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Financial Management Systems of Local Government in Garowe Puntland

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Abstract
The study investigated financial management systems in the local governments of Garowe, Somalia. There were four objectives that guided the study. They sought to establish the role of four factors namely accounting systems, budgeting, management practices, and employee capacity in determining the integrity of financial management systems in the local governments. The study adopted a descriptive survey design which involved both quantitative and qualitative approaches. Using this method, the researcher used a structured questionnaire (close ended). A research population of 140 was identified and a sample size of 104 respondents was arrived at by use of the Slovene's formula. In selecting the respondents, the researcher used stratified and purposive sampling techniques. The key findings suggested that accounting systems had a high, positive, and significant effect on the integrity of financial management systems in the local governments. It was also established that budgeting had a high, positive, and significant role in the integrity of financial management systems. Management practices were also found to have a high and significant effect on the integrity of financial management systems. Finally, employee capacity was found to be significantly but lowly influential in determining the integrity of financial management systems in the local governments of Garowe, Somalia. The study concluded by stating that all the four factors were significant determinants of financial management systems in the local governments in question. The recommendations suggested updating the accounting systems, Increase in the budget allocations made to financial management systems, Better management practices in the financial management systems department and Capacity building on the employees working in the financial management systems department.

1. INTRODUCTION

This chapter presents the, background of the study, statement of the problem, purpose, and objectives of the study, scope of the study, definition of key terms, significance of the study,.

1.1 Background of the Study

This section encompasses four perspectives namely historical, theoretical, conceptual and contextual perspectives.

1.1.1 Historical perspectives

Finance, as capital, was part of the economics discipline for a long time. So, financial management until the beginning of the 20th century was not considered as a separate entity and was very much a part of economics. In the 1920s, liquidity management and rising of capital assumed importance in the 1930s there was the Great Depression, i.e., all round price decline, business failures and declining business. This forced the business to be extremely concerned with solvency, survival, reorganization and so on(Madden, 1975).

Financial Management emphasized on solvency management and on debt-equity proportions, besides external control on businesses became more pronounced. Till early 1950s financial management was concerned with maintaining the financial chastity of the business. Conservatism, investor/lender related protective covenants/information processing, issue management, etc. were the prime concerns. It was an outsider-looking-in function. From the middle of 1950s financial management turned into an insider looking- in function. That is, the emphasis shifted to utilization of funds from raising of funds so, choice of investment, capital investment appraisals, etc., assumed importance. Objective criteria for commitment of funds in individual assets were evolved (Richard, 1950).

The British system of financial management is based on parliamentary accountability.For several centuries, the British Parliament, assisted with its Committees and, later on, greatly supported by professional bodies, such as the National Audit Office (NAO) has been holding the executive to account for the stewardship of public money. The National Audit Office, as the supreme audit institution of the UK, is headed by the Comptroller and Auditor General (C&AG), who is the officer of the House of Commons and thus naturally reports to the Parliament. The key accountability link between the Parliament and the Executive is established through the work of Parliamentary Public Accounts Committee (PAC), which, supported by the work of the NAO, detects irregular and improper expenditure and investigates achievement of value for money, by calling government officials to account for the use of public money (Normarton, 1964).

In spite of its strong focus on parliamentary accountability, the UK financial management system very much relies on strong interlinks between the internal and external financial accountability mechanisms.

The key executive financial department, the Treasury, holds the departments to account through numerous internal, managerial accountability mechanisms. Notwithstanding its powers of internal expenditure control, the Treasury, however, does not have any audit capability and therefore is dependent on the C&AG and NAO, to provide assurance on the reliability of departmental accounts (Locke, 2010).

The basic link between external and internal accountability mechanisms is provided in the role of an accounting officer, who is simultaneously involved in several accountability relationships. While his/her civil service position requires his/her to be loyal to the minister, his/her role of accounting officer makes him/her accountable directly to both the Treasury and the Parliament.The whole system of financial management is based on trust and consensus of all the involved institutions and actors, which equally share the interest of securing public funds and where additional, external means of control are superfluous (White, 1995).

This is partly a corollary of a long absence of a distinct system of administrative law and administrative courts in Britain and partly the consequence of constitutional understanding of authorization of expenditure. While the constitutional requirement of legislative authorization of taxation is based on individual private rights that are enforceable through the courts, there is no such correlate when legislative authorization of government expenditure is in question. This has also contributed to the establishment of self-monitoring system of financial control in British central government, relying on trust between involved actors(Harlow & Rawlings, 1997).

In the early 1990s developing countries in Africa began to focus on the improvement of public finance, in particular on budget and expenditure management reforms. Mainly as a response to concerns from the donor community, governments started to critically review the existing systems and processes. As a response to inadequate and outdated systems, a recommendation was the introduction of integrated financial management systems (FMS) along the experience of developed countries in the '70s and 80s (integration of different functions of public finance on the basis of a uniform technical platform).The availability, control and use of finances are the core of any organization existence and not least local authorities in their public services role (Cola, 2002). Every organization has to prepare a budget in order to manage its finances well. Local authorities have a duty to deliver services to the residents or citizens because it is their core mandate under the Local Government Act Cap 265. It is through proper financial management that Local authorities are able to deliver services and implement their plans.

The financial management systems of Ghana's local government score well with respect to some aspects of revenue administration, debt management, payroll management and procurement, but overall predictability and control in budget execution remains an area of concern. The areas of concern include the discretionary elements of the revenue legal and regulatory framework, the controls in the taxpayer registration system, the predictability in the availability of funds for the commitment of expenditures, the extent of consolidation of the government's bank cash balances, the effectiveness of the establishment control and the effectiveness of the commitment control(Mokoro , 2012).

Predictability in budget execution is premised upon revenue adequacy which in turn requires sound revenue administration. Some elements of revenue administration work very well. These include clarity of taxpayer obligations and liabilities (Export tax and Internal Revenue Service provisional and final assessments), the sustaining of vigorous tax awareness and educational programs, and transfers to the Consolidated Fund work very well. Tax arrears remain high even though that is compensated for by a high debt collection ratio. Areas of concern include the absence of legal constraints on officer discretion in the application of Export Duties, penalty waivers and rates; the selection basis for tax audits; and the lack of effective controls in the taxpayer registration system (Mokoro Ltd, 2012).

Cash management is a particular challenge to the financial management systems of the local government of Ghana. Its weaknesses results in highly unpredictable budget releases. It should be noted though that cash management in the central government works reasonably well with regards to the considerations of predictability of revenue and debt service. The specific challenge arises as a consequence in the management of budget releases to facilitate expenditure. Ghana uses a dual warrant system for the authority for Ministry, Departments and agencies to incur expenditure (Financial Administration Act, 2003).

In primitive societies the lowest level of local government is the village headman or tribal chief. Federal states such as the United States have two levels of government above the local level: the governments of the fifty states and the federal national government whose relations are governed by the constitution of the United States. Local government in the United States originated in the colonial period and has been modified since then: the highest level of local government is at county level Kiringai (2002).The institutions of local government vary greatly between countries, and even where similar arrangements exist, the terminology often varies. Common names for local government entities include state, province, region, department, county, prefecture, district, city, township, town, borough, parish, municipality, shire and village. However all these names are often used informally in different countries and local government is the legal part of central government.

Birjlal, Enow & Isaacs in 2014, studied the use of financial management practices by small, medium and micro enterprises (SMMEs) in South Africa. Their study found that more than half the SMMEs examined, used external accounting staff to prepare accounting reports and more than 60% rely on external accounting staff to interpret and use accounting information. A majority of the SMME owners were found to lack interpretation skills and an awareness of how to use information from financial statements. This study focused on SMMEs in South Africa. On the contrary, this study will focus on Somalia and it is evaluating financial management systems.

1.1.2 Theoretical Perspective

The study adopted the Theory of Financial Management which was propounded by Ezra Solomon (1963). From an overall point of view. The theory suggests that informational flows in financial management systems is crucial to the success of organizations. The benefits that accrue from adopting this approach are said to be operational successes, cash flow streamlining, and increasing marginal rates of returns to investment. More importantly it helps organizations to reduce conflicting goal issues in the financial systems that run in organizations. The theory was selected because it has high relevance to the determination of the factors that influence the integrity of financial management systems which is the goal of this research study.

1.1.3 Conceptual Perspective

In this study, the researcher is investigating the factors that influence financial management systems. As such, the variable that is being evaluated is financial management systems. Financial management consists of all the activities concerned with obtaining money and using it effectively and efficiently (Warren, 2005).Pride et al., (2002) refers to it as "that activity of management which is concerned with the planning, procuring and controlling of the firm's financial resources". It is worthy to note that financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management.On the other hand, financial management may be defined as that area or set of administrative function in an organization which relate with arrangement of cash and credit so that organization may have the means to carry out its objective as satisfactorily as possible (Östman, 2009).

In this study, financial management systems will refer to the efficient use, effective use and careful planning of local government funds as far as accounting systems, budgeting procedures, management practices and employee capacity are concerned. Authors such as Pride et al, 2002; Warren, 2005; Nobanee, et al, 2006 and Ostman, 2009 are subsequently using the elements of this operational definition.

