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Budget Management Practices and Controls on Effective Management of Finances in Public Universities in Kenya

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Abstract:

Financial management is a critical function in organizations success. As a result, institutions that manage their finances well have higher chances of success. Universities are supposed to be centers of excellence in teaching and practice. However, financial management practices in public universities in Kenya remains a challenge owing to a number of indicators recently manifested by the office of Auditor general. Universities were found to be operating on negative working capital, fraud, excessive outstanding fees, excessive borrowing and uncontrolled capital expenditure. This study therefore sought to assess how budget management practices and controls affects financial performance of Public Universities with campuses in Nakuru Town. Explanatory research design was used. The target population comprised of 328 finance officers, accountants and accounts clerks from five public universities with campuses in Nakuru Town. From this a sample of 76 finance staff was selected proportionately from each University. Data was then elicited from selected respondents using structured questionnaires. The study revealed that financial performance of public universities was significantly affected by the extent to which budget management practices were upheld, and the financial controls in place. There was less emphasis placed on external audits and the implementation of audit reports as well as risk management.

1. Introduction

Financial resource is considered as an important resource to many institutions and establishments (Allis,2004). This means that it must be effectively and efficiently managed to bring about the needed change and results from the activity for which the funds have been made available. However, sometimes this important resource is mismanaged and misappropriated by those put in charge (Rosen & Gayer, 2010).

Globally, there has been a shift in government laws and regulations dealing with Public Universities in the last decade or two in which Public Universities have transformed from simple governmental agencies into public corporations, giving the management new authority and sometimes corporate-style governing boards coupled with new accountability requirements (Altbach, Reisberg & Rumbley, 2009)

The changes in management of Public Universities imply that Universities globally have a greater duty in management and autonomy in finance management. In Kenya, University education in began in 1963 with just 571 students enrolled in Nairobi University College (Weidman, 1995). Since then, the system has undergone some commendable expansion, and by the year 2014 there were 22 Public Universities, 14 Chartered Private Universities and 12 Universities with Letter of Interim Authority (LIA) (Commission for University Education (CUE), 2014). The rapid uncontrolled expansion of Public Universities in Kenya has led to various challenges especially in the management of University Finance. Audit reports for the financial year 2013/2014 by the Office of the Auditor General in 12 out of the 22 Public Universities revealed challenges in the management of finances in the Universities. All Universities sampled reported serious financial mismanagement while others were operating in precarious financial situation.

1.1. Problem Statement

Ideally, Universities are centers of excellence in all aspects based on their roles in training and imparting knowledge to a country's work force. In Kenya, Public Universities have rapidly grown in numbers and the population. However, financial management practices remains a challenge owing to a number of indicators recently manifested in Universities in Kenya. Audit reports by the Office of the Auditor General for the financial year ending June 2014 showed that all (100%) universities whose audit reports were made public had gross financial challenges including operating on negative working capital, fraud, excessive outstanding fees, flaws in procurement and consequently lack of value for money. There are also recent concerns on the uncontrolled expansion, excessive borrowing and focus on the core business of teaching and learning. These trends in the financial performance of Public Universities

are worrying, raising questions on the budgeting and financial controls in place in these universities. Therefore this study sought to assess the financial management practices affecting financial performance of Public Universities.

1.2. Research Objectives

- (i) To assess the effects of budget management practices affect financial performance of Public Universities in Nakuru Town.
- (ii) To assess the effects of financial controls on financial performance of Public Universities in Nakuru Town.

1.3. Research Hypotheses

H₀₁: Budget management practices do not have a significant effect on financial performance of Public Universities in Nakuru Town.

H₀₂: Financial controls do not have a significant effect on financial performance of Public Universities in Nakuru Town.

2. Literature Review

Budgetary controls refer to the principles, procedures and practices of achieving given objectives through budgets. The budgetary control system helps in fixing the goals for the organization as a whole and concerted efforts made for its achievements (Scarlett, 2008). It enables economies in the enterprise. Preetabh (2010), highlighted the benefits of budgetary control as profit maximization; a budgetary control aims at maximization of profits or an organization through, proper planning and co-ordination of different functions, proper control over various capital and revenue expenditures and putting resources into best use. Coordination; achieved through working of different departments and sectors. Waren (2011) noted that within an organization, different departments have a bearing on one another; this therefore makes coordination of various executive and subordinates necessary in achieving of budgetary targets. Other budgetary benefits as indicated by Preetabh (2010) include; Specific time aims; the plans, policies and goals are decided by the top management. All efforts are put together to reach the common goal of the organization. Every department is given a target to be achieved. The efforts are directed towards achieving some specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims. As a tool for measuring performance, budgetary controls provide comparisons between the budget targets and actual targets and deviation determined; performance of each department is reported to the top management which enables introduction of management by exception.

