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EFFECT OF INTERNAL CONTROLS ON PUBLIC FINANCE MANAGEMENT OF BUSIA COUNTY GOVERNMENT, KENYA

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Abstract

The role of internal control in the public sector organization is to support the system to establish and at the same time foster the accountability of the decision maker. Despite the internal control measures that have been put in place, the Kenyan public sector continue to be criticised for misuse of funds and failure in service delivery. The objective of this research was to establish the effect of Control Environment on Public Finance Management of Busia County government. The study was guided by the Agency Theory. This study adopted descriptive research design. The target population of the study was 181 employees of Busia County Government with sample of 125 respondent's selected using Yamane formula. Data was collected through self designed structured questionnaires. Data was analysed using descriptive and inferential analysis. The study findings indicated that, control environment (β = 0.314; p= 0.000) was significant factor that enhance Public Finance Management. The study therefore recommended that, the county government needs to avail competent internal and external professionals who have responsibilities of making an effective and efficient control environment. Lastly there is a substantial amount of research that still needs to be done on internal control systems since it's a wide subject and plays an essential role in all areas of the organization in making the operations

effective and efficient hence minimize errors and irregularities and thus a further study can be done to find out its effects on corporate governance.

Keywords: Control Environment, Internal Controls, Public Finance Management, Kenya

INTRODUCTION

The wave of corporate scandals that were witnessed in the mid 1990's brought into light the need for internal control systems in organizations. Internal control (IC) as defined by the International Organization of Supreme Audit Institutions (INTOSAI, 2001) is an integral process that is set up by the management and personnel of an organization and designed to address risks and provide reasonable assurance that in pursuit of the organization's mission, the following objectives are being achieved: First, executing orderly, ethical economical efficient and effective operations. Second, fulfilling accountability obligations. Thirdly, complying with applicable laws and regulations and lastly, safeguarding resources against loss, misuse and damage. Internal control is therefore solely not a procedure or policy performed at a certain point. Relatively, it is a continually operating, integrated system at all levels within an organization (Haron, Ibrahim, Jayaraman & Chyne, 2010). Business organizations face numerous risks daily and these risks include the failures of internal control mechanism, financial fiasco, catastrophe or environmental disasters, non-compliance, and regulatory violations. These risks are worsened by the advancement of technology, high acceleration in the pace of business, multi-faceted financial sophistication, and globalization, which have all contributed in amplifying the complexity of risks for companies to endure (Mohamed, Jamaliah and Mahmudul, 2015).

A good internal control system benefits an organization by preventing the incidence of poor financing and by helping organizations to work effectively and in harmony while detecting errors and irregularities in their operation (Wardwiyono, 2012). Organizations also recognise the importance of internal control system and risk management, which have been viewed as useful tools in safeguarding the overall achievements of a company's objectives and in increasing the value of shareholders (Aziz, 2012).The role of internal control in the public sector organization is to support the system to establish and at the same time foster the accountability of the decision maker (Bianchi, 2010). Failure to establish a reliable and dependable system could harm the organization in many ways and expose the risks to the efforts of nurturing accountability in the public sector (Mohamad, Jamaliah, & Mahmudul, 2015).

The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) internal control – integrated framework, defined internal control as a process, set up by an organization's board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories: Effective and efficient of operations, reliable financial reports, compliance with applicable laws and regulations. The COSO(2013) framework goes further to identify five main components of internal control against which this study will be specific to the control environment variable. These include control environment, risk assessment, control activities, information and communication and monitoring. According to COSO (2013), properly established systems of internal control will enhance the reporting process and also give rise to reliable reports which improves the accountability function of management of an entity. These components according to INTOSAI (2001), define a recommended approach for internal control in government and provide a basis against which internal control can be evaluated.