According to Lucy (2004), financial systems are laid down quantitative statements for a defined period of time which may include planned revenues, expenses, assets, liabilities and cash flow which provides a focus for the organization which aid the co-ordination of activities and facilitates control. Financial management is achieved by means of a fixed master budget, whereas control is generally exercised through the comparison of actual costs with a flexible budget. Local government refers collectively to administrative authorities over areas that are smaller than a state. The term is used to contrast with offices at nation-state level, which are referred to as the central government, national government, or (where appropriate) federal government. Local government only acts within powers delegated to it by legislation or directives of the higher level of government and each country has some kind of local government which will differ from those of other countries (Cohen, 1994).Financial management involves careful planning and efficient use of resources. Proper financial management can ensure that financial priorities are established in line with organizational goals and objectives, spending is planned and controlled in accordance with established priorities and sufficient financing is available when it is needed both now and in the future. It's generally recognized that most developing countries have ineffective governmental financial control system. The serious deficiency in the financial control systems in most developing countries generally recognized as the major factor which facilitate the misuse of public resources and financial corruption in these countries (El-Nafali, 2008).

1.1.4 Contextual Perspective

The proposed study will take place in Garowe local government of Puntland Somalia. Garowe is the capital of Nugaal region and administrative capital of Puntland state in northeastern Somalia. In recent times Garowe was developing rapidly because it is the seat of the regional parliament, the presidential palace and government ministries. The city of Garowe is subdivided into several administrative districts: hodan; Waaberi; and Wadajir.

At present, the financial management systems across all levels of government are extremely rudimentary, leading to weaknesses in financial controls and low levels of public information on budget intentions or outcomes. The concepts of independent legislative oversight and the consequent need for an independent auditing authority system have not been put into practice, nor have the rights of citizens to have access to information on the use of public resources been established. Consequently, there is need for a major legislative effort to introduce new financial management architecture to accompany the technical and professional challenges of implementing a modern system of public financial management across Somalia (Somalia, PFM 2010).

As a result of the prolonged period of conflict, all systems of financial management had broken down. Internal audit is expected to play an important monitoring role in evaluating the effectiveness of the control systems within the Government's operations in meeting its strategic objectives. In performing this role, Internal Audit should not be involved in maintaining the controls it is supposed to evaluate (Puntland's Public Finance Management, 2010). An internal audit unit has been set up recently but is not yet fully operational and at present is only attempting vouching of transactions. The key challenge is lack of capacity for internal audit staff and the potential conflict with the current mandate of the Auditor General. There is need for a clarification of the mandate of internal audit through a refined PFM legislation and the building of capacity for internal audit staff through hands-on training (Puntland, PFM 2010). This makes it imperative to establish factors that influence financial management systems in the area.

1.2 Statement of the Problem

The financial management systems in the local government should be aimed at improving financial management stabilizes growth, redistribute income, and allocate fiscal resources. This has long been the starting point for discussing the division of fiscal power and responsibilities among units of government. However there is a poor financial management system in the local government of Puntland Somalia. According to reports from general auditing office of Puntland Somalia, there are embezzlements of funds, staff inefficiency, poor allocation of resources, poor accounting systems and poor utilization of money.As a result, all systems of financial management have broken down (Puntland association local government 2015).Although an internal audit unit has been set up recently but is not yet fully operational and at present is only attempting vouching of transaction and also the weak internal audit function contributes to weakening of internal controls, which in turn increases the probability of misuse of funds.

If these problems continue it will lead to poor service delivery like poor primary health care, poor primary education and poor infrastructures. Local governments are faced with financial problems due to failure to make realistic budgets, lack of control and poor financial management practice. This has led to industrial unrest, nonpayment of salary to their workers, lack of services rendered to its residents and poor infrastructure development (Moha and West, 2015).This research sought to establish the factors affecting financial management systems and highlighted the course and strategies that can be used in order to improve the approaches and the way resources in local governments can be utilized effectively and efficiently.

1.3 Purpose of the study

The purpose of the study was to examine the factors that influence the financial management systems in the local governments of Garowe, Puntland, Somalia.

1.4 Objectives of the study were:-

The specific objectives of the study were:

1. To examine the effect of accounting systems on financial management systems in local government in Puntland, Somalia
2. To investigate the effect of budgeting procedures on financial management systems in local government in Puntland, Somalia.

3. To identify the effect of management practices on the financial management systems in local government in Puntland, Somalia
4. To establish the effect of employee capacity on the financial management systems in local government in Puntland Somalia.

1.5 Research questions

The study sought to answer the following questions:

1. What are the effects of accounting systems on financial management systems in local government in Puntland, Somalia?
2. What are the effect of budgeting procedures on financial management systems in the local government of Puntland, Somalia?
3. What is the effect of management practices on financial management systems in local government?
4. How does employee capacity affect the financial management systems in local government in Puntland, Somalia?

1.6 SCOPE OF THE STUDY

The Scope of study is boundaries of the research in terms of contents (variable of the study), geographical area, and time scope of the study of the financial management of local government in Gorowe Puntland, Somalia

1.6.1 Content Scope

The research of this study emphasized on the financial management of local government in Gorowe puntland Somalia

1.6.2 Geographical Scope

The study covered the divisions of Gorow , Puntland ,Somalia. Garowe is the capital city of puntland and shares its borders with Eyl district in the East; Dangoranyo district in the Northeast; Bocame district in the West, Taleex district in the north and Burtinle district in the South. The Gorowe consists of three divisions. Garowe city is the administrative and the most important town in the district.

1.6.3 Time Scope

This study enclosed financial management systems of local government in Gorowe district have taken to analysis for last two decades, since the central government of Somalia was collapsed which caused by prolonged civil wars, and armed conflicts, but this study has taken for last four year to prepare for this study of financial management in local government at Gorowe puntland Somalia

1.6.4 Theoretical Scope

The study was guided by the Theory of Financial Management which was advanced by Solomon (1963). The theory advocates for improvement of financial management systems and processes through information flow in organizations.

1.7 Significance of the Study

The study will assist the management to realize the importance of proper financial management in order to implement its plans and deliver services. It will assist the management and policy makers to adopt strategies to reduce accumulation of debts.

This study will assist management to avoid having poor budgetary control system and their implications when service department make commitments beyond the approved budget level.

The study will create awareness among the stakeholders on the services provided and the best and efficient management practice of giving out the services to make the local authority more efficient and accountable to the people as pertains to utilization of the public funds. It will develop teamwork and collective responsibility between the management, employees and the elected leaders' i.e. councilors.

The study findings will be used to clear the standing obstacles and gaps that need to be overcome in order to accomplish the targets of the local governments.

The study findings may also be useful to future researchers that want to widen their understanding in matters of Local Government as a tool for career development.

To students and other scholars who intend to widen their knowledge, this study will be a basis of reference since it focuses on the functions, challenges that the local government face and the possible solution that can be undertaken.

This study will add on the already existing literature on the relationship between financial management and local governmenton the insights to their advantages.

The findings from this research work are comprehensive enough to provide baseline data for decision making when it comes to integrating the usefulness of the relationship between decentralization system of governance and rural community development.

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1.8 Operational Definitions

Financial Management: This is the efficient use, effective us and careful planning of local government funds as far as accounting systems, budgeting procedures, management practices and employee capacity are concerned.

Local Government:is a form of public administration which, in a majority of contexts, exists as the lowest tier of administration within a given state. The term is used to contrast with offices at state level, which are referred to as the central government, national government, or (where appropriate) federal government and also to supranational government which deals with governing institutions between states. Local governments generally act within powers delegated to them by legislation or directives of the higher level of government. In federal states, local government generally comprises the third (or sometimes fourth) tier of government, whereas in unitary states, local government usually occupies the second or third tier of government, often with greater powers than higher-level administrative divisions.

2. LITERATURE REVIEW

This chapter discussed the already existing literature about financial management. This literature was obtained from textbooks, and publication, periodicals research reports, and Internet among others.

2.1 Theoretical Review

The Theory of Financial Management deliberates on the fact that information flows in financial management systems is crucial to its success (Ezra Solomon, 1963). Though it was advanced a while ago, the theory is still applicable even in the age of financial management in local government. This theory stipulates that existing and possible functions of financial tools for organizations are most essential. In the same light, it is stated that, payments, financial instruments, accounting, control models, economic calculations, and related considerations, both within and outside of the organization, ought to be discussed in regard to inner characteristics but also possible effects. Despite this, a wide gap seems to exist between the information and logic structures programmed into financial models, and the precepts and algorithms derived from a normative theory of corporate financial management (Bartel, 1996).

Implementation difficulties in three main, but interdependent, areas are identified as causing the gap between theory and practice. First, there is the difficulty of constructing relevant information in a form which would be meaningful in a normative framework. Within the broad set of managerial activities of an organization, there are several relevant logic structures, including: a financial accounting structure; an economic structure dealing with cash flow, economic value, and marginal rates of return to investment: operating information structures dealing with the conduct of an organization's work; and strategic information structures dealing with an assessment of the external and internal human needs which provide a rationale for an organization's present and future existence (Cole and Kelly, 2011).

