



**EFFECT OF CASH MANAGEMENT AUTOMATION ON FINANCIAL  
MANAGEMENT IN MERU COUNTY GOVERNMENT**

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**Abstract**

**Purpose** The main purpose of the study was to find out if ICT adoption has a significant effect on financial management in the Meru County Government. Effective public financial management has attracted attention of many scholars in identifying the best practice and how to install fiscal disciplines. In search of good governance and sound financial management, the World Bank has been at the fore front in championing this aspect. Lack of effective financial management practices hinders effective service delivery.

**Methodology:** Technology Acceptance Model (TAM) theory is one of the model used to explain how technology is accepted by the users. Descriptive survey research design study was used. The population for this study composed of the Meru county government staff. The sample size was 70 respondents in total, questionnaires were used as the research tool whose validity and reliability was measured accordingly. Mean and regression analysis was computed when analyzing data.

**Results:** The findings established that Cash management automation enables county leadership to understand the true cost of service delivered by the county per activity; that Through Cash management automation, the county finance department is able to reconcile transactions data in real-time. On Cash management automation the study concludes that successful cash management automation in any institution is essential due to difficulties that come with accessing credits whenever an organization is facing liquidity several constrains.

**Unique contribution to theory, policy and practice:** From the findings on cash management automation the study recommends that automation systems should be fully implemented as it increases cash management. For Meru county Government to realize growth, investment in technology should be made in order to enhance service delivery and transparency in cash management.

**Keywords:** *Information; Communication; Technology Adoption; Financial Management*

## 1.0 INTRODUCTION

Cash management is defined as the process of collecting and managing cash in an organization for, as well as using it for short-term or long term organization activities which includes investing (Kenton, 2017). Cash management involves among other things insolvency avoidance in the organization, account receivable and payable management, working capital management and long term commitment as they fall due (Abubakar, 2013). The null hypothesis ( $H_0$ ) predicted that the cash management automation has no significant influence on the financial management in Meru County government.

Cash management involves the process of cash collection, monitoring of cash and its application in investment activities. It is one of the key element for ensuring a county financial stability and solvency (Hansen, 2015). The management of cash focuses at ensuring adequate cash is maintained by the county and any surplus is put into the correct use. Business entities have the duty of ensuring that the entities don't overuse overdrafts as the means of finance.

A Successful cash management exercise in any institution is essential due to difficulties that come with accessing credits whenever an organization is facing liquidity constrains (Kenton, 2017). In the public sector, cash management is a task which always has to be viewed in a serious angle otherwise even the worker may go without sallies due to the nature of cash accounting (World Bank, 2018). The accounting model adopted in the public sector, to a certain extent helps in managing the issue to deal with cash management since most of the levies are paid at the end of the period they are consumed.

### 1.1 Statement of the problem.

IFMIS was introduced to mitigate the government against loss of revenue against unauthorized expenditure. The IFMIS has promoted transparency, accountability and responsiveness of cash management. Other benefits include curtailing wasteful spending and corruption, enhancing controls and audit procedures as well as strengthening cash management and reporting (Selfano, Peninah & Sarah, 2014).

Lack of cash management automation and proper financial management has led to the woes that are being experienced in the County governments in terms of lack of confidence in the existing governance. Since these governments are funded by tax systems it is only fair that the system is efficient and friendly throughout till the enjoyment of the public services to the tax payer. Unfortunately, this is yet to be seen.

There exists little study on how cash management automation is affecting financial management on key areas like revenue collection and related functions which are not directly integrated to IFMIS. This study is set out to investigate cash management automation in financial management practices where it will specifically assess the effects of automating the cash management on prudent financial management in Meru County Government, Kenya.

### 1.2 Purpose of the Study

The main purpose of the study was to find out the effect of cash management automation on financial management in Meru County government



## 2.0 LITERATURE REVIEW

A Successful cash management exercise in any institution is essential due to difficulties that come with accessing credits whenever an organization is facing liquidity constraints (Kenton, 2017). In the public sector, cash management is a task which always has to be viewed in a serious angle otherwise even the worker may go without salaries due to the nature of cash accounting (World Bank, 2018).