The control environment is a set of standards, processes and structures that provide the basis for carrying out internal control across the organization (COSO, 2013). Control environment is the foundation for the entire internal control system. It provides the discipline and structure as well as the climate which influences the overall quality of internal control. It has overall influence on how strategy and objectives are established, and control activities are structured. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance

Globally, large multinational organizations have witnessed corporate failures in the recent years. In America, investors lost $180 billion in World Com Scandal of 2002, $150 million in Tyco Scandal of 2002, $1.4 billion in Heath South Scandal of 2003 (the largest publicly traded company) and $3.9 billion in America International Group (AIG) scandal of 2005, among several financial fraudulent activities. In the early 2000s, a number of high-profile corporate accounting scandals resulted in some investors, company personnel and other stakeholders suffering significant losses. These scandals resulted in demands for a greater emphasis on corporate governance. In July 2002, the United States Congress passed the Sarbanes-Oxley Act (SOX) in an effort to reduce public concern over a number of high profile corporate failures in the US (Kinyua, Gakure, Gekara and Orwa, 2015).

In Nigeria, the managing director and chief financial officer of Cadbury Nigeria were dismissed in 2006 for inflating the profits of the company for some years before the company's foreign partner acquired controlling interest. These scandals emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-making. These executives are legally and morally obliged to produce honest, reliable, accurate and informative corporate financial reports periodically (Hayes, Dassen, Schilder & Wallage, 2009).

As cited by Dagbah (2011), the Auditor General's report for the financial periods 31st December, 2006-2008 in Ghana disclosed some serious defects which needed to be addressed to ensure prudent management of resources. The defects included: unacquainted payments, unpresented payment vouchers and misappropriation of revenues and other receipts, contract irregularities, poor debt management and huge debt stock among others.

In Kenya, many government institutions, including state corporations and ministries have had major weaknesses in public finance management, which has led to corporate failures, poor performance, wealth destruction, fraud and corruption. According to Kinyua (2016), statistics available from Capital Markets Authority (CMA) 2014 have shown that a high number of firms especially quoted companies have registered declining financial performance in the recent years. Examples include Kenya Airways which reported a loss of Ksh10 billion, Mumias Sugar Company Ksh3.4 billion loss, Uchumi Super Markets Ksh226 million loss, Eveready East Africa limited Ksh248 million loss, CMC Holding suspended from NSE among others. Annual reports by the auditor general continue to reveal massive cases of misappropriation and misuse of funds in the public sector. For example a special audit report carried out by the Auditor General on IEBC on the procurement of Biometric Voter Registration (BVR) Kits in 2014 disclosed irregularities in the procurement procedures. Another special report on the Judicial Service Commission (JSC) in 2014 also revealed a number of irregularities, override of stipulated controls, overstepping of mandate and breach of procurement laws and regulations, and weaknesses in the judicial internal control environment. The annual reports by the Auditor General on the performance of county governments have exposed weaknesses in the internal control systems resulting in low revenue collection, over expenditure, stalled projects, delayed disbursements from the National treasury and pending bills.

Statement of the Problem

Since the promulgation of the new constitution in 2010, there has been increase in the flow of funds from the national government to the county governments. Prudent management of these funds is necessary to ensure the government fulfils its obligation to the citizens. A strong public finance management (PFM) system should ensure allocative efficiency of public resources, operational efficiency, effective delivery of public services and promotion of accountability and transparency (Lawson, 2015). This has however been illusive in the county governments. The annual reports by the Auditor general on the performance of county governments have exposed weaknesses in the internal control systems resulting in low revenue collection, over expenditure, stalled projects and pending bills. For instance, the Auditor General's report on financial operations of Busia County Executive for the year 2013/2014 revealed that Kshs 127 million was spent on domestic travel, subsistence and other transport costs against a provision of Kshs 87 million resulting in an over expenditure of Kshs 40 million. The Auditor General's report on operations of the Busia County Executive for the year 2015/2016 also revealed that projects worth Kshs 118 million were initiated but had stalled due to lack of feasibility study on their viability. Inadequate internal control measures may expose the financial management of the public sector to certain threats such as incorrect financial reports, loss of government assets, incorrect and unreliable reports, inefficient service delivery and non-attainment of the organization goals.