As Lenny (2010) argues, the systematic provision of information in each logical mode, and the translation between modes, poses a considerable intellectual and practical challenge. Then there is the problem of dealing satisfactorily with strategic uncertainty, and the way that uncertainty is distributed within the managerial organization. Multiple and conflicting goal dimensions pose considerable problems in terms of an explicit modeling of a corporate objective function. Beyond the intellectual difficulties, moreover, there are political dimensions which cause a reluctance to address an objective function explicitly and directly (Lenny, 2010). For this reason, the theory provides a powerful logic for designing information and decision-making structures to support corporate planning.

2.2 Related literature

The modernization of financial management systems at the national level has been in the process for many years. Many countries have benefited enormously from more efficient systems. Modernizing of financial management systems at local levels is beginning although most programs have focused on the broader field of public sector management or the narrower area of fiscal policy and tax bases. Empirical studies have been conducted on financial management. For example, Larson, Carey, Grarup, Hudson, Sachi, Vjecha and Gordin in 2016 identified approaches and practices for large, publicly funded, international trials that reduced cost without compromising data integrity and recommended an approach to cost reporting that permits comparison of clinical trials. Their study recommended new approaches, or creative adaption of traditional clinical trial infrastructure and financial management tools, can render large, international clinical trials more cost-efficient by emphasizing structural simplicity, minimal upfrontcosts, payments for performance, and uniform algorithms and fees-for-service, irrespective of location. In addition, they called for more central monitoring, improved and harmonized regulations, and a widely applied metric for measuring and comparing cost efficiency. Similarly, this study will focus on improving financial management systems in Garowe, Puntland Somalia.

Yu, Hassan, Mamun&Hassan (2014) analyzed the impact of financial sector reforms from the early 1990s on promoting economic growth in Morocco. To derive feasible policy implications, they estimated not only pooled regressions, but also variance decompositions of GDP growth rates to examine what proxy measures of financial development are most important in economic growth over time and how much they contribute to economic growth across geographic regions and income groups.

Traditionally, control over funds was sufficient for public financial management. Emphasis was placed on compliance with financial regulations, not performance. Audit, external and internal, pre and post, was a primary mechanism. Today audit is no longer good enough. Accountability in its broadest sense is required. Accountability should not only be for physical control of funds and reporting on their use but also for their effective and efficient use in securing the public goods. Performance based financial management requires a change in the entire approach to financial management and its role in the government organization. Rather than passive, modern financial 'management seeks to develop financial information that not only assures control of resources, but also is useful for decision makers in executing programs. To truly manage the financial resources of a public entity, whether at national or local levels means producing financial information for the entity in an integrated manner. The core functions of financial management system — budgeting, accounting, cash management and debt management must be integrated so that transactions affecting various components are entered once, and only once, and their effect is simultaneously registered in all the affected sub-systems.Every Financial Management System (FMS) shares certain core components. The key elements are:

2.3 Accounting System

Accounting is the primary provider of financial information linked to the operation of the Local Government; it is the function in financial management system that record and integrates the result of financial transactions that occur in the daily operation of the Local Government.

Accounting is the systematic gathering of financial transactions and the compiling and reporting of them in a meaningful and consistent way, so that decision makers can rely on the financial information provided to measure progress towards goals, estimate resources required to accomplish objectives, and allocate resources among competing goals and objectives. Accounting is reactive in nature, but it provides decision makers with the information required to be proactive in their decisions. The value of the information furnished by an accounting system is determined by its relevancy, accuracy and timeliness (Christopher, 2000).

Glynn and Murphy (1996) argue that accountability is, broadly speaking, the process via which a person or group can be held to account for their conduct. However, the concept of accountability has numerous facets (Sinclair, 1995; Horton, 2006; Caron & Giauque, 2006) and is complex and not easy to define.

The essence of accountability, argue Cutt and Murray (2000), has always been the obligation to render an account for a responsibility that has been conferred. Accountability according to Roberts and Scapens (1985) involves the giving and demanding of reasons for conduct and occurs in various social structures, such as within families, friendship groups, and within and between organizations.

Broadbent and Laughlin (2003) argue that there are, broadly-speaking, two aspects of accountability: public/political accountability that involves the public as principals and is concerned with issues of democracy and trust; and managerial accountability that is concerned with day-to-day operations of the organization and can be equated with Stewart's (1984) concepts of process, performance and program accountabilities. Broadbent and Laughlin (2003) argue that, under managerial accountability, the provision of detailed information is not directed to being more accountable to the public but rather it is an attempt by the principals (elected representatives) to control the agents (managers), and to legitimize past decisions and justify future ones. The provision of annual financial statements is an example of legitimizing past decisions.

Foster (2000) argues that accountability can be achieved best by the use of contracts. This relies on the ability to reduce all accountability relationships to ones of obligation, where there is a principle/agent relationship. So long as the contract is clear then the obligations under the relationship are clear as are the information needs to monitor the performance of the contract. However, principal/agent relationships are complicated by information asymmetry and power differentials (Broadbent and Guthrie, 1992). It is argued that some relationships cannot be accurately defined by a contract and therefore, to define accountability in contractual terms limits our understanding of the concept. Kloot and Martin (2001) suggest that there are also social contracts that are important for accountability and which go beyond the legalistic approach suggested by Foster (2000). The production of annual accounting and performance reports exemplifies a concern with the managerial aspect of accountability rather than public or political accountability. Collier (2005) questions the appropriateness of conventional accounting in providing information for public sector accountability. In effect, he is arguing that the provision of traditional accounting reports is only a part of what constitutes accountability. This is because accounting defines, and limits, the context in which subordinates must explain their actions to their managers. Funnell (2001), like Collier (2005), argues that financial accountability is not the totality of accountability

2.3.1 Budgeting procedures

Budgeting is a core element of financial management. Through the budget process Local Governments plan for, implement and evaluate policies. In carrying out these three functions, budgeting interacts with and depends on the accounting and cash management systems of FMS (Hatry, 1999).

Although accounting may be at the heart of FMS in that it plays a central role in recording and developing information, budgeting determines the kind of information needed and, working within the framework of generally accepted accounting principles determines to a large extent the classification system of revenue and expenditure accounts. The classification system must provide information for decision makers at both a macro and a micro level. As the financial plan for execution and monitoring of Local Government operations, the budget function must take into consideration the needs of the decision makers at all levels.

The budget also provides a primary internal managerial control over the expenditure of Local Government funds. Budgetary control should not be interpreted as simply fulfilling the legal requirements of staying within budget. It should be more broadly defined to include a responsibility for effective and efficient use of Local Government funds. With the budgetary control comes a need to assign responsibility for implementing the budget. This assignment of responsibility should be reflected in the selection of the implementing units and how data from these units is aggregated into larger units (Hatry, 1999; Harry, 1999).

The budget process in Kenya involves the preparation of three main documents that outline the government expenditure plans namely: the forward budget, the annual budget and the supplementary estimates. Though the budget outlines resources to specific areas, it allows flexibility in resource reallocation to meet contingencies with the approval of parliament. To improve the budgeting process, the budgeting system in Kenya has undergone a number of reforms. These include: the Programme Review and the Forward Budget (PR&FB) in 1970, Budget Rationalization Programme (BRP) in 1980s, Public Investment Programme (PIP) in the 1990s and the Medium Term Expenditure Framework (MTEF) in 2000.In a nutshell the budget process in Kenya is circular, starting in July to June. The process starts with the preparation of the forward budget (July-October) followed by the preparation of revised /supplementary estimates between September and March and finally the preparation of new annual estimates based on the forward budget, which start in January and end in June, culminating in the annual budget.

Local Authorities are generally recommended to use economic measures approach in formulating their annual estimates. To begin with, the budget committee under the leadership of the County Treasurer has to develop criteria for the preparation of the departmental budgets in its first session.

These guidelines will give each department a ceiling for budget preparation and establish basic priorities for service provision. The guidelines are needed because the Local Authorities must decide on how much to spend on various services under budgetary constraints as several departments complete for limited resources available. The next stage is for each department to develop its own and present it to the budget committee for discussion and submission to the relevant standing committees of the council. These departmental budgets including comments by the standing committees are taken back to the budget committee which harmonizes the proposals from the committees and prepares the master budget for submission to the Finance Committee. This is prepared in line with other Council's documents as LASDAP and REP.

The budget process in Kenya is made within the framework of the Medium Term Expenditure Format (A MTEF is a tool for linking policy, planning and budgeting over a medium-term at the government level. It consists of a top-down resource envelope and a bottom-up estimation of the current and medium term costs of existing policies. The MoF sets ceilings for all sectors on a three-year basis. The different ministries participate in working groups where sector priorities are reviewed and harmonized with national priorities LABG (1995). Local Authorities are empowered by the Local Government Act Cap 265 S212 to prepare budget fourteen days before the Commencement of the next Financial Year. Although local authorities have certain power to manage their affairs, they are subject to the control and supervisor of the MOLG.

The local government act provides a basis for the budget process and highlights important issues to be considered by local authorities when preparing their budgets.

