delegates decision making authority to it. The writer asserts that agency problem arises when the interests of the parties involved start to conflict; that is, the operator surrenders to self-intrigue, pioneering conduct and missing the mark regarding objective consistency between the expectations of the essential and the specialist's interests.

The Republic of Kenya Constitution (2010) views the public as the principals/electorates; thus the government has a binding fiduciary obligation to have the interest of the citizens come first to help in improving the principals’(electorates) welfare through having in place effective and efficient ICSs in managing the application of public resources. Agency theory has been widely used in literature in this study to assess the information asymmetry between the principals (electorates) and the agents (management). This study used agency theory to establish the effect of Internal Control Systems on public expenditure management in Kericho County Government because of the relationship between principals and the agents.

**Systems Theory**

According to Mullins (2010) systems theory was founded and developed by Ludwig Von Bertalanffy, a management scientist in 1951 and accredited with the principal that systems theory explains the interrelatedness of an organization’s whole or parts that work in harmony towards attainment of set goals. In an article titled “general systems theory” published in 1951, Bertalanffy emphasized that a system is comprised of an organizational with a complex social systems and which is more open to change. An open system is one which interacts with its surrounding environment in order to obtain raw materials/information which it processes and exchanges with the outside world contrary to an a closed system which does not interact with its surrounding environment.

According to Strathmore University (2014), a system refers to a set of interacting components that work together to accomplish specific objectives thus a business organization is organized in such way that it can accomplish a set of specific functions which involve the handling or manipulation of materials or resources be it human, financial or information to achieve its purpose. A system is referred to as an assembly of parts or components connected together in an entity that work together towards attainment of organizational objectives (Lucey T., 2007).

According to Collins (1997), systems theory is a framework or an arrangement of connecting parts that cooperate to achieve particular hierarchical objectives. Organizations are expected to be organized and structured in a manner that will make it possible to accomplish a set of specific functions. Therefore any situation that involves taking care of or control of materials or assets of any kind whether human, monetary or enlightening, must be sorted out, organized and spoken to as a framework. Within organizations, there exist sub-systems which perform various functions that are directed towards the achievement of the whole organizational objectives/goals.

Consequently, Collins (1997) further observes that a sub-system is a unit inside a framework that offers a few or the majority of the attributes of that framework. Sub-frameworks are little frameworks that make up a super-framework. Along these lines, all sub-frameworks are a piece of the bigger frameworks. All organizations are classified as open systems as opposed to closed systems, the reason being they interface with their environment for the exchange of information to help them receive inputs and process the same into outputs that will transform the lives of the citizens. Review of systems theory is important to this study since ICSs on management of public expenditure revolve around the smaller units/sub-systems/departments within the larger system. In the case of our study, Kericho County Government consists of sub-systems like the examination section, vote book section, bank reconciliation section, procurement section, cash office section, internal audit unit amongst others all of which work towards organizational objective congruence.

**Institutional Theory**

Institutional theory entails an approach directed towards understanding organizations and management practices as the product of social needs rather than economic driven forces. This has become a popular perspective within the precincts of management theory due to its ability to explain organizational behavior which defy economic rationality (Shuddaby, 2013).

Institutions are societal structures that have achieved an abnormal state of strength. They are contained in three sorts of isomorphic process; that is coercive, mimetic, and regulating. Coercive isomorphism happens with different associations on which the foundation depends pressurizes it to take after specific principles and controls or authorize models. Mimetic isomorphism emerges from hazy advancements for targets/objectives that prompt less lofty or less resourced establishments to show and
imitate those considered as pioneers inside an industry (Shuddaby, 2013).

Regulating isomorphism happens because of expanded professionalization because of expanded correspondence with best practices which empower homogenization of institutional exercises. A study carried out by Crank (2003) observed that institutions are formal associations/administrations which pass on a focal expert framework and culture which offers importance to the standard and customary activities consistently. Crank pointed out three elements of institutionalized organizations which include: organizational behavior and structure reflecting the values in its institutional condition. Associations above all else are in the administration of their constituents. They can be berated by the constituents on the off chance that they neglect to take after the justified arrangements and systems, save of positive relations with their constituents, systematized associations freely couple formal practices with the genuine conduct.

