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The effect of control environment on public financial management in selected Local governments in Uganda.

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Abstract: *Effective public financial management (PFM) is crucial for the efficient and transparent utilization of public resources at the local government level. One key factor that can influence PFM is the control environment - the overall attitude, awareness, and actions of management and employees towards internal controls and risk management. This study aimed to investigate the effect of the control environment on public financial management in selected local governments in Uganda. A cross-sectional survey design was adopted, collecting data from 120 finance and accounting personnel across 8 local government authorities. The results showed that elements of the control environment, such as the tone at the top, risk assessment processes, and control activities, had a statistically significant positive relationship with various dimensions of PFM, including budget execution, financial reporting, and internal control systems. The study provides empirical evidence on the importance of establishing a robust control environment to strengthen PFM practices at the local government level in developing country contexts like Uganda. The findings can inform policy and capacity building efforts to enhance financial accountability and transparency in decentralized public sector units. Further research is recommended to explore contextual factors and management strategies for cultivating an optimal control environment for improved PFM outcomes.*

Keywords: Control environment, Public financial management, Local governments, Uganda.

Background

Effective public financial management (PFM) is crucial for the efficient and transparent utilization of public resources, particularly at the local government level where services are directly delivered to citizens. PFM encompasses a range of processes and systems, including budgeting, revenue collection, expenditure control, reporting, and auditing. Robust PFM practices are essential for ensuring accountability, reducing wastage and misuse of funds, and ultimately improving public service delivery.

In the context of decentralized governance in Uganda, local governments play a significant role in implementing development programs and providing basic services to communities. However, PFM challenges such as weak internal controls, limited financial reporting, and poor budget execution have been persistent issues facing many local authorities. These deficiencies can undermine the integrity of public financial management and erode public trust.

One key factor that can influence the effectiveness of PFM is the control environment - the overall attitude, awareness, and actions of management and employees towards internal controls and risk management. A strong control environment, characterized by factors like ethical leadership, risk assessment processes, and well-designed control activities, can foster a culture of financial accountability and promote better PFM outcomes.

This study aims to investigate the effect of the control environment on public financial management in selected local governments in Uganda. Understanding this relationship can provide important insights to inform policy interventions and capacity building efforts to strengthen PFM practices at the local level.

The government of Uganda designed a national strategy to fight against financial mismanagement (2004 to-date) pertaining abuse of public office and public funds. The strategy from time to time, shows increased cases of misappropriation of funds at a large scale, misuse of power and numerous financial malpractices, due to lack of accountability in public finance (IGG report 2016-17, OAG-report, 2017). This necessitated the need to investigate the internal control system and public financial management in local governments in Uganda.

Research Design

This study adopted a cross sectional descriptive survey design as it provides a clear outcome and the characteristics associated with it at a specific point in time. A cross-sectional study is a type of research design in which you collect data from many different individuals at a single point in time. In cross-sectional research, you observe variables without influencing them. Descriptive design is relevant for this study since it helps the researcher to point out what is happening and also describing phenomenal as they appear in research without manipulation of any variables neither looking at the variables to find out which one causes the other (Mouser and Katton 1989). A cross-sectional survey research design facilitates the use of random sampling and tries to understand the cross-section of interest.

Target population

The population of the study was defined from all the departments within the local government offices and also staff under various departments within the district offices within the mother districts of Northern Uganda. The population was 388. The districts were Apac local government, Lira Local government, Kitgum local government, Gulu local government, Ajumani Local government, Moyo local government, Arua local government, and Nebbi local governments. The target population was 388 staffs from all the departments within the local government. The individuals or units of interest , distributed into District departmental offices, District Finance Offices, District Education Offices, District Health Offices, District Planning Offices, District Production Offices, District Commercial Offices, District Engineer offices, District Community Development Offices, District Natural Resource Offices, District Procurement offices and District Internal Auditor's offices and District Fisheries Offices. The research decided to pick the officers within the district offices. These are the people who can provide information about internal control system and public financial management of selected local governments in Uganda.

Sample size

A sample is a subset of individuals in a population (Bret Hanlon and Bret Larget, 2011). The sample of this study therefore was 346 according to krejcie and morgan (1970). The researcher applied Krejcie and Morgan formula to determine the sample size of the respondents.