Relevant provision of the act explain responsibilities of councils and their officers, the role of the minister for local government, the budget period, the sequence of the begetting activities and the budgetary control. The budgets are prepared by the Chief Officers and then tabled in the Finance Committee, adopted by the Full Council, discussed in theProvisional Budget Committee and then forwarded to the Minister of Local Government for approval. When the Government realized that there was a problem of service delivery by Local Authorities, it came up with the idea of performance contracting. Performance contracting is negotiated by the Ministry of Local Government and the Council on the basis of the budget prepared for that financial year(Masya 2003).

2.3.3 Management Practices

Given that the budget is rarely adhered to, a number of management issues exist. This is revealed in budget reallocations through revised estimates and huge budget deficits. a study by the institute economic affairs (2001), using survey data carried out by the CGD (2001) revealed several years of waste between 1991-1997 when the government lost Ksh. 475 billion thoroughly corruption, neglect, wastage and a "don't care" attitude of public officers. Further the survey indicates that during this period, wasteful expenditure amounted to Ksh.69 billion; undelivered goods and services Ksh. 39.8 billion; irregular payment: Ksh 54 billion, surrendered or uncollected revenue 236 billion; and pending bills Ksh. 77 billion. This situation has been aggravated by among other factors the misallocation of public expenditures; large unbudgeted expenditures (Eldoret airport project; presidential jet), over-invoicing, evasion of duty and unauthorized expenditure.

The budget indiscipline has also been evidenced by the selective award of tax exemption: and incentives and off-budget transactions, such as the huge increases in salaries and wages for members of parliament and permanent secretaries in the civil service (institute of economic affairs, 2003).

A study by Jeru (2004) reveals that after budget approvals, policy makers do switch budgetary resources from one vote to another to finance extra recurrent expendituresthus as long as the budget is not adhered to, efficiency and effectiveness in resource use and management will largely remain elusive in Kenya.the budget goals have largely remained elusive in Kenya, as the government is unable to (achieve its revenue targets. this is because, despite the fact that donor budgetary support has not been forthcoming in the last two decades, the government has largely remain optimistic and continues to include in the budget outturns uncommitted donors funds an receipts expected from the disposal of public corporations which are never realized. as the end, the actual budget implementation tends to dictate policy priorities despite the enormous resources put into the budget preparation, often resulting in a scenario where budget drives policy rather than the ideal where policy should drive budget. Many local governments (including some of the richest!) have huge debts. as a result, many lass have substantial deficits - in reality, even if not shown in the approved budget. Expenditure management is often simply crisis management - staving off creditors. in most Local governments, few services are actually delivered, and despite the rhetoric of the prsp, little attempt is made to direct the available resources to addressing poverty. Many of these problems are caused by the structural imbalance between expenditure needs and resource availability at the local level, but other problems are attributable to the failings of local governments themselves kiringai, j. and g. west (2002). Most of the studies done give an overview of how finances are raised against the budget importantly, though, is that where an otherwise well-formulated budget is poorly implemented, government cannot achieve most of its spelt-out goals/objectives. Most local authorities do follow the approved budget in executing their plans.

There are no specific set standards, policies and procedures regarding the financing and implementation of the budget. Lack of familiarities and understanding of exact laws, regulations and guidelines on project execution by local governments, delays in obtaining approvals of ministers and permanent secretaries for various stages of the procurement process, delays in processing payments challenges in documentation delays in processing memos to council are bureaucratic obstacles facing la's in budget implementation.

2.3.4 Employee Capacity

Financial Management Systems include complex technical, procedural, institutional and behavioral adjustments that require specialized expertise. Finding expertise in key areas has been a problem and has caused difficulties in financial management. It is also important to take into account that while some relevant expertise may be available 'in house', it may take time to ensure the external procurement of the necessary capacity. (Murphy, Peter. F., 2000).

Management of public finance also poses a major challenge to the existing public sector environment. In most African countries, parts of the existing FMS are based on outdated manual, labor- intensive processes. The skills needed to operate that system are different from the demands of a new computerized system. Apart from IT-knowledge, a new accounting system requires professional accounting skills, which are scarce in African governments. To close the gap between available and necessary skills will not always be possible with the existing staff. It will in any case require long-term capacity building.Consequently, time should be allocated to build skills and capacity in the existing public sector environment. In this context, it is essential to strike a balance between the necessary training and the ability and capacity to absorb information at the level of individual staff. Training needs and capacity building assessments are key elements of financial management. While it may require a more in-depth analysis to make a final assessment, more comprehensive capacity building efforts are recommended to avoid skills/capacity constraints and the potential loss of qualified public sector employees to the private sector.At least parallel action should be considered to improve the salaries for financial management and IT-staff. Experience in the five countries indicates that it is difficult to retain qualified staff on public sector wages. As a consequence, in many cases (Ghana and Tanzania are examples) key staff are being paid outside the public sector salary structure. A careful evaluation of the salaries and packages for the relevant staff in both public and private sector should be done including an assessment of the implications of improved salaries for the broader public sector environment. Such a strategy would aim at striking a balance between the need to attract/retain qualified staff and the financial and social implications of better wages for specific employees (Murphy, Peter. F., 2000).

2.4 Related studies

Financial management

According to Cole, (1996) management is the process of working with and through others to effectively achieve an organizations stated objectives by efficiently using resources in the ever changing environments. Management of the revenue depends on the type of business or particular organization and the purpose to which it was collected. In local authorities revenue is collected for the provision of services and each local authority has it' sown type of revenue it collects thus different kind of services.Effective management of the resources of an organization, or of a project or service within an organization, involves: A planning and monitoring cycle that ensures that expenditure is always within available funds, and that the organization is always aware of the effect on its overall financial position; A record keeping system for financial transactions that meets accounting standards, and provides accurate and useful financial reports. The record keeping system feeds directly into the planning and monitoring cycle, providing the information about the organization's financial position at the beginning of each cycle and the information for monitoring and adjusting the budget during the year;A control and risk management system that ensures procedures are in place to protect the organization against fraud or insolvency.

The control of an organization's finances involves: Delegations which is the allocation of authority to approve specific financial transactions (most usually applied to specifying who can approve payments at different levels of expenditure, but should also be applied

to other activities such as setting up or closing accounts, transferring funds between accounts and so exercise of authority which is the actual signing of transaction documents (such as cheques or receipts) by the people with delegated authority to approve the transaction; evidence which is a paper trail of evidence that shows the validity of transactions and the appropriate exercise of delegated authority; monitoring and auditing which involves monitoring and closer examination of the financial records through audits, checks that the evidence exists to show that transactions are occurring appropriately and an efficiency review process that assesses the most resource efficient way to do things.

Basic tools of financial management systems

The basic tools of financial management are:

2.4.1 The budget

A draft budget should be prepared by someone with expertise in budgeting, and a good knowledge of the organization's activities. The following should be checked by whoever is approving the budget: Amounts allocated to different items should be realistic, and information about how the figures for both income and expenditure items were decided should be provided. The figures should take into account inflation and cost increases (particularly those for wage or rent increases). 'Accruals' must be included - these are amounts that are unspent from the previous year, but are still 'owed' (such as accrued long service leave) and amounts that will need to be set aside from this year's budget to pay for things in the future (such as relief staff to cover leave accrued during this year, funds to cover replacement of equipment). Income must cover expenditure, even if some of the income is being brought forward into the budget from previous year's surplus. (Masya 2003)

2.4.2 Financial reports

Financial reports are essential for monitoring the budget, and will provide the most accurate reflection of how the budget is going if: ' Year to date' figures are shown in monthly or quarterly reports as well as the figures for that month or quarter. The figures for actual amounts are compared with the amounts budgeted for the period and year to date The amounts budgeted are based on a cash flow chart (that is, have been realistically estimated in terms of their timing over the year)(Pandey1999)

2.4.3 Cash Flow Charts

These can be used to make sure that the organization does not run out of money or into problems during the year. A simple cash flow chart shows the timing of receipts and payments over the year, and the impact of this on available funds

Local Authorities fail due to neglect decay, misappropriation, sleaze, bickering, lack of transparency and at the same time local authority Act Cap 265 created a conflict of interest among the elected civil leaders and chief officers alike leading to the misunderstanding of each other's boundaries.

East Africa standard Newspaper (2004) reported that Kenya's Local Authorities could attain a 95% growth in revenue collection through good business practice. Declining revenues is due to poor awareness of the prevailing revenue collection laws with no evidence to clarify what revenues do. Without revenues power, services cannot be provided and aids supported activities cannot become sustainable. Paying of revenues shapes the relationships between the management of these local authorities and its people.

Therefore residents are morally bound to pay their revenues for the upkeep and growth of their town. In anticipation of more revenues the management can introduce some policies which can assist in undertaking and meeting the needs of customers, measuring their satisfactions, keeping customers informed, giving customer's confidence that their needs will be met and even exceeded. (Moore, 2000)

2.5 Research Gap

Even non-economist perceive that local governments are closer to the people and therefore have a potential advantage to enhance participation in government, to provide an outcome that is closest to the preferences of the people, and allow the potential process to guarantee a more efficient operation of local government (Bahl,1995). In both ways of reasoning the result is not different. The aim is still to provide a mix of services that match the demands of local population and furthermore to make the local government officials more accountable to their voters for the quality of services they provide. Another aim is to make the local populations become more willing to pay for public services, now that their preferences are taken into account (Bahl, 1995).