A study by Mwachiro (2013) on the effects of internal controls on revenue collection: a case of Kenya Revenue Authority, Kenya, recommended a replication of the same study in the county governments of Kenya. Maina, Muturi, Atambo & Nyamasege (2016) carried out a study on the effect of internal systems on implementation of projects at county government in Kenya. The researchers however, focused only on county projects. On the other hand, Cheruiyot, Oketch, Namusonge & Sakwa (2017) noted that if wanton financial mismanagement of public funds is not checked, the gains already made in fiscal devolution and public finance management will be eroded. This study therefore sought to establish the effect of the internal controls on public finance management of Busia County Government, Kenya.

Research Objectives

To establish the effect of the control environment on public finance management of Busia County Government, Kenya.

Research Hypothesis

$H0_1$: Control environment has no significant effect on public finance management of Busia County Government, Kenya.

LITERATURE REVIEW

Theoretical Literature Review

Agency theory which has its roots in economic theory was first exposited by Alchian and Demsetz (1972) and further developed by Meckling & Jensen (1976). An agency relationship is one in which "one or more persons (the Principal) engages another person (the agent) to perform some service on their behalf which involves delegation some of the decision making authority to the agent" (Meckling & Jensen, 1976). There are many forms of agency relationship, the most recognizable form being that of employer and employee. The other forms include constituents (Principal) and elected representative (agent) or shareholder (Principal) and CEO (agent). In this study, we will look at agency in two forms. That is the relationship between the management (Principal) and the employee (agent) and the relationship between the constituents (taxpayer) as the principal and elected representative (in this case the governor) as the agent.

The underlying assumption of agency theory is that all individuals are considered to be motivated solely by self-interest and therefore the action taken by the agent may diverge from the cooperative action. Agency theory is therefore the study of agency relationship and the issues that arise from this, particularly the dilemma that the principal and agent, while nominally working towards the same goal, may not always share the same interests. Agency theory therefore, largely focuses on methods and systems – and their consequences that arise to try and align the interests of the principal and the agent. The agency relationship can have a number of disadvantages relating to the opportunism or self-interest of the agent: For example the agent may not act in the best interest of the principal, or the agent may act only partially in the best interest of the principal. There can be a number of dimensions to this including for example, the agent misusing their power for pecuniary or other advantage, or the agent not taking appropriate risks in pursuance of the principal's interests because the agent views those risks as not being appropriate while on the other hand the principal may have different attitudes to risk (Kinyua, 2016).These actions will result in agency problems. There will therefore be the need for management to address agency problems through contracting arrangements and other control mechanisms.

Another problem of agency relationship is information asymmetry. This is where the principal and the agent have access to different levels of information, in practice this means that the principal is at a disadvantage because the agent has more information. In formal agency literature, this situation is referred to as moral hazard and adverse selection. Moral hazard refers to a lack of effort by the agent, i.e. the agent is shirking his/her duty and does not make the effort that was agreed upon. Adverse selection refers to misrepresentation by the agent, where he/she claims to possess certain skills or abilities. In order to try and align the interests of the agent and the principal and minimize information asymmetry, management has to invest in controls such as budget systems, internal audit, audit committees, incentive schemes and reporting and disclosure procedures. This theory will be used in this study to explore what control mechanisms the county government of Busia has put in place to try and align the interests of the principal and the agent. Agency theory therefore supports the existence of the control environment, control activities and Monitoring. Agency theory has however been criticized for only considering the interests of the employer and employee while ignoring other stakeholders.