Cash management automation is necessary because there are mismatches between the timing of payments and the availability of cash. Even if the annual budget is balanced, with realistic revenue and expenditure estimates, in-year budget execution will not be smooth, since both the timing and seasonality of cash inflows and of expenditures can result in conditions of temporary cash surpluses or temporary cash shortfalls (Lienert, 2013).

Cash management automation forms an integral part of financial management. Hence, it is considered as part of the scope of a good working capital management in county government (Brealey, Myers & Allen, 2018). Pandey (2010) supports that, cash management automation in the modern world involves two simple rules; first, speed up cash collection (Cash Inflow) which minimizes collection float, and slow down cash disbursement (Cash Outflow) which maximizes disbursement float as a way of ensuring proper financial management.

Uwalomwa and Egbide (2016) claims that cash management automation entails taking the needed precautionary measures to ensure that adequate cash levels are maintained in the county government so that the operational requirements could be met. This claim is seconded by Aliet (2014) who indicated that, cash management automation is the management of cash to maximize the cash held in the county that is not invested in buying inventory or fixed assets. In other words, it is the management of cash to avoid the risk of the county becoming insolvent.

Nkeobuna & Ugoani (2017) did a study on implementation of IT in the government of Nigeria and established that most of financial transaction in the country has migrated to an integrated platform. The main objective of the study was to assess the extent of financial integration in the country with a view of improving on cash management. The study found out that even though the government was using Information systems on all its cash transactions, there was a challenge to those who pay their money on daily bases. It was also established that there were gaps when it comes to the real service being offered, by a measure of the service the quality was low. The study further revealed that all other units of the government not all of were committed in utilizing Information Systems and ICT in carrying out their operations as some were found not basing their decision making on ICT based records despite their availability.

Mugambi (2018) did a study on effect of implementation of information system on financial management in Kenya. This study revealed that there were various systems in use especially in county government where a combination of IFMIS and LAIFORM are being used to manage financial matters. From the respondents who were interviewed, there was a general agreement that positive financial controls with the influence of ICT have been achieved. The findings of the study gave a view that adoption of ICT had indeed enhanced tighter financial control within Meru county government. However there were inherent challenges facing the implementation of ICT which the Government is addressing up to the point of the study like funding.

### 3.0 METHODOLOGY

Descriptive research design was adopted in describing the nature of ICT adoption in Meru County. The study was concerned with predictions, description of facts and features (Kothari, 2014) regarding financial management and cash management automation. Data was gathered and analyzed by use of descriptive statistics method. The descriptive statistical method (mean, standard deviation) aided in describing the data and determining the respondents' degree of conformity with the diverse statements under each factor. To measure the reliability of the data collection instruments an internal consistency technique Cronbach's alpha was computed using SPSS. The Content Validity Index was used to determine the validity. The pre-testing involved questionnaires from cash management staff in Tharaka Nithi county government. The data obtained from these respondents was analyzed using regression analysis. Data obtained from the open ended questions in the questionnaire was subjected to ANOVA data analysis method. Tables were used to present the data. The relationship between the study variables was established by the use of multiple regressions.

### 4.0 RESULTS AND DISCUSSION

Regression analysis was run to show the nature of the relationship between financial management in the public sector in Kenya and the independent variables. Diagnostic test was conducted in order to reduce the data to a meaningful and manageable set of factors (Sekaran, 2006). The approach involves condensing the information contained in a number of original variables into a smaller set of dimensions (factors) with a minimum loss of information.

#### 4.1 Response Rate

Research data was collected from procurement officers, budget officers, accountants, revenue officers and chief officer in charge of finance who were the unit of observation and filled in the questionnaires from the Meru County Government in Kenya. A response rate of 82.9% was arrived. This response rate was appropriate since according to Kothari (2007), a response rate of more than 70% is appropriate for data analysis as shown in Table 1.