The challenge that remains is to create a balance in which both the central government and the local government can operate without the central governments taking over the control. This is quite an issue in the decentralized system of governance. For example Ribot (2002) argues that, "…many central government agents fear, and therefore block, decentralization. By preventing transfers of meaningful powers to local democratic bodies, or transferring those to local agents who are only accountable to the central government and other line ministries prevent decentralizations from moving forward. As a result, to date the potential benefits of decentralization remain unrealized because government discourse has not resulted in the enactment of necessary laws, or where decentralization laws do exist, they have not been implemented.

3. METHODOLOGY

This chapter elaborated the whole process of the study and how it was carried out. It also explained how the study was conducted, the area of the study, sample size and sampling technique. It also indicated how the data was collected and analyzed as well as the limitations encountered during the study.

3.1 Research Design

The study used a cross-sectional, descriptive survey design. The study was cross-sectional because it entirely collected data from the respondents at once. It was a descriptive survey design because it was concerned with surveying quantitative or numeric description of trends, attitudes, or opinions of a population (Creswell, 2013). It should be noted that both qualitative and quantitative methods of data collection were used to establish the status of the problem under investigation. Descriptive research which is essentially cross sectional concerns with generalization of statistics from a sample to a specific population.

3.2 Research Population

The target population of this study included all the 140 regular workers according to Puntland local government association (PLGA) report 2015.The target population comprised all the management team of the divisions in the local governments. These divisions comprised of Hodan, Wabari, and Wadajir divisions. The total number of the employees in the management team is as shown;

Table 3. 1: Distribution of Study Population by Geographical Location

Divisions	Population Size
Hodan	52
Wabari	45
Wadajir	43
TOTAL	**140**

Source: Puntland local government association (PLGA) report 2015.

3.3 Sample Size

The sample size for the study was computed by use of the Slovene's formula and obtained 104 respondents as the minimum sample size. This was arrived through the following mathematical procedure.

$$n = \frac{N}{1+N(e)^2}$$

Where

n= Sample size

N=Total population size

l^2= 0.05 level of significance

$$n = \frac{140}{1+140\,(0.05^2)} = 104$$

Table 3. 2: Population and Sample Size Summary

COUNCIL	Population	Sample Size
Hodan	52	39
Wabari	45	33
Wadajir	43	32
Total.	140	104

Source: Local Government of Garowe, 2015

3.4 Sampling Procedure

The research used stratified and purposive sampling methods to select the required sample size. The population was divided into the different divisions which form the stratums of the study from where senior management team were picked who comprised of the town clerks, the treasurers, the auditors and accountants to form a sample size of 104 respondents which was 74% of the total population. According to Lucey T. (2004), any sample above 10% is enough representation.

Table 3. 3: Sampled population summary

Council/Division	Designation	Sampled	Total
Hodan	Town Clerks' Office	8	39
	Treasury	10	
	Auditor Department	8	
	Accounting Department	13	
Wabari	Town Clerks' Office	10	33
	Treasury	6	
	Auditor Department	9	
	Accounting Department	8	
Wadajir	Town Clerks' Office	9	32
	Treasury	7	

	Auditor Department	6	
	Accounting Department	10	
Total.			104

3.5 Sources of Data

There were mainly two major sources of data namely; Primary data which was obtained from selected respondents by use of self-administered questionnaires.

Secondary data was the other source of data which was got from related literature like departments of local government, published text books and internet.

3.6 Data Collection Methods

The proposed study being quantitative, survey, and descriptive in nature, used two methods of data collection. It employed the survey method of collecting data, which involved the use of self-administered questionnaires, SAQs. The method enabled the researcher to cover all the respondents quickly and at a reasonable cost. It also involved using an interview method.

3.7 Research Instruments

3.7.1 Self-Administered Questionnaire

This study used questionnaires as the main tool when collecting data. The questionnaire consisted of a structured type of questions which produced the answers needed by the researcher. A questionnaire is a formatted set of questions that was drawn up to meet objectives of the study Mugenda, &Mugenda (1989).

The reason for selecting this instrument was that the researcher believed that the questionnaires would the most reliable instrument to get the necessary information from the respondents without fear or hesitancy. It was also found to be less costly compared to other instruments. Each respondent was provided a chance to express his or her ideas, options, views freely in a provided space without any undue influence of the researcher or his assistants.

3.7.2 Interview guide

Interview guides were also used to collect data especially from the respondents who didn't know how to read and write. Interviews were also done with people in higher positions.

3.8 Validity and Reliability of the Instrument

3.8.1 Validity

Validity is important in determining whether the statements in the questionnaire instrument and interview manuals are relevant to the study. Content validity was obtained by the help of the supervisor's input and three experienced lecturers from relevant University Schools and departments. According to Amin

(2004), validity can be and in this case was assured by use of the content validity index (C.V.I) where the following formula was used.

$$\text{CVI} = \frac{\text{no of items declared valid}}{\text{total no of items}} = 18 \div 20 = 0.90$$

Equation 1: CVI Equation

In the end, out of 20 questions, 18were declared to valid and as such the researcher claim a validity of 0.90. Since this index is above 0.7, the instrument was declared valid. The value obtained was greater than 70% and validity was confirmed (Amin, 2005).

3.8.2 Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Amin, 2005). Reliability of the instrument was first established through a test-retest technique. The researcher conducted a pre-test of the instrument on group of respondents and wait one week then administer the same test to the same subjects a second time. The differences in the responses helped to establish whether the instrument has internal consistency or not.Cronbach's Alpha was also used to determine the same and the table below was obtained as a result.

Table 3. 4: Cronbach's Alpha Table

Variables	Alpha	Number of Items
Accounting Systems	0.78	7
Budgeting Processes	0.93	7
Management Practices	0.85	
Employee Capacity	0.77	4
Financial Management Systems Integrity	0.85	4
Mean Alpha and Total Number of Questions	**0.84**	**26**

Source: Primary Data, 2016

As seen from the table, the mean alpha was computed at 0.84 which means that it was reliable since it was above 0.70. It also implies that its internal consistency was affirmed.

3.8 Data Gathering Procedures

Data gathering procedures was divided into three phases, these included; before, during and after. The researcher followed these phases to reach to the conclusion of the data gathering procedures.

Before, before the research, the researcher got an introductory letter from the college of higher degrees and research. After this letter, the researcher presented this letter to the field officials before carrying out the data gathering.

During; in the process of collecting data, the researcher educated the respondents about the research and also informed them about the future use, benefits and outcomes of the research report. This he did by the researcher with the help of three people by distributing the questionnaires to the respondents.

After; after collecting the data from the field research the analysis process and presentation emerged. The researcher madesure the collection of all the questionnaires from the respondents since the questionnaires were vital in data analysis procedures and presentation.

3.9 Data Analysis

The research used descriptive statistics to describe the distribution of scores to be obtained by use of statistical methods like mean standard deviation, regression, frequencies and percentages. Data was classified and tabulated by use of tables and presented in form of graphs and charts according to research questions and objectives. The following mean scale was used to interpret the means scored by the various variables to be analyzed.

Table 3. 5: Mean Interpretation Table

Mean Range	Response Mode	Interpretation
3.26-4.00	Strongly Agree	Very High
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly Disagree	Very Low

3.10 Ethical Consideration

Various ethical issues were encountered and mitigated in the course of the research study. The researcher acquired an introduction letter from University authority concerned with readying students for field research which was used to obtain credibility from the institutions under study. Thereafter, copies of the letter were used to introduce the researcher to the respondents, after getting the testimonial letter.

3.11 Limitation of the Study

The researcher met some challenges while carrying out the study which included: Time;

The time allocated for this research work was not adequate given that the researcher is also working and getting time to do the work was not easy. Issuing and collection of the questionnaires also needed time. The researcher made use of research assistants who made the work easier. Finances: Money was a constraining factor given the work that was involved of typesetting and printing the document. The research assistants engaged were paid. The researcher sourced money from friends and well wishers to cater for the cost involved; Respondent's cooperation: Many people are not conversant with research operations and therefore they looked on this work with a lot of skepticism. Many respondents were not willing to give out some information.

4. FINDINGS PRESENTATION AND ANALYSIS

This chapter presents the analysis of the findings obtained from the data collected during the study. The data was analyzed according to the following objectives.

1. To examine the effect of accounting systems on financial management in local government in Puntland, Somalia
2. To investigate the effect of budgeting procedures on financial management systems in the local government in Puntland, Somalia.
3. To identify the effect of management practices on the financial management systems in local government in Puntland, Somalia
4. To establish the effect of employee capacity on the financial management systems in local government in Puntland Somalia.

4.1 Demographic Characteristics of Respondents

The table below shows the distribution of the respondents according to the four parameters of gender, age, educational qualification and work experience. Frequency tables and percentages were used in analysis.