Effect of Control Environment on Public Finance Management

In their study, Kinyua, Gakure, Gekara and Orwa (2015) on the effect of internal control environment on financial performance of companies quoted in the Nairobi Stock Exchange Kenya, the researchers observed that there is a significant association between internal control environment and financial performance. The study adopted a survey research design. The population of the study was 62 companies quoted on the Nairobi Stock Exchange. A sample of 38 companies was selected from the population using stratified random sampling technique. The study relied on both primary and secondary data. Data was collected using structured questionnaires. Analysis of data was done using both descriptive and inferential statistics. The results were presented in form of frequency tables, averages were determined and tests of hypothesis like ANOVA, Chi-square and correlation analysis were done. Data was analysed using Statistical Package of Social Scientists (SPSS). Other methods of data collection such as interviews should have been used to improve the results.

Sanusi, Johari, Said and Iskandar (2015) did a study on the effects of internal control environment, financial management and accountability of NPOs: The perspective of mosques in Malaysia. The primary objective of the study was to examine the effect of management control systems that is the control environment, budget participation, funds usage and accountability that influences financial management practices in Mosques in Malaysia. Data for the study was collected from primary sources by distributing self-reporting questionnaires to members of the mosque committee who manage the mosques. Data collected was analyzed using both descriptive and inferential statistics. The results of the study revealed that internal control environment plays an important role in ensuring effectiveness in financial management. The study therefore suggested that a proper and accurate recording of financial transaction will enhance the accountability of chairman and treasurer thus improving the productivity and performance effectiveness. The response rate of the study was only 42.2% which is too low. The researcher relied on primary data only. Other sources of data such as financial reports should have been utilized to improve the results of the study.

Vitayanti and Nini (2017) researched on the effect of control environment, risk assessment, control activities, information and communication and monitoring towards fraud prevention in the local government of Palu, Indonesia. The objective of the study was to examine the overall effect of control environment, risk assessment, control activities, information and monitoring towards fraud prevention in the local government of Palu, Indonesia. The researcher used verificative research with quantitative approach. Data for the study was collected from primary sources through use of questionnaire. The researcher used census method to collect data. The results of the study were analysed using both quantitative and inferential statistics. The results of the statistical test using multiple regression revealed that control environment has no significant effect towards fraud prevention in the local government of Palu. The researcher however, relied only on primary data as a source of data collection. To improve the results of the study, other methods such as financial reports should have been employed.

Nuswantara, Maulidi and Pujiono (2017) carried out a research on the efficacy of control environment on fraud deterrence in local government in Indonesia. The study adopted mixed methods research. The researchers were guided by the contingency theory. Data for the study was collected using questionnaires and interview. Purposive sampling technique was used in selecting the sample size. Data analysis was done using both descriptive and inferential statistics. The findings of the study concluded that the discretion of control environment that is the encouragement of a local government control environment is considered as a springboard for fraud deterrence and can be the loophole in government control systems. In measuring the control environment, the researchers used the following measures: commitment to integrity and ethical values and tone at the top and failed to consider other measures such as organization structure, human resource policy and competence of personnel and their effect on fraud deterrence in the local government.

Rizaldi and Yurniwati (2015) did a study on control environment analysis at Government Internal Control System: Indonesia Case. The aim of the research was to determine control environment conditions in government internal control systems. The research adopted a descriptive study. The respondents of the study were sampled using purposive sampling technique. The data for the study was obtained through observation, questionnaires and in depth interviews. Data was processed using statistical software SPSS and analysed with descriptive statistic. . The researcher observed that weaknesses in the internal control environment conditions hindered many Indonesia local government to implement good financial management. The research however, is a case study and therefore cannot be used as a generalization.

Tusek and Barisic(2016) studied the importance of the supportive control environment for internal audit effectiveness – the case of Croatian companies. The researchers' main objective was to investigate whether a supportive control environment is associated with internal audit effectiveness and what characteristics of a control environment are important. A survey was conducted using questionnaires on a population of 54 companies in Croatia. The survey results were analysed using both descriptive and inferential statistics. The results of the study showed that there is a statistically significant correlation between perceived Internal Audit effectiveness and a high level of supportive control environment. The study however, was carried out on a sample of only 54 companies. This sample size is considered small given that the research was carried out in the whole country.