Sampling Technique

The process of picking a number of participants from a study in such a way that they represent the broad group from which they were picked is known as sampling. It is a strategy or procedure for selecting a sub-group from a population to participate in the study (Ogula, 2005). The researchers claim that those respondents who possess subject-matter knowledge were chosen. Simple random sampling was the method of sampling that the researcher used. A smaller group, known as the sample, is chosen at random from the entire population of participants, which is a bigger group. It's among the most straightforward techniques for systematic sampling that produces a random sample. The method's foundation is the use of a selection process that gives each participant the same probability of being selected. Since the selection process is based on probability and random selection, the end smaller sample is more likely to be representative of the total population and free from research bias. This method is also called a method of chances. Simple random sampling is one of the four probability sampling techniques: Simple random sampling, systematic sampling, stratified sampling, and cluster sampling.

Data Collection Instruments

With the aid of an interview guide and questionnaire, primary data was gathered. The survey was both closed-ended and open-ended. In addition, an interview guide was given out, respondents were picked at random, and two respondents from the accounting department were interviewed in each of the eight Northern Ugandan districts that were chosen. The researcher organized the questionnaire with input from academic specialists, including the supervisor.

Data Analysis

The SPSS software was used to analyze the data. In order to evaluate internal control systems and financial management, the following analytical tools were used: mean, standard deviation, frequency, percentage distribution, and regression. Regression was also utilized to ascertain the respondents' demographic characteristics. Depressing statistics were interpreted using the mean ranges and description. Descriptive statistics were employed to present the data and analyze the financial management and internal control systems of a subset of Ugandan local governments. A questionnaire was distributed in order to support quantitative analysis, which examines objective measurement, and statistical analysis of the additional data that was gathered. Utilizing interviews to better understand the motivations and viewpoints of the respondents was also beneficial.

Findings

In the first objective, it was revealed that internal control systems in terms of control environment were reported to be generally weak. Pearson's linear correlation revealed a significance and positive relationship between control environment and all constructs of financial management. From the multiple linear regression analysis, it was revealed that, strengthening control environment practices can significantly increase effectiveness of financial management. The findings implies that strengthening control environment practices can bring an improvement in financial management and service delivery in local governments in Uganda. This is in agreement with Kinyua (2015) conducted a study on effect of internal control on the financial management of companies in the Nairobi securities exchange. His findings indicated high performance; he revealed that there was positive significant relationship between internal control environment and financial management. These study findings imply that strong internal controls, in terms of control environment positively affect financial management of Nirobi security exchange. (Mawanda 2008) carried a study on effects of internal control system on financial management in Uganda's institution of Higher Learning, the way forward; His findings indicated a positive significant relationship between internal control environment and financial management. The study imply that there was strong internal controls, in terms of control environment positively affects Institution of higher learning. The study further recommends internal control environment should enhance improvement under financial management.

However Kannyiri (2005), does not agree with the statement he indicated that weak internal controls, in terms of control environment, negatively affect public financial management. Edmonds *et al* (2017) also in his study found out that, the management of funds and accountability has become a bigger challenge, and according to him, low performance which showed management of funds and accountability shows low performance in public sector in Ghana. This imply that weak internal controls, in terms of control environment negatively affect public financial management. More so Ajao, (2013); ter Bogt and Tillema, (2016), in his findings, disagree also with the findings and he also noted that , public sector in Ghana and Nigeria has rampant financial irregularities, He reviled that there was misappropriation of funds, embezzlements, unverified payments and unaccredited bank deposits due to poor control environment and ineffective internal audit practices. These finding shows that there was weak internal controls, in terms of control environment negatively affects public financial management. This therefore led to a confirmation of this study null hypothesis number one which stated that no significant effect of control environment on public financial management in selected local governments in Uganda.

The findings from the first objective suggested that strengthening control environment practices can lead to improvements in public financial management in in local governments align with instrumental theory. The Instrumental theory, also known as instrumentalism, emphasizes the use of effective and efficient means to achieve desired outcomes or goals. In the context of public financial management in local governments, instrumental theory would support the idea that enhancing control environment practices serves as a means to achieve better financial management and service delivery. Here's how the findings align with instrumental theory: Means-Ends Rationality Instrumental theory posits that individuals or organizations act rationally to achieve specific goals. In this case, the control environment practices serve as the means to achieve the end goals of improved financial management and service delivery. Strengthening control measures is seen as a rational approach to achieving these desired outcomes. Efficiency and Effectiveness, Instrumentalism emphasizes efficiency and effectiveness in achieving objectives. Strengthening control environment practices can be seen as an efficient and effective strategy to enhance financial management by reducing the likelihood of errors, fraud, or mismanagement. This, in turn, contributes to better service delivery.