Table 4. 1: Demographic Characteristics of Study Respondents

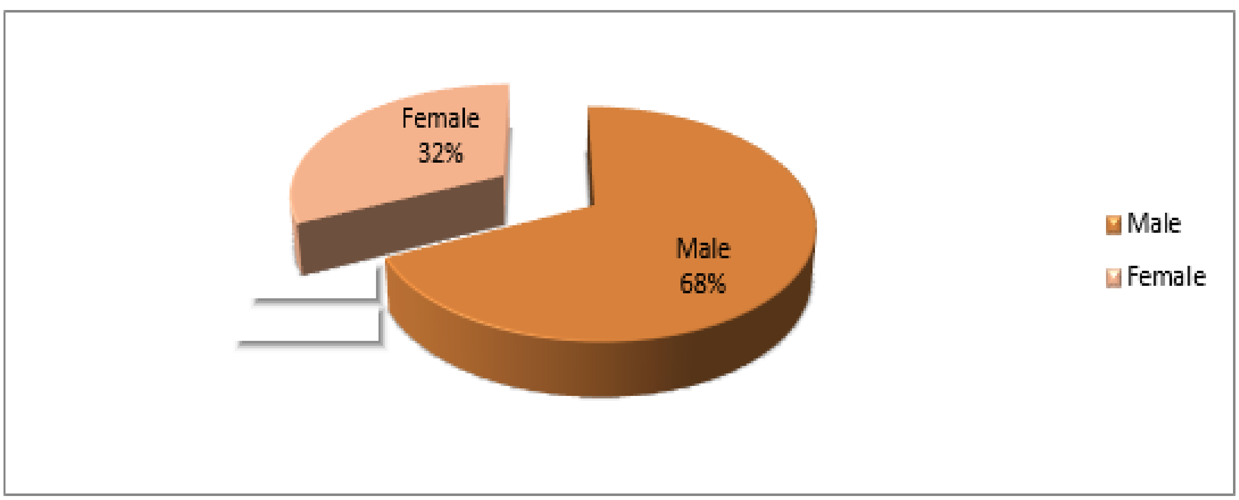
Variable	Frequency	Percentage
Gender		
Male	71	68%
Female	33	32%
Total	104	100.00%
Age Distribution		
Below 25 years	12	12%
26 – 30 years	16	15%
31 – 35 years	22	21%
36 – 40 years	19	18%
40 and above years	35	34%
Total	104	100.00%
Educational Qualification		

Secondary	17	16%
Certificate	11	11%
Diploma	36	35%
Degree	26	25%
Master	14	13%
Total	104	100.00%
Work Experience		
Below one year	8	8%
1 – 2 years	16	15%
3 – 4 years	34	32%
5 – 6 years	25	25%
6 years and above	21	20%
Total	104	100.00%

Source: Primary Data, 2016

It can be noted that the age composition of the respondents was biased towards the masculine gender. Percentagewise, males constituted 68% while the females represented 32% of the 104 respondents involved in the study. This means that the workers at the governments' officers were majorly male. This is an indication that the recruitment policies of the government offices were bent to the favor of the masculine gender. Also this may mean that the feminine gender was not interested in working for the local governments of Garowe.

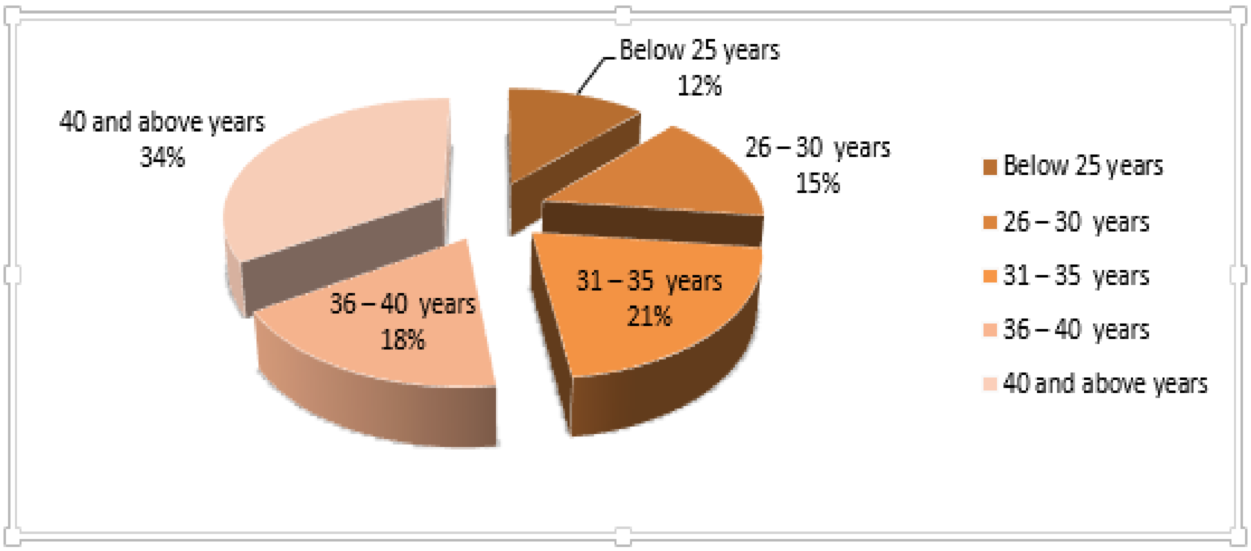
Figure 4. 1: Gender Distribution of Respondents



Source: Primary Data, 2016

In terms of age distribution of the respondents, it was found that respondents belonging to the age group of 40 years and above were the most dominant with 34% composition. This group was followed by the category of 31-35 years which constituted 21%. The third group was the one for 36-40 years which constituted 18% of the 104 respondents. This was followed by the group of respondents between 26 and 30 with 15% composition. The age group with the least composition in percentage was those belonging to the age group below 25 years claiming only 12% composition. This information clearly shows that there were more elderly people in the local governments of Garowe. It is either the retention rate of employee in the local governments is very high or they have an insistence on recruiting elderly people into the system.

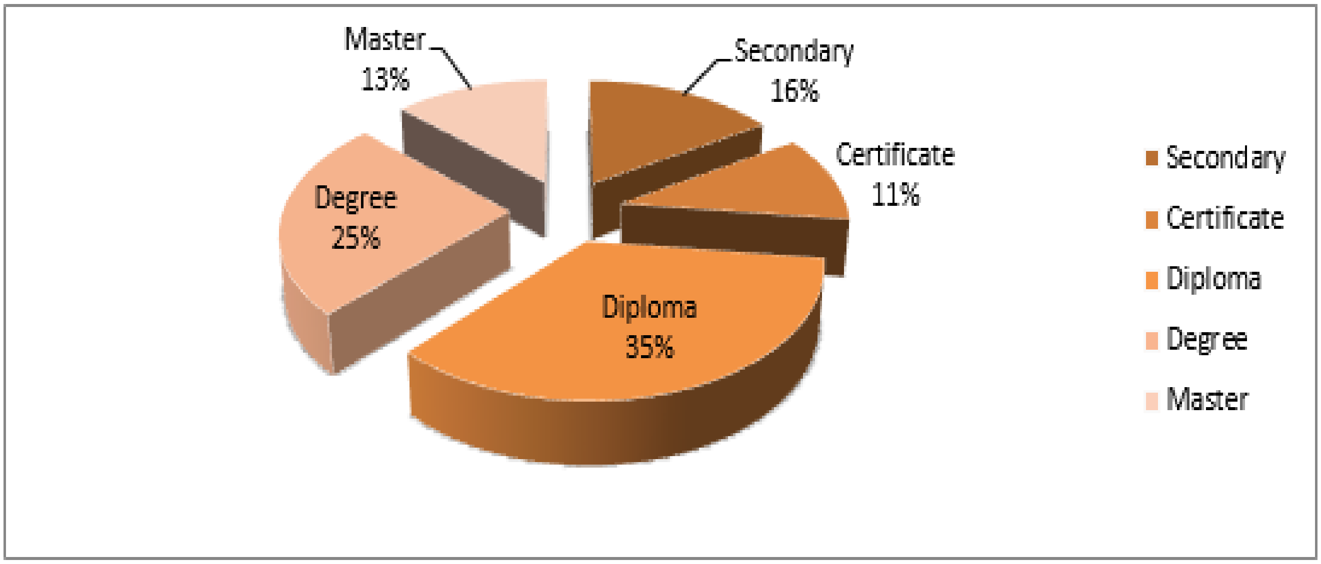
Figure 4. 2: Age Distribution of Respondents



Source: Primary Data, 2016

In terms of educational qualifications of the local government employees, it was found that most of them had diploma as their highest academic qualification. These respondents who were 35 in number represented 35% of the respondents encompassed by the study. After this, the degree holders followed with 24% composition. The third category in educational qualifications was the one with secondary schools' certificates at 16%. Master degree holders followed with 13% composition. Finally the last category of respondents belonged to the group of those with certificates as their highest qualification. This analysis shows that the employees were adequately educated and were thus capable of handling the challenges that come with working at the local government's offices.