For a budgetary control program to be successful, it must have complete acceptance and support of the persons who occupy key management positions. If lower or middle level management personnel sense that top management is lukewarm about budgetary controls, or if they sense that the top management simply tolerate budget as a necessary evil, then their own attitude will reflect similar lack of enthusiasm. Perrin further notes that budget is hard work and if top management is not enthusiastic and committed to budget program, then it is unlikely that anyone in the organization was either, Perrin, (2012). Egan (2007) commented that in the administration of a budgetary control program, it is particularly important that the top management does not use budget as a club to pressure employees or as way to blame someone if something goes wrong. He further asserted that using budgets in such negative ways will breed hostility, tension, and mistrust rather than greater cooperation and productivity. Ghosh, Kim, Mendoza, Ostry and Qureshi (2011), outlines four steps that are undertaken during development of a budgetary control system. This include; Setting up plans and budgets for each functional area, like production, sales, purchase, personnel. Adongo and Jagongo (2013) in their study on budgetary control as a measure of financial performance of state corporations in Kenya revealed that budgets played a significant role in financial performance of state corporations in Kenya. However, among the challenges identified in budget management in state corporations included: there was failure of budget process to focus on organizational long term goals, lack of well-functioning accountability framework.

Financial control is defined as the procedures designed to protect assets and ensure that all financial transactions are recorded to prevent and reduce errors and fraud (Block & Geoffrey, 2008). The aim of financial controls is to provide an overall guiding framework for a sound and efficient management of resources in all institutions. The goal of having a strong system of financial control is to promote the institution's ability to reach its objectives, providing reliable financial data, safeguarding assets and records, evaluating operational efficiency through budget, organizational control and encouraging adherence to prescribed policies and regulations (ACCA, 2010).

Effective financial controls including the maintenance of proper accounting records help ensure that the institution is not unnecessarily exposed to financial risks and that the financial information is used only within the business (Hayles, 2005).

Khoove (2010), stated that control environment are the attitudes, abilities, awareness and actions of a client personnel and particularly management in relation to control. Financial control activities are the policies and procedures that help ensure that management directives are carried out (Walters & Dunn, 2001).

3. Research Methodology

3.1. Research Design

The study adopted an explanatory survey design. A survey allows a researcher to obtain information that describes existing phenomena by asking individuals about their opinions, perception, attitude and behavior or values (Mugenda & Mugenda, 2003). This study involved gathering opinions from University staff on the financial management practices in relation to institutions financial performance. Further, an analysis of the factors was done to assess how they affect financial performance of the Universities. Thus an explanatory research design was appropriate in facilitating the determination of cause effect relationships between variables.

3.2. Population of study

The study was conducted in Public Universities in Nakuru Town. These included Egerton University, Jomo Kenyatta University of Agriculture and Technology, Kenyatta University, Moi University and the University of Nairobi. Nakuru Town has been a major location in which Public Universities have expanded to therefore Universities in Nakuru represent recent major expansions. The study target population comprised all the staff in finance departments directly involved in managing University finances who were 328. These included: the finance officers, accountants and accounts clerks.

3.2.1. Study Sample

In this study, the appropriate sample size was determined using the formula by Nassiuma (2002). This formula is convenient for large sample sizes. The formula states that:

$$n = (Nc_v^2) / (c_v^2 + (N-1) e^2)$$

Where:

n= Sample size

N= Population

C_v= Coefficient of variation (take 0.5)

e= Tolerance at desired level of confidence, take 0.05 at 95% confidence level

Upon substitution, the sample size would be as follows:

$$n = (328 * 0.5^2) / (0.5^2 + (328-1) * 0.05^2)$$

$$n = 76$$

Stratified proportionate random sampling technique was used in selection of individual respondents where the number of staff in each University were determined in relation to the size of population

3.3. Research Instruments

Primary data was elicited using self-administered questionnaires administered to the sampled respondents to solicit their views on the University finance management practices.

3.4. Data Processing and Analysis

Data was then analyzed using descriptive statistics such as frequency counts, percentages, mean, mode and standard deviation Pearson correlation statistics was then used to determine the relationship between predictor variables (Finance management practices) and the dependent variables (financial performance of Universities)

4. Findings and Discussions

4.1. Budget Management Practices in Public Universities

The first objective of the study was to assess how budget management practices affected financial performance of Public Universities. This was achieved by determining the budget management practices in public universities and establishing the relationship with financial performance through correlation analysis. First, the opinion of finance staff on whether their university management was committed to budgetary process was established. It was found out from all finance staff who participated (100.0%) indicated that their universities were committed to budgetary management. The budgetary management practices were then assessed as shown on Table 1.