According to Zucker (1987) the intricacy of constituents relations are managed by freely coupling the formal position or corporate targets of the element to concretize the everyday tasks lastly rationale of good confidence which swarms hierarchical works on, blocking basic assessment and supervision. Authoritative individuals trust in the basic rightness of what they do. In review calling, this aspect can be a snag to endeavors of basically assessing continuous authoritative practices. County Government as an organization, whose responsibility is to ensure that public resources are channeled to the intended use, prepares guidelines and policies such as financial management regulations, manual on standardization of codes for funding and allocations, internal audit Manual and the Procurement guidelines. Every one of these records is the premise of assessing the proficient and adequacy of ICSs for the administration of open use. This theory is important in this study because it advances arguments in favour of enhanced corporate governance and creation of audit committees all involved in managing public expenditure.

**METHODOLOGY**

**Research Design**

This study was conducted through a correlation research design. A correlation research design is where a researcher tries to establish the relationship/association between two or more variables from a sample population (Kothari & Garg, 2017). The research adopted a correlational research design because it is easy and convenient to apply especially when trying to establish the relationship between the two or more variables.

**Target Population**

The study targeted employees working in ten ministries one department and one agency (MDAs) in Kericho County Government from which the respondents were randomly drawn. The target population was 1140.

**Sample Size**

The sample consisted 288 respondents randomly selected from the target population of 1140 using Krejcie and Morgan model of determining a sample from a given target population. The sample size was selected using stratified sampling procedure because the population was heterogeneous thus divided into strata to obtain a representative sample. Stratified random sampling is a probabilistic sampling technique whereby a population is grouped into elements with similar characteristics and there after a sample drawn from each sub-group for the study (Kothari, 2014).

**Data Collection Instruments**

The study mainly relied on primary data sources whereby data was collected through use of structured questionnaires with both open and close-ended questions administered to National Government employees working in Kericho County Government as the main respondents in the study on a drop and pick basis.

The researcher employed structured questionnaire as data collection instrument to allow a balance between quantity and quality of collected data. This was crucial because information collected was useful in explaining the phenomena under the study. Thus given that the sample size was one way or another large that is, 288 respondents, time constraint was the limiting factor, hence the reason questionnaires were appropriately used as data collection instruments.

**Data Analysis and Presentation**

The researcher used descriptive statistics in analyzing the collected data upon receiving responses. The responses were edited, coded and tabulated for easy of analysis through the application of Statistical Package for Social Science (SPSS) version. Inferential statistical regression and correlational analysis were done to establish the effect of ICSs on public expenditure management in Kericho County Government.
RESULTS AND DISCUSSIONS

Risk Assessment on Public Expenditure Management

The objective sought to find out the effect of risk assessment on public expenditure management. Respondents were asked to give their opinion on risk assessment in their ministry/department. The responses were on a likert scale; where strongly disagree (SD), disagree (D), neutral (N), agree (A) and strongly agree (SA).

### Risk Assessment

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry/department has a well-documented policy on risk management</td>
<td>124 (45%)</td>
<td>79 (28%)</td>
<td>33 (12%)</td>
<td>32 (12%)</td>
<td>9 (3%)</td>
<td>2.00</td>
</tr>
</tbody>
</table>

| Ministry/department maintains regularly updated risk register. | 89 (32%) | 111 (40%) | 39 (14%) | 28 (10%) | 10 (4%) | 2.13  |
| Management of ministry/department analyzes and classifies risks | 88 (32%) | 83 (30%) | 35 (13%) | 57 (20%) | 14 (5%) | 2.37  |
| Management of ministry/department encourages that may hinder the attainment of set objectives | 103 (37%) | 92 (33%) | 35 (13%) | 36 (13%) | 11 (4%) | 2.14  |
| Management of ministry/department regularly carries out a risk evaluation exercise | 76 (28%) | 113 (41%) | 33 (12%) | 40 (14%) | 15 (5%) | 2.19  |
| Management takes correction measures to mitigate identified potential risks | 103 (37%) | 95 (34%) | 34 (12%) | 35 (15%) | 10 (4%) | 2.20  |
| Ministry/department/agency has got a well-established risk management committee | 84 (31%) | 108 (39%) | 40 (14%) | 37 (13%) | 8 (3%) | 2.69  |
| Managers effectively communicates and informs employees and stakeholders on potential risk factors | 96 (34%) | 88 (32%) | 41 (15%) | 46 (17%) | 6 (2%) | 2.51  |

According to table, majority of the respondents 203 (73%) noted that the ministry and department does not have a well-documented policy on risk management, 33(12%) respondents were neutral, 41 (15%) respondents agreed. The mean was 2.00 a clear indication that the majority of the respondents were not in agreement with the fact that ministries have a well-documented policy on risk management.