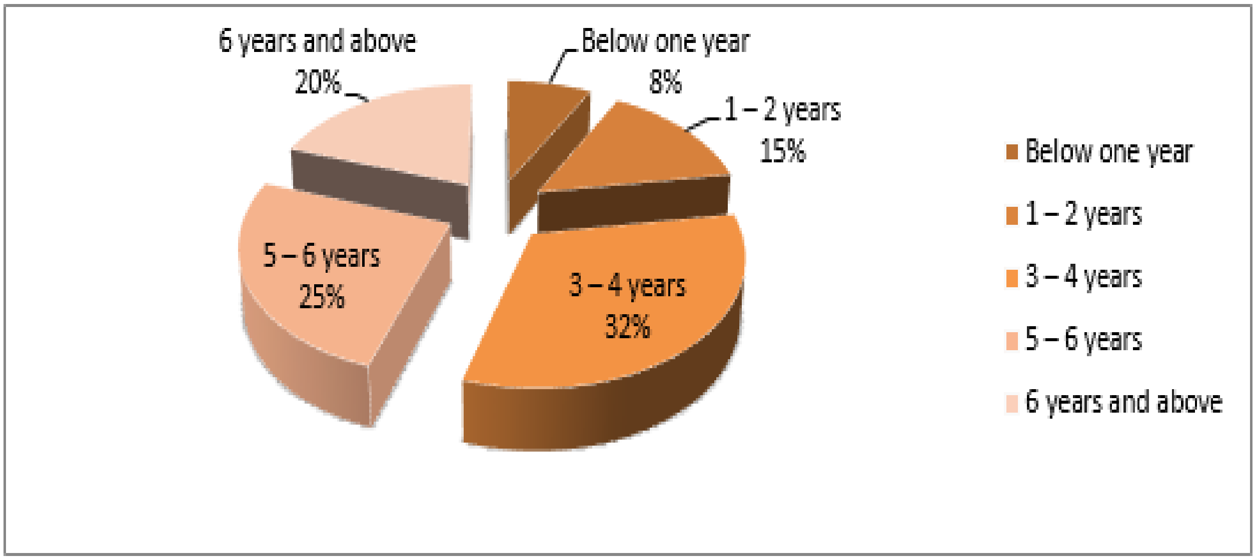
Figure 4. 3: Educational Qualifications of Respondents



Source: Primary Data, 2016

The last consideration analyzed under the demographic characteristics/profile of the respondents was the work experience of the respondents at Garowe Local Governments. Findings suggested that majority of the respondents had between 3 and 4 years of work experience representing 32% composition. This was followed by respondents with 5-6 years of work experience with 25% composition. The third category under the work experience was found to be the one with respondents of 6 years of experience and above who claimed 20% of the 104 respondents. Those belonging to the categories of 1-2 years followed with 15% composition while those of below 1 years of work experience represented 8%. This information indicates that the workers had adequate experience to work for the local government of Garowe. It also means that the workers' turnover at the local government was low since several employees had worked there for more than 3 years while very few were new at the work place.

Figure 4. 4: Work Experience of Respondents



Source: Primary Data, 2016

4.2 Objective One: The Effect of Accounting Systems on Financial Management Systems at the Local Governments in Garowe Puntland

The first objective of the study involved the examination of the effect that accounting systems have on financial management systems at the local governments of Garowe, Puntland, Somalia.

4.2.1 Descriptive Statistics on Accounting Systems

Before looking into the effect, it was imperative to explore the descriptive statistics on accounting systems. This was done by use of means, standard deviation and ranking as offered in the table below.

Table 4. 2: Descriptive Statistics on Accounting Systems

Indicators	Mean	Construct Mean	StdDev	Rank	Interpretation
Your accounting systems are well managed to help in monitoring financial aspects of the local government	1.35	1.46	0.19	3	VERY LOW
Your accounting systems are regularly updated	1.55			2	
Your accounting systems are tailored to the needs of the	1.72			1	

organization					
The integrity of your accounting systems is rarely compromised	1.21			4	

Source: Primary Data, 2016

The overall mean for this construct variable was 1.46 and it was interpreted as very low. The overall standard deviation was 0.19 which means responses were not that polarized. The highest indicator variable in this category was found to be on the statement that “Your accounting systems are tailored to the needs of the organization”. This statement’s mean was calculated to stand at 1.72 and this was interpreted as very low. Under this category, the lowest indicator variable was found on the statement that the “The integrity of your accounting systems is rarely compromised” incurred as it scored a mean of 1.35 and interpreted as very low. This means that the accounting systems that were in use at the local governments in Garowe were not in good shape. From the interviews, it was noted that most respondents did not acknowledge this and went ahead to actually laud the accounting systems that were in use at the local governments;

> *“…The systems that we use here are good, we tend to update them at every chance we get…we have a reliable team of experts who keep the systems in good shape throughout…I specifically commend the IT staffs for their role that they play in ensuring this…we might have a few problems here and there but they are mainly due to the fact that we have high rates of staff turnover in the finance department…*”

The statements were recorded from the interviews with senior management personnel and may have been a defensive tactic assumed by the management to impress us on the performance of the financial management systems. It is normal for managers to want to appear successful and very few managers would acknowledge otherwise. The fact that the questionnaires offered a different opinion, the questionnaires’ opinion matters more as the responses were solicited from a wider base of employees who according to the researcher should understand the financial systems that are installed at the local governments of Garowe, Somalia.

4.2.2 Regression Test Results

A regression test was carried out in SPSS to examine the effect that accounting systems have on financial management systems. Table 4.2 shows the test results from the regression procedure carried out.

Table 4. 3: Regression Test Results (Accounting Systems on Financial Management Systems Integrity)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.799[a]	.639	.634	.33814

a. Predictors: (Constant), Accounting Systems

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.768	1	15.768	137.907	.000[b]
	Residual	8.918	102	.114		
	Total	24.686	103			

a. Dependent Variable: Financial Management Systems

b. Predictors: (Constant), Accounting Systems

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.078	.156		.500	.618
	Accounting Systems	.974	.083	.799	11.743	.000

a. Dependent Variable: Financial Management Systems

Findings suggest that accounting systems had a strong significant effect on financial management systems in Garowe local governments. The R-Squared coefficient was computed to be at 0.639 which translates to a 63.9% influence on financial management systems. This means that it has a strong influence on the dependent variable.

Regarding the ANOVA test results, indications point to the fact that the independent variable was significantly influential in determining the integrity of financial management systems at the local government. The reason for this is that the p value for the ANOVA test was computed to be at 0.000 which is above 0.05. The beta coefficient of 0.799 is also significant as shown in the coefficients table as it had a significance of 0.000 too.

4.3 Objective Two: The Effect of Budgeting procedures on Financial Management Systems in Garowe, Puntland, Somalia

The second objective related to the establishment of the effect that budgeting processes have on financial management systems in Garowe, Puntland, Somalia.

4.3.1 Descriptive Statistics on Budgeting Processes

The descriptive statistics of budgeting processes as a variable were examined to determine how the process was evaluated by the respondents. The statistics used in this case were means, standard deviation, and rankings. The table below shows a summarized version of these findings.

Table 4. 4: Descriptive Statistics on Budgeting Processes

Indicators	Mean	Construct Mean	StdDev	Rank	Interpretation
You allocate sufficient time to the process of budgeting in your local government	1.67	1.72	0.26	2	VERY LOW
Issues of financial management take are prioritized in budgeting processes	1.50			4	
You use forecasting models to determine the suitability of budget estimates	1.66			3	
The budget select committee in your local government is well constituted	2.04			1	

Source: Primary Data, 2016

Findings suggested that the assessment of budgeting processes according to the respondents was low since it had a mean score of 1.72. The standard deviation for the variable was established to be at 0.26 to indicate that the responses were not that far apart. The highest rated statement was “The integrity of your accounting systems is rarely compromised” which was assessed at a mean score of 2.04 thereby indicating that it was low. The lowest evaluated statement was “The budget select committee in your local government is well constituted” as it was established at a mean score of 1.50 and interpreted as very low.

The overall implication was that the budgetary processes regarding financial management systems at the local government were not well undertaken.

The results from the interviews conducted indicate similar results as they show that the budgetary processes were poorly done by the local governments. The following statements were recorded from the sessions and seem to rhyme with this context of analysis.

> *"I have a problem with how the budget select committee is constituted…you will find that not all stakeholders are involved…even on the departmental level of budgeting, only a few individuals are involved…the amounts that are accorded to us are not enough* to help *us run these systems…it becomes difficult to make purchases of better systems because of the intense bureaucratic processes during budgeting…I feel that we need to review these processes and become more sensitive to financial management systems during budgeting…"*

4.3.2 Regression Test Results

The tables to follow show the results obtained after regressing budgeting against the integrity of financial management systems.