**Table 1: Overall Response Rate**

<b>Managers</b>	<b>Number of questionnaire distributed</b>	<b>Number of questionnaire returned</b>	<b>Percentage</b>
Procurement officers	15	12	80
Budget officers	6	5	83.3
Accountants	36	30	83.3
Revenue officers	12	10	83.3
Chief officer finance	1	1	100
<b>Total</b>	<b>70</b>	<b>58</b>	

#### Field Data (2019)

This was a very important profile distribution for this study since the respondents were the right people with adequate information relevant to this study hence best placed to give the appropriate responses. According to Mugenda and Mugenda (2003), a response rate of more than 50% of the sample is adequate for data analysis. Cooper and Schindler (2011) also argues that a response rate exceeding 50% of the total sample size provides enough data that can be used to generalize

the characteristics of a study problem as expressed by the opinions of few respondents in the target population. This also meets the acceptable response rate, 40%, as suggested by Orodho (2012).

### Descriptive statistics on Cash Management Automation in Meru County Government

The fourth objective of the study was to determine the extent to which respondents agree with statement regarding cash automation on the financial management in Meru County. The respondents were presented with questions and statements in order to seek answers to the fourth research question on how cash management automation affects the financial management in Meru County. Their responses are illustrated in Table 2.

**Table 2: Cash management automation on the financial management in Meru County.**

Statements	Strongly Disagree	Disagree	Neutral,	Agree	Strongly agree	Mean	Stdev
Cash management automation enables transfer funds efficiently and with certainty in the county	8(11%)	9(12.2%)	16(22.5%)	17(24.1%)	22(31.2%)	5.13	1.93
Cash management automation enables organization to structure funds repositories so that the government always knows what funds are at its disposal and where they are and that it can move these funds at will	6(9%)	10(13.7%)	18(26.1%)	15(22%)	21(30%)	3.94	0.59
Cash management automation seek to improve execution by providing timely and accurate data for cash management and decision making	6(8%)	12(17.1%)	14(20%)	20(28%)	19(27%)	4.12	1.28
Cash management automation seek to enhance confidence and credibility of the cash through greater transparency of information	3(4%)	11(15.2%)	16(23.5%)	22(31.0%)	19(26.8%)	3.55	1.86
Automation has enabled high level of cash accountability	6(8%)	8(11.4%)	17(24.2%)	20(28%)	21(30.8%)	3.65	1.98
Cash management automation enables county leadership to understand the true cost of service delivered by the county per activity	7(10%)	12(17.8%)	15(21.5%)	18(25.7%)	18(25%)	4.04	1.16
Through Cash management automation, the county finance department is able to reconcile transactions data in real-time	5(7.8%)	9(13%)	16(23%)	20(29%)	20(28%)	4.13	1.66
Composite Mean and Std						4.16	1.80

From the findings respondents agreed to the statement that the Cash management automation enables transfer funds efficiently and with certainty in the county; That Cash management automation enables organization to structure funds repositories so that the government always knows what funds are at its disposal and where they are and that it can move these funds at will,;

That Cash management automation seek to improve execution by providing timely and accurate data for cash management and decision making.; that Cash management automation seek to enhance confidence and credibility of the cash through greater transparency of information.; that Automation has enabled high level of cash accountability; that Cash management automation enables county leadership to understand the true cost of service delivered by the county per activity; that Through Cash management automation, the county finance department is able to reconcile transactions data in real-time as indicated by a mean of 5.13; 3.94; 4.12; 3.55; 3.65; 4.04; 4.13 and a composite mean 4.16 respectively.

This study collates with literature review by Mugambi (2018) who did a study on effect of implementation of information system on financial management in Kenya. This study revealed that there were various systems in use especially in county government where a combination of IFMIS and LAIFORM are being used to manage financial matters. This means that Cash management automation plays a key role in financial management in Meru county government.