Regarding the ministries/departments maintaining a regularly updated risk register, 89(32%) respondents strongly disagreed, 111(40%) respondents disagreed, 39(14%) respondents were neutral, 28(10%) respondents agreed and 10(4%) respondents strongly agreed. The mean was 2.13 which indicate that majority of the respondents disagreed that the ministries regularly updated the risk register.

On whether management of ministry/department analyzes and classifies risks on the basis of impact on goal attainment, 88(32%) respondents strongly disagreed, 83(30%) respondents disagreed, 35(13%) respondents were neutral, 57(20%) respondents agreed and 14(5%) respondents strongly agreed. Majority of the respondents were not in agreement hence posted a mean of 2.37. This implies that the ministries have not embraced the need to have risk management as part of their day to day operation and that in case of a disaster there is nothing to fall back to in these ministries.

Respondents (103(37%)) strongly disagreed that the top management of ministry/department encourages the identification of risks that may hinder the attainment of set objectives, 92(33%) agreed, 35(13%) respondents argued for the involvement of top management in identifying the risk that may hinder attainment of goals.

On whether the top management of ministry/department regularly carries out a risk evaluation exercise, majority of the respondents, 189 (69%) disagreed, 33 (12%) respondents were neutral while those who agreed that the ministry carried out risk evaluation were 55 (19%). The mean was 2.19, since most of the respondents disagreed,103(37%) respondents strongly disagreed that the top management takes correction measures to mitigate identified potential risks, 95(34%) respondents disagreed, 34(12%) respondents were neutral, 35(15%) respondents agreed and 10(4%) respondents strongly agreed.
agreed. The mean was 2.20 which indicate that majority of the respondents disagreed.

On whether ministry/department/agency has got a well-established risk management committee, 192 (70%) disagreed, 40 (14%) respondents were neutral while those who agreed that the ministry carried out risk evaluation were 45 (16%). The mean was 2.69, since most of the respondents disagreed.

On whether top managers effectively communicate and informs employees and stakeholders on potential risk factors, 96(34%) respondents strongly disagreed, 88 (32%) respondents disagreed, 41 (15%) respondents were neutral, 46 (17%) respondents agreed and 6 (2%) respondents strongly agreed. Majority of the respondents were not in agreement hence posted a mean of 2.51.

**Public Expenditure Management**

The response on public expenditure management in the respondents ministry/department and the responses are in a likert scale of 1 to 5 where; 1 is Strongly Disagree; 2 is Disagree; 3 is Neutral; 4 is Agree, 5 is Strongly Agree. According to Table 4.7, top managers in the ministries and department use public money as per the approved budget; this is according to 62 (23%) of the respondents while the majority of the respondents 163 (59%) noted that top managers in the ministries and department do not use public money as per the approved budget. Majority of the respondents 167 (60%) said that citizens are not contended with the projects undertaken while 68 (25%) of the respondents are contended with the projects undertaken and that the government gets value for its money used on the projects according to 66 (24%) of the respondents. Those who noted that the government gets value for its money used on the projects were 173 (62%) while those who were undecided were 38 (14%). Majority of the respondents 164 (59%) said that the projects undertaken does not improve the social welfare of the citizens while 75 (27%) of the respondents agreed that projects undertaken improves the social welfare of the citizens and that the application of public money has encouraged citizens to pay tax willingly according to 49 (18%) of the respondents. Majority of respondents 194 (70%) respondents disagreed that the application of public money has encouraged citizens to pay tax willingly.