MATERIALS AND METHODS

The study employed a descriptive survey research design. The study targeted 181 senior and middle level employees of Busia county government, with a sample of 125 respondents sampled through proportionate stratified random sampling. The study used 5-point Likert self developed questionnaires as the method data collection instruments. Cronbach's coefficient alpha was applied on the results obtained to establish relationships between variables; a Cronbach alpha of 0.70 was obtained which confirmed the reliability of the research instruments

Data was analysed through the use of descriptive and inferential analysis. Descriptive statistics such as frequency, mean and percentages was used to summarize and relate variables which were attained from the study. Regression and correlation analysis were used to come up with the model expressing the hypothesized relationship between the independent variables (Control environment) and public finance management of Busia County Government. Regression analysis according to Marshall and Rossman (2006), is a statistics process of estimating the relationship between variables. The Regression model for the study was as shown below:

$Y=\beta_0+\beta_1X_1+\varepsilon$……………………………………………………………….………..Equation 1

Where:

Y represents public finance management

β_0 represent Intercepts of equation (Constant)

β_1, represents coefficients of variables

X_1 represents control environment

RESULTS AND DISCUSSION

Relationship between Control Environment and Public Finance Management

The correlation analysis results of the relationship between control environment and public finance management of Busia County Government, Kenya was presented in Table 1.

Table 1: Control Environment

		Control Environment	Public finance management
Control Environment	Pearson Correlation	1	
	Sig. (2-tailed)		
Public finance management	Pearson Correlation	.915**	1
	Sig. (2-tailed)	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

These study findings indicated that the relationship between control environment and public finance management was positive and statistically significant (r = .915; p< 0.05). This implies that control environment positively and significantly influences public finance management of Busia County Government. These findings can be corroborated by those done by Nuswantara, Maulidi and Pujiono (2017) who concluded that the discretion of control environment that is the encouragement of a local government control environment is considered as a springboard for fraud deterrence and can be the loophole in government control systems.

Assumptions of Regression Model

To provide unbiased estimates of the study parameters, various assumptions of regression were tested. These include normality assumption, linearity assumption and homoscedasticity assumption of the independent variables.

Test of Normality assumption

Regression assumes that variables have normal distributions. Non-normally distributed variables can distort relationships and significance tests. Visual inspection of data plots was used to test the normality assumption.

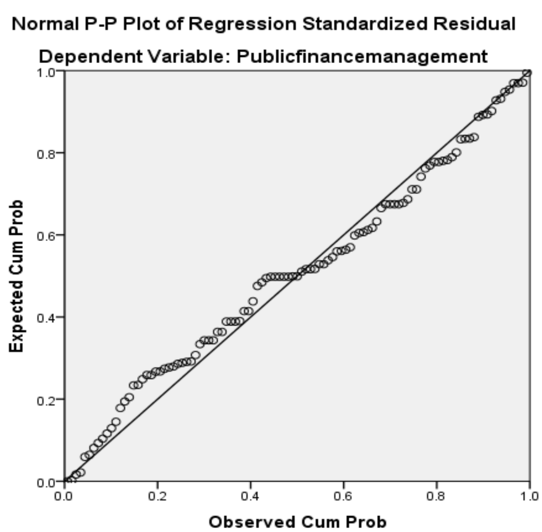

Figure 1: Test of Normality assumption

From the plots in the Normal P-P as presented in figure 1 below, the results clearly shows a normal distribution along the diagonal line. The distribution is not skewed to either side of the plot implying a normal distribution.

Test of Homoscedasticity assumption

Homoscedasticity assumes that the dependent variable show an equivalent level of variance across the range of predictor variable. Homoscedasticity is one of the assumptions required for multivariate analysis.

Table 2: Test of Homoscedasticity assumption

Test	Durbin-Watson
Value	1.965

The study used Durbin-Watson statistic to test the assumption of Homoscedasticity, the Durbin-Watson statistic should be between 1.5 and 2.5. The results in Table 2 indicated that The Durbin-Watson statistic is 1.965 which is between 1.5 and 2.5 and therefore the data is not auto correlated.