	N	Min	Max	Mean	Std. Dev
The University prepares a comprehensive financial budget every year	65	3.00	5.00	4.72	0.48
The budget preparation is done through a highly consultative process across all departments	65	3.00	5.00	4.34	0.570
The financial estimates in the budget are based on agreed figures	65	2.00	5.00	4.00	0.48
The budget is prepared using a bottom up approach where every department provides its own budget estimates	65	3.00	5.00	3.95	0.45
Financial budgets are closely tied to the operations on the operations and objectives of the University	65	2.00	5.00	4.12	0.56
The budget estimates in the University are properly cascaded and communicated to all sections of the University	65	2.00	5.00	3.89	0.50
The University management is strict in monitoring the implementation of budgets to the letter	65	3.00	5.00	3.78	0.57
There are budgetary controls in place to ensure strict adherence to the budget	65	2.00	5.00	3.88	0.57
The University implements quarterly annual evaluations on the budget implementation performance	65	2.00	5.00	3.74	0.62

Table 1: Budget Management Practices in Universities

The findings on Table 1 above shows that public universities in Nakuru have scored fairly in as far as budget management practices were concerned. On a five point scale, the public universities scored a Mean = 4.72 with $\sigma = 0.48$ in preparing a comprehensive finance budget every year. This indicates a very high number of staff in agreement on budget preparation. The universities were also scored highly in a consultative process in budget preparation Mean = 4.34, $\sigma = 0.57$ it also emerged that financial budgets were closely tied to the operations and objectives of the university 4.12, $\sigma = 0.56$. Another prudential estimate that was highly regarded was the financial estimates in the budget based on agreed figures with a Mean = 4.00, $\sigma = 0.48$. Further, the institutions scored a Mean = 3.95, $\sigma = 0.45$ in budget being prepared using a bottom up approach where every department provides its own budget estimates. Other estimates that performed fairly good include the budget estimates in the university are properly cascaded and communicated to all sections of the university with Mean=3.89, $\sigma = 0.50$, observing strictness in monitoring the implementation of budgets to the letter with Mean=3.78, $\sigma = 0.57$ and the presence of budget controls in place to ensure strict adherence to the budget with Mean = 3.88, $\sigma = 0.57$. Further, the university scored fairly good with Mean =3.74, $\sigma = 0.62$ in implementing quarterly annual evaluations on the budget implementation performance.

From the above findings, it was observed that budgetary management practices were observed fairly well in public universities especially on operational budgets. The operational staffs who include the accountants and accounts clerks many not have adequate information on the development budgets of the universities.

4.2. Financial Controls in Public Universities

The second objective of the study sought to analyze the financial control practices in place in universities in relation to financial performance of the university. The following section therefore presents the findings on financial control practices in place in Table 2 and further compares the practices to the financial performance in a correlation test.

	N	Min	Max	Mean	Std. Dev
The University keeps all the relevant books of accounts	65	3.00	5.00	4.78	0.45
All financial transactions are captured and recorded appropriately	65	3.00	5.00	4.63	0.55
Summary of University financial performance is conducted regularly	65	3.00	5.00	4.22	0.62
There is always a double check on all transactional entries	65	3.00	5.00	3.98	0.60
There is a well elaborate policy for handling financial transactions	65	3.00	5.00	4.17	0.49
Approvals for expenditure are done by designated authorities	65	3.00	5.00	4.18	0.53
The University has a functional internal audit department	65	3.00	5.00	4.17	0.49
Independent external auditors are invited to the University periodically	65	2.00	5.00	3.58	0.79
Audit reports are implemented to the letter	64	2.00	5.00	3.39	0.79
The University has a risk management unit	65	1.00	5.00	3.40	0.77

Table 2: Financial Controls in Public Universities

The findings on Table 2 reveal that there is a strong rating of financial control in the public universities. The study revealed that the staff were in agreement that their universities kept all the relevant books of account rated at Mean = 4.78, $\sigma = 0.45$. Further, finance staff indicated that all financial transactions were captured and recorded appropriately (Mean = 4.63, $\sigma = 0.55$). The university had a high rating with Mean = 4.22, $\sigma = 0.62$ in ensuring that regular summary of financial performance was done. There was also agreement among staff that in their universities approval of expenditures was done by the designated authorities Mean = 4.18, $\sigma = 0.53$. The universities also have functional internal audit departments (Mean = 4.17, $\sigma = 0.49$), as well as having well elaborate policy for handling financial transactions (Mean = 4.17, $\sigma = 0.49$).