<table>
<thead>
<tr>
<th>Public Expenditure Management</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers uses public money as per the approved budget</td>
<td>108</td>
<td>62</td>
<td>32</td>
<td>55</td>
<td>20</td>
<td>2.34</td>
</tr>
<tr>
<td>Citizens are contended with the projects undertaken</td>
<td>56</td>
<td>121</td>
<td>34</td>
<td>51</td>
<td>15</td>
<td>2.45</td>
</tr>
<tr>
<td>The government gets value for its money used on the projects</td>
<td>84</td>
<td>81</td>
<td>44</td>
<td>51</td>
<td>17</td>
<td>2.41</td>
</tr>
<tr>
<td>The projects undertaken have improved the social welfare of the citizens</td>
<td>68</td>
<td>96</td>
<td>38</td>
<td>61</td>
<td>14</td>
<td>2.48</td>
</tr>
<tr>
<td>The application of public money has encouraged citizens to pay willingly</td>
<td>91</td>
<td>103</td>
<td>34</td>
<td>39</td>
<td>10</td>
<td>2.18</td>
</tr>
</tbody>
</table>

Table reveals that the projects undertaken by the ministries and departments have not increased chances of employment for the youths according to the response of 163 (59%) respondents but according to the response of 62 (23%) respondents the projects undertaken by the ministries and departments have increased chances of employment for the youths. The projects undertaken by the ministries and departments have accelerated economic growth this is true according to 68 (25%) of the respondents while the majority of the respondents 167 (60%) it has not accelerated economic growth. The involvement of citizens in the commissioning of the projects undertaken by the ministries and departments was witnessed by 66 (24%) respondents while the majority of the respondents 173 (62%) had not witness the involvement of citizens in the commissioning of the projects undertaken by the ministries and departments. Majority of the respondents 164 (59%) noted that the projects undertaken by the ministry have not led to development of good infrastructure due to mismanagement but 72 (26%) of the respondents agreed that have been put to good use and have lead to the development of good infrastructure. All projects undertaken by the ministries and departments are completed on time according to the response of 45 (17%) respondents while the majority of the respondents 185 (66%) noted that projects undertaken...
by the ministries and departments are not completed on time.

**Inferential Statistics**

This section presents the results of inferential statistics that were used which included; Pearson correlation coefficient and multiple regression analysis.

### Multiple Regression Analyses

A multiple regression analysis was carried out to establish combined causal relationship between predictor variables and the dependent variable and the results are shown in Table 2.

**Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Un-standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.219</td>
<td>.049</td>
<td>4.453</td>
<td>.000</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>.253</td>
<td>.054</td>
<td>.237</td>
<td>4.723</td>
</tr>
</tbody>
</table>

The relationship between risk assessment and public expenditure management statistically significant (β =0.253p<0.05). This means when risk assessment is increased by an additional unit, public expenditure management increases by 0.253.

### Discussion of the Findings

The risk assessment on public expenditure management in Kericho County Government was positively and statistically insignificant. This meant that the ministries and departments had not fully embraced the risk assessment which according to Ray and Pany (2001) risk assessment is policies and procedures that help ensure that management directives are carried out. The results of Tunji (2013) and Dhillon (2001) who noted that organizations need to set rules, policies, and procedures and implements them to provide reasonable assurance that: (a) its financial reports are reliable, (b) its operations are effective and efficient, and (c) its activities comply with applicable laws and regulations. There is need for the ministries and departments to ensure that risk assessment which entails coming up with policy establishing what should be done and procedures to effect the policy and that all developed policies must be implemented thoughtfully, conscientiously and consistently to achieve the desired objectives results (Anduuru 2005).

### CONCLUSIONS AND RECOMMENDATIONS

**Relationship between Risk assessment and Public Expenditure Management**

Factor analysis was done to filter the risk management items to manageable and meaningful size of 0.4 and above. All the 8 questions were retained for further analysis. The results indicated that risk assessment does not exist in the ministries and departments where, 73% of respondents indicated that there is unsatisfactory risk assessment embedded in the running of ministries and departments in Kericho East. However, 12% were undecided and 15% indicated that Risk management was entrenched. The correlation analysis indicated that there is a negative significant relationship between Risk management and public expenditure management. The negative relationship was represented by 0.053 and the number of respondents was 276. The results and findings therefore conclude that there was no significant association between risk assessment and public expenditure management.
**Recommendations**

The managers should embrace enterprise risk management and good corporate governance to maximize on the financial benefits of internal control systems. Good corporate governance will not only ensure that management does not override the internal controls but also help in reducing corruption and assist in enhancing public expenditure management of their ministries and departments.

**REFERENCES**