Test of Multi-Collinearity

The assumption of multicollinearity implies that there is no correlation between independent variables. The standard issue in multicollinearity is that, the standard errors and thus the variances of the estimated coefficients are inflated when multicollinearity exists (Simon, 2004). Test for multicollinearity among study variables was conducted using Tolerance and Variance Inflation Factor (VIF). The results are presented in Table 3.

Table 3: Test of for Multi-collinearity

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Control Environment	.192	5.198

Variance Inflation Factor was checked for evidence of multicollinearity where their numerical values were all well below the cut-off value of 10 suggested by Neter, Kutner, Wasserman and Nachtsheim (1996). Gujarat and Porter (2010), view that as a rule of the thumb if VIF of independent variables exceeds 10, that variable is collinear. Based on this rule of the thumb, there was no collinearity among the independent variables. From the results, inspection of the Variance Inflation Factors (VIFs) showed that multicollinearity was not a concern. No variable was observed to have VIF value above 10 and no tolerance statistic was below 0.100 as suggested by Hamilton (2006). This hence led to a conclusion that no predictor had a strong linear relationship with any of the predictor(s).

Linearity Assumptions

Linearity assumption accurately estimates the relationship between dependent and independent variables. This is presented on Table 4.

Table 4: Linearity Assumptions

		Control Environment	Public Finance Management
Control Environment	Pearson Correlation	1	.
	Sig. (2-tailed)		
Public Finance Management	Pearson Correlation	.915**	1
	Sig. (2-tailed)	.000	

Linearity assumption was done using Pearson correction which tests if the relationships are linear in nature, Non linearity of the regression analysis under-estimate the true relationship between the study variables. This was done by use of the Pearson product moment correlation. Saunders, Lewis, and Thornhill, (2012) indicated that a correlation of 1 shows a Perfect linear correlation, correlation of between 0.9 and 1 indicates strong positive correlation, correlation between 0.7 and 0.9 high Positive correlation, correlation of between 0.5 and 0.7 indicates a moderate Positive correlation, correlation of 0 and 0.5 shows a weak correlation while a correlation of 0 indicates No relationship and a correlation of -1 indicates a negative relationship. Linearity assumption was therefore satisfied. This implies that all the dimensions of control environment under study jointly have a positive and significant relationship with public finance management of Busia County Government, Kenya.

Multiple Regression Analysis

The study sought to establish a combined effect of control environment on public finance management of Busia County Government, Kenya. The results of multiple regression analysis shown in Table 5.

Table 5: Multiple Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.963[a]	.928	.925	.18974

a. Predictors: (Constant), Control Environment

b. Dependent Variable: Public Finance Management

The findings indicate that the relationship between internal controls focused on this study and public finance management was positive (R^2=0.928) .Findings indicate that 92.8% of the variation in public finance management is accounted for by the independent variable (Control Environment) in the study. The 7.2% of the public finance management of Busia County Government resulted from other factors not investigated by the study. The standard error provides the absolute measure of the typical distance that the data points fall from the regression line. The standard error is an important indicator of how precise an estimate of the population parameter. A smaller value of the standard error of the estimate indicates the precision of the population parameter.

Assessing the Fit of the Multiple Regression Model

Multiple regression analysis was conducted to test the influence among predictor variable on public finance management of Busia County Government. The null hypotheses were tested using F statistic. The test results are shown in Table 6.

Table 6: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.302	4	11.576	321.519	.000[b]
	Residual	3.600	100	.036		
	Total	49.902	104			

a. Dependent Variable: Public finance management

b. Predictors: (Constant), Control Environment

The findings showed that there was a statistically significant relationship between the independent variable and the dependent variable (F= 321.52; $p<0.05$). This therefore indicates that the multiple regression model was a good fit for the data. It also indicates that control environment influence public finance management of Busia County Government.