With regard to double checking of transactions, majority of the staff agreed that there was always a double check on all transactional entries in their institutions (Mean = 3.98, $\sigma = 0.60$). The ratings were moderate for various practices with regard to financial controls. First, the findings revealed that the universities invited independent external auditors periodically (Mean = 3.58, $\sigma = 0.79$). Implementation of audit reports was also rated moderately (Mean = 3.39, $\sigma = 0.79$) as well as having risk management in place (Mean = 3.40, $\sigma = 0.77$).

The above findings indicate that although universities rated well on some financial controls practices such as transaction recording, records management, finance policy and regular summary of financial transactions. However, there were key financial control practices which were under emphasized which are key in performance such as external audits and implementation of audit reports. Further risk management practices were not fully emphasized.

4.3. Financial Performance of Public Universities

The study's main objective was to assess the budgeting factors that influenced financial performance of public universities. Therefore, the dependent variable was the financial performance, which was assessed by rating the public universities on revenue collection, liquidity, fraud in revenue and bad debts. Table 3 presents the findings.

	N	Min	Max	Mean	Std. Dev
Revenue collection	65	3.00	5.00	4.34	0.62
Ability to sustain its operations	65	3.00	5.00	4.15	0.64
Ability to settle its short term obligations	65	2.00	5.00	3.89	0.50
Revenue losses through fraud	65	1.00	4.00	3.08	0.51
Level of Bad debts	65	1.00	4.00	3.00	0.43

Table 3: Financial Performance of Public Universities

The findings on Table 3 show that the financial performance of public universities had a mixed rating. In a five point scale of 1 – 5, revenue collection was highly rated in the public universities with Mean = 4.34, $\sigma = 0.79$ which indicates that staff were confident that their institutions collected fees appropriately. The ability of the universities to sustain its operation was also rated well at Mean = 4.15, $\sigma = 0.64$. Universities were rates fairly well on liquidity that is, the ability of the public university to settle its short-term obligations (Mean=3.89, $\sigma = 0.50$). On the other hand, the level of bad debts was rated average at (Mean=3.00, $\sigma = 0.50$) as well as revenue losses through fraud (Mean=3.00, $\sigma = 0.50$)

4.4. Correlation Analysis

In correlation analysis, each independent variable was correlated with the dependent variable to determine its effect. First, the study therefore sought to determine the relationship between budget management practices and financial performance of the universities as shown in Table 4.

		Budget Management Practices	Financial Performance
Budget Management Practices	Pearson Correlation	1	.468**
	Sig. (2-tailed)		.000
	N	65	65

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

Table 4: Budget Management Practices and Financial Performance

The test results in Table 4 indicate that, there exists a significant correlation between the budget management practices and the financial performance of public universities in Nakuru Town ($r = 0.468$, $p = 0.000$). Thus the study rejects H_0 and fails to reject H_1 . This means that universities that have adhered to strict budget preparation, implementation, monitoring and controls have recorded better performance in terms of better fees collections, less debts, less liquidity crises and well as minimum fraud. These findings were in line with that of Adongo and Jagongo (2013) in their study which revealed that budgetary control was key significant determinant of financial performance of state corporations. The same scenario applied with public universities which were also state corporations.

To analyze how financial controls affected performance of public universities, person correlation analysis was done between rating on financial controls and financial performance in public universities. Results of the tests performed were as shown on Table 5.

		Financial Controls	Financial Performance
Financial Controls	Pearson Correlation	1	.271*
	Sig. (2-tailed)		.030
	N	65	65

*. Correlation is significant at the 0.05 level (2-tailed).

Table 5: Pearson correlation between financial controls and performance

The results of correlation analysis in Table 5 indicate that there existed a significant correlation between the financial control practices and the financial performance of public universities in Nakuru Town ($r = 0.271$, $p = 0.030$). This implied that universities with proper financial controls in place tend to perform better financially by having less debts, less liquidity crises, better revenue collections as well as less cases of fraud.

The ACCA (2010) states that the goal of having a strong system of financial control is to promote the institution's ability to reach its objectives, providing reliable financial data, safeguarding assets and records, evaluating operational efficiency through budget, organizational control and encouraging adherence to prescribed policies and regulations.

4.5. Conclusions

The financial performance of public universities is significantly affected by the extent to which budget management practices were upheld. Financial controls were in place in most of the public universities surveyed, however, they were inadequate in others. These significantly influence the financial performance of public universities. However, there was less emphasis placed on external audits and the implementation of audit reports as well as risk management which require attention to enhance the financial performance of universities in Kenya.

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