### **Influence of cash management automation on the financial management in Meru County government**

According to ANOVA Table 3, the computed significance level,  $P = .000$  was higher than the alpha value of 0.05, hence, the study failed to reject the null hypothesis and concluded that, although the cash management automation has a positive relationship. This implies that the cash management automation does not significantly influence the financial management in Meru County government.

The findings were in line with GOK, 2011; Peterson et al, (2008). Where it found that with the implementation of IFMIS, prompt and efficient access to reliable financial data as well as helping in strengthening government's financial controls, improving the provision of government services, raising the budget process to higher levels of transparency and accountability, and expediting government operations. This correlates with Dorotinsky (2003) who argues that there are a number of ways in which IFMIS can improve cash management by enhancing confidence and credibility of the budget, accounting and reporting through greater comprehensiveness and transparency of information.

**Table 3: Influence of Coefficients Matrix Model on financial management in Meru County government**

Model	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics			
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF	
1	(Constant)	3.181	.712		4.233	.000		
	X1	-.0096	.109	-.091	-.853	.496	.934	1.099

a. Dependent Variable: Y

Since all predictors of financial management in Meru County government (cash management automation, X1; had identical Likert scales, and considering that the constant value is significant in this model as shown in Table 3, the study therefore used the B-coefficients rather than the beta coefficients in interpreting the regression weights. Consequently, the value of regression weights

shown in Table 3 indicate that the financial management in Meru County government will always exist at a certain significant minimum ( $\beta_0=3.181$ ,  $P < .000$ ).

The hypothesized model ( $Y = B_0 + B_1X_1 + e$ ) now quantifies the strength of the relationships presumed in this study. Precisely, the model shows that the financial management in Meru County government is (cash management automation) + 3.181). In this model, 3.181 is a baseline score that is unrelated to any other variables which means that it is the same 3.181 points for each variable; for example, on average, 1 point higher on budgeting process automation score 0.066 points higher on financial management in Meru County government. The resulting model in this study is:

$$(Y = B_0 + B_1X_1 + e)$$

$$Y = 3.181 + 0.096 X_1 + e$$

Where:

$B_0$  = constant value,

$X_1$  = Cash management automation,

$e$  = standard error.

This finding agrees with IMF (2006) findings on use of IFMIS in financial management. The study found that financial reporting had improved due to use of IFMIS. This also agree with USAID (2008) that reporting systems have been improved by use of a single reliable platform of financial reporting since IFMIS tracks financial events and summarize reports effectively. The study findings show that there was timely preparation of budgets using IFMIS. This echoes IMF recommendations for use of a comprehensive cash management system for prompt service delivery.

As was noted by Bill (2001), although automated systems facilitates many controls during transaction process, the study found that internal controls faced a number of challenges as the system was not water tight in controlling all the financial processes. Heidenholf (2002) had noted that the difficulties faced by governments in completing projects were related to lack of effective financial management systems. The study found that through application of IFMIS especially on budgeting, and in reporting, a number of projects initiated through the system have been successfully completed and on time.

## 5.0 CONCLUSIONS AND RECCOMENDATIONS

### 5.1 Conclusions

On Cash management automation, the study concludes that successful cash management automation in any institution is essential due to difficulties that come with accessing credits whenever an organization is facing liquidity constrains. In the public sector, cash management is a task which always has to be viewed in a serious angle otherwise even the worker may go without sallies due to the nature of cash accounting. The cash management model adopted in the public sector, to a certain extent helps in managing the issue to deal with cash management since most of the levies are paid at the end of the period they are consumed.



## 5.2 Recommendations

From the findings on cash management automation, the study recommends that automation systems should be fully implemented as it increases cash management. For Meru county Government to realize growth, investment in technology should be made in order to enhance service delivery and transparency in cash management. The study also recommends that government should make the adoption of technology easy by reducing cost of acquiring new equipment and other innovations.

The study recommends that the hospital management should maintain and encourage the accountants and other relevant employees to prepare cash budget always for this will help in making purchases for goods and services only budgeted for. Based on the findings and conclusions the study suggests that Meru county government management should maintain proper books of accounts for this is one way will help track movements and use of funds by the county.

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