Individual Regression Coefficients

The study employed multiple regression analysis to test the hypotheses. Multiple regression analysis was conducted to test the influence among the study variables control environment on public finance management of Busia County Government. This was done with a significance level of 0.05, such that when the significance value is less than the 0.05 the null hypothesis is rejected and when it is above 0.05 it is accepted. These results were presented in Table 7.

Table 7: Individual Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.224	.119		1.875	.064
Control Environment	.263	.051	.314	5.130	.000

a. Dependent Variable: Financial performance

From the study, Hypotheses one stated that;

H_{01}: Control environment has no significant effect on public finance management of Busia County Government, Kenya.

The results showed that control environment was positive and significant predictor of public finance management of Busia County Government with (β = 0.314; $p< 0.05$). The null hypothesis was therefore rejected. The study hence concluded that there was a significant relationship between control environments and public finance management of Busia County Government. This implies that control environment affects public finance management of Busia County Government. In addition, it is confirmed that for each unit increase in control environment there is 0.314 unit increase in public finance management as depicted in Table 7. The influence of control environment was stated by the t-test value of 5.13, which implies that the standard error associated with the parameter warrants the rejection of the null hypothesis. t is simply the calculated difference represented in units of standard error. The greater the magnitude of t (it can be either positive or negative), the greater the evidence against the null hypothesis that there is no significant difference (Runkel, 2017). This study concurs with the study by Nuswantara, Maulidi and Pujiono (2017) who stated that, the discretion of control environment that is the encouragement of a local government control environment is considered as a springboard for fraud deterrence and can be the loophole in government control systems.

CONCLUSION

From the findings of the study, it was concluded that control environment was a predictor for public finance management of Busia County Government. The study also concluded that, the management of county government demonstrates high level of integrity and ethical values in the performance of their duties, Human Resource policies and practices are well defined and the same are used in the hiring process, the organization structure of the county government is clearly defined in terms of lines of authority and responsibility, the County government demonstrates a commitment to attract, develop and retain competent employees and the county government holds individuals accountable for their internal control responsibilities

RECOMMENDATIONS

Recommendations for Policy and Practice

Based on the objectives and conclusions this study recommends;

From the study findings, the study recommends that Busia County Government should ensure compliance with laws, regulations and operational controls in their internal control systems.

They should ensure that it has implemented policies that ensure the internal control problems are identified and ensure availability of adequate financial controls; they should also ensure that the financial controls are effective.

As indicated by the study, an effective control environment needs more than good controls thus the county government needs to avail competent internal and external professionals who have responsibilities of making an effective and efficient control environment. Organizational auditors furthermore should ensure effective control activities in their institution including the policies and procedures ensuring necessary actions are put into place to address risks to the achievement of the organization's set objectives.

Further it is recommended that, counties should ensure efficiency of monitoring activities as an element of internal control system is well managed in the accounts departments so as to enable all parties within the department to freely access and utilize the official information.

The study also recommended that county governments should ensure the physical security of assets that include enough safeguards like secured facilities over access to records, assets and authorization for accessing data files and computer programs and together with periodic counting and comparing the amounts showing on the control records this will ensure effective corporate governance.

The county government of Busia should ensure that an independent internal Audit unit is in place to ensure continuous evaluation and monitoring of internal controls to ensure effective and efficient public funds management.

Recommendations for Further Research

This study focused on only one element of internal control as the independent variable. A similar research should be carried out incorporating all the five elements of internal control to establish what effect this will have on management of public funds. From the study findings it is clear, there is a substantial amount of research that still needs to be done since it's a wide subject and plays an essential role in all areas of the organization in making the operation effective and efficient hence minimize errors and irregularities and thus a further study can be done to find out its effects on corporate governance. Whilst this study focused on the effects of internal controls on public finance management, further studies should focus on other factors affecting public finance management in the public sector. Further, owing to the limitations of the study it is suggested that same study be done in other sectors and institutions as the results on the current study may not be generalized to other institutions and counties.

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