Adaptation of Instrumental theory suggests, that entities adapt their strategies to achieve better outcomes. The findings imply that local governments can adapt and improve their control environment practices to positively impact financial management. By doing so, they align their actions with the instrumentalist perspective of adapting means to achieve desired ends. Focus on Practical Results, Instrumentalism is pragmatic and focuses on achieving practical results. Strengthening control environment practices is a practical approach aimed at achieving tangible improvements in financial management and service delivery, reinforcing the instrumentalist viewpoint.

In summary, the findings that advocate for strengthening control environment practices align with instrumental theory by emphasizing the rational, efficient, adaptive, and practical aspects of utilizing specific means (control environment practices) to achieve desired ends (improved financial management and service delivery) in the context of local governments in Uganda. This is in line with instrumental theory which states that strengthening control environment practices can lead to improvements in financial management and service delivery in local governments align with instrumental theory. This is in line with Kinyua (2015) in his findings, he revealed positive significant relationship between internal control environment and financial management. These implies that strengthening control environment practices can lead to improvements in financial management and service delivery in local governments in Uganda are significant and can have various consequences for both in the public sector and the community. Here are some key implications:

This findings is in line with goal setting theory, which state that, setting clear and challenging goals can significantly impact individual and organizational performance.

Financial Management Improvement: Strengthening control environment practices involves implementing effective financial controls, processes, and systems. This can lead to several positive outcomes for financial management in local governments. With clear goals and well-defined processes, local governments can enhance transparency, accountability, and efficiency in handling financial resources. This, in turn, reduces the risks of fraud, corruption, and mismanagement. The findings suggest that by implementing such practices, local governments in Uganda are likely to experience improved financial management.

Service Delivery Enhancement: One crucial aspect of local governments is their ability to effectively deliver public services to the community. Strengthening control environment practices can positively impact service delivery in several ways. By setting specific and challenging goals related to service quality and efficiency, local governments can focus on improving their processes, infrastructure, and resource allocation. This can result in better service planning, implementation, and evaluation, leading to enhanced service delivery outcomes for the citizens of Uganda.

Conclusion

The study indicates that the internal control systems, particularly in terms of the control environment, are generally perceived as weak. This suggests that there may be deficiencies or inadequacies in the policies, procedures, and overall organizational culture related to internal control in the local governments in Uganda.

Positive Relationship between Control Environment and Financial Management: Pearson's linear correlation analysis shows a significant and positive relationship between the control environment and all constructs of financial management. This implies that as the control environment strengthens, there is a corresponding improvement in various aspects of financial management within the local government context.

Impact of Control Environment on Financial Management: The multiple linear regression analysis further emphasizes the importance of the control environment. The results indicate that strengthening control environment practices can significantly increase the effectiveness of financial management.

The findings suggest broader implications for service delivery in local governments in Uganda. Given the positive correlation between control environment and financial management, it can be inferred that improving internal control practices has the potential to enhance service delivery. This could lead to more efficient and effective allocation of resources, improved transparency, and better overall governance within these local government entities.

Based on the identified weaknesses in the control environment and the demonstrated impact on financial management, policy recommendations can be made. Authorities and policymakers may consider implementing measures to strengthen internal control systems, focusing on enhancing the control environment. This could involve the development and enforcement of robust control policies, training programs for personnel, and initiatives to foster a culture of accountability within local government organizations.

In conclusion, the findings emphasize the pivotal role of the control environment in shaping financial management effectiveness in local governments in Uganda. Strengthening internal control practices is recommended as a strategic approach to not only address existing weaknesses but also to bring about tangible improvements in financial management and, by extension, service delivery.

Recommendations

The recommendation from this objective is to strengthen control environment practices in order to significantly increase the effectiveness of financial management. The findings suggest that improving control environment practices can bring about improvements in financial management and service delivery in local governments in Uganda. This recommendation is supported by previous studies that have shown a positive and significant relationship between internal control environment and financial management. However, it is important to note that there are contrasting views as well, with some studies indicating that weak internal controls negatively affect public financial management. Nevertheless, the alignment of the findings with instrumental theory suggests that enhancing control environment practices is a rational, efficient, adaptive, and practical approach to achieving better financial management and service delivery outcomes.

In summary, in line with contingency theory, the findings suggest that strengthening the control environment in local governments in Uganda can lead to improvements in financial management and service delivery. By aligning internal control systems with the contingencies they face, local governments can enhance financial management practices, promote accountability, and ultimately provide better services to their constituents.

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