Table 4. 5: Regression Test Results (Budgeting Processes on Financial Management Systems Integrity)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845[a]	.714	.710	.24707

a. Predictors: (Constant), Budgeting

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	11.872	1	11.872	194.489	.000[b]
1	Residual	4.761	102	.061		
	Total	16.634	103			

a. Dependent Variable: Financial Management Systems

b. Predictors: (Constant), Budgeting

Coefficients[a]

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	.385	.107		3.613	.001
	Budgeting	.859	.062	.845	13.946	.000

a. Dependent Variable: Financial Management Systems

Source: Primary Data, 2016

From the 104 respondent who were the respondents, the study computed the R Squared Coefficient to stand at 0.714. This figure means that budgeting process had 71.4% effect on the financial management systems at the local governments was due to budgeting. Because this is the coefficient of determination, it implies that budgeting has a high, positive, and significant effect on the financial management systems of the local government in question.

Looking at the ANOVA test results, findings suggest that the significance level was below the threshold of 0.05. This fact provides evidence to the fact that budgeting has a significant effect on the integrity of financial management systems. Regarding the beta coefficient of budgeting, it was significant in the model since its p value was measured to be at 0.000 which affirms that it is crucial in the model and that it should not be removed.

4.4 Objective Three: The Effect of Management Practices on Financial Management Systems Integrity

The third objective of the study concerned the determination of the effect that management practices have on financial management systems at the local governments of Garowe, Somalia.

4.4.1 Descriptive Statistics

First the descriptive statistics relating to the variable were examined and the following table shows the results obtained. Three statistical tools were used and these were means, standard deviation, and ranks.

Table 4. 6: Descriptive Statistics on Management Practices

Indicators	**Mean**	**Construct Mean**	**StdDev**	**Rank**	**Interpretation**
Communication amongst financial officers and other relevant offices is held in high regard	2.13	1.69	0.3	1	VERY LOW
Financial officers are well motivated by administration	1.33			4	

Management at the local government ensure that the work environment is appropriate	1.77			3	
Organizational culture allows for the use of financial management systems to the maximum	1.52			2	

Source: Primary Data, 2016

The overall mean for this construct variable was 1.69 and it was interpreted as very low. The standard deviation was computed to be at 0.30 suggesting that responses were not that divided. The highest indicator in this category was where respondents reacted to the statement that "Communication amongst financial officers and other relevant offices is held in high regard". This indicator variable bared a mean of 2.13 which was interpreted as low. The lowest indicator variable in this category was where respondents reacted to the statement that "Financial officers are well motivated by administration" as it scored a mean of 1.33 and was interpreted as very low. This means that the management practices as they were at the local governments in Garowe, Puntland, Somalia were not up to the standards expected by the respondents who were essentially the employees of the institutions.

From the interviews, the same was felt especially when it comes to motivation of the financial management officers. As can be seen from the statement quoted below, they clearly acknowledged its deficiency;

> *"…our workforces try to impress management with good individual performance but management is yet to fully acknowledge these efforts…the pay structure does not reflect a 21st century local government and employees are well aware of this…financial management is a highly technical area and needs high enumeration compared to other professions but that is not seen in this local government…there are also some issues when it comes to communication within, to and from the financial management department"*

4.4.2 Regression Test Results

This section examines the actual effect that management practices have had on financial management systems in the local governments of Garowe, Puntland, Somalia.

Table 4. 7: Regression Test Results (Management Practices on Financial Management Systems)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.849[a]	.721	.717	.29723

a. Predictors: (Constant), Management Practices

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.796	1	17.796	201.436	.000[b]
	Residual	6.891	102	.088		
	Total	24.686	103			

a. Dependent Variable: Financial Management Systems

b. Predictors: (Constant), Management Practices

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.093	.128		.725	.471
	Management Practices	1.051	.074	.849	14.193	.000

a. Dependent Variable: Financial Management Systems

Source: Primary Data, 2016

The R-Squared coefficient was computed to be at 0.721. This figure indicates that management have a 72.1% effect on the integrity of financial management systems. This also means that the rest of the 27.9% is influenced by other factors other than management practices. The R-Squared coefficient denotes a high amount of influence that management practices have on the financial management systems.

Analysis of variance was also performed where findings suggested that there was some significance in the effect due to the significant differences found. The p value for the test was computed within an acceptable range since it was at 0.000. This is enough evidence to suggest that management practices have a significant effect on the integrity of financial management systems as observed in the local governments of Garowe, Puntland, Somalia. The beta coefficient of 0.894 was also significant enough since it was computed at a p value of 0.000 which affirms that it is crucial in the model.

4.5 Objective Four: The Effect of Employee Capacity on Financial Management Systems in Garowe Local Governments

The final objective of the study was to examine the effect that employee capacity had in establishing integrity in the financial management systems of local governments in Garowe, Somalia.

4.5.1 Descriptive Statistics on Employee Capacity

Even in this objective, there was a need to explore the variable of employee capacity to find out the level of capacity that the employees at the institutions had. This was also done by use of the three statistical tools namely means, standard deviation, and ranks.

Table 4. 8: Descriptive Statistics on Management Practices

Indicators	Mean	Construct Mean	StdDev	Rank	Interpretation
Employees are recruited based on their level of skills or competence	1.55	1.71	0.28	3	VERY LOW
Financial officers are given good on-the-job training at the local government	1.87			2	
Financial officers are allowed some time to advance their education and or skills	2.04			1	
Management itself is involved in ensuring financial officers are given what they need	1.37			4	

Source: Primary Data, 2016

The overall mean for this construct variable was 1.71 and it was interpreted as very low. The standard deviation was 0.28 which implies that the responses were not that divided. The highest indicator in this category was where respondents responded to the statement that “Financial officers are allowed some time to advance their education and or skills”. This indicator variable bared a mean of 2.04 which was interpreted as low. The lowest indicator variable in this category was where the respondents reacted to the statement that “Management itself is involved in ensuring financial officers are given what they need”. From this analysis, it is clear that employee capacity of the workers at the local governments was not high enough.

From the interviews conducted, respondents insisted that employees had average capacity to go about executing their duties and roles at the local governments of Garowe, Somalia.

> *"…employees cannot have the right capacity to execute their duties if management does not empower them…there are very few training opportunities that are offered…the allocation of these opportunities that come is done discriminately done…Also management does not have full trust in the ability of the workforces to carry their duties, the workers are not given autonomy even over very simple tasks…this act has killed the spirit of innovation and has thus discouraged innovation…"*

4.5.2 Regression Test Results

This section presents and analyzes findings relating to the regression test results of employee capacity against financial management systems.

Table 4. 9: Regression Test Results (Employee capacity on Financial Management Systems)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.515[a]	.265	.260	.28107

a. Predictors: (Constant), Employee Capacity

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.220	1	4.220	53.422	.000[b]
	Residual	11.692	102	.079		
	Total	15.912	103			

a. Dependent Variable: Financial Management Systems

b. Predictors: (Constant), Employee Capacity

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.189	.102		11.616	.000
	Employee Capacity	.492	.067	.515	7.309	.000

a. Dependent Variable: Financial Management Systems

Source: Primary Data, 2016

From the findings, it was established that the R Squared coefficient denoting the causal effect that employee capacity has on financial management systems integrity at the local governments was computed to stand at 0.265. This implies that only 26.5% of the similarity in the integrity of financial management systems was explained by the variation in the employee capacity as s variable. This is a rather low influence exerted by employee capacity.

The ANOVA test results showed that the predictor variable was significant enough to cause some effect on the integrity of financial management systems since its p value was computed at 0.000. The beta coefficient of employee capacity which was computed at 0.515 was also found to be significant as it had a p value of 0.000. From a general perspective, these findings suggest that the effect of employee capacity to the financial management systems at the local governments of Garowe, Somalia was weak but significant.

4.6 Summary of Findings

The study was conducted and it had four main objectives. The first objective related to the effect of accounting systems on financial management systems. It was found that the accounting systems was rated very low by respondents ($\bar{x} = 1.46$) but had a significant influence on financial systems (R^2=0.639).

The second objective involved the examination of the effect that budgeting has on financial management systems. In this case, it was found that budgeting was not well evaluated by the respondents ($\bar{x} = 1.72$). More importantly, it was found that it had a significantly high influence on financial management systems (R^2=0.714).

The third objective analyzed the effect of management practices on financial management systems. Just like the other two variables, these practices were found to be highly deficient ($\bar{x} = 1.69$). Also they were found to have a highly significant influence on financial management systems (R^2=0.721).

Finally, the last objective related to the role played by employee capacity on financial systems in the local governments of Garowe, Somalia. Findings indicated that the employee capacity was very low ($\bar{x} = 1.71$) and that it had a significant but weak influence on the dependent variable (R^2=0.265).

5. DISCUSSION OF FINDINGS AND CONCLUSION

This chapter offered an insight into the findings of the study, and relatedthem with other researches especially those included within the related studies in the literature review section of this report. Conclusions and recommendations are then made before the researcher suggests areas for further research.

5.1 Discussion of Findings

The section of discussing findings is further organized into four subsections with accordance to the study objectives.

5.1.1 The Effect of Accounting Systems on Financial Management Systems.

The use of accounting systems in influencing financial management systems at the local governments in Garowe was found to be less practiced. The fact that it had low levels and high influence meant that the financial management systems suffered this consequence. It underscores the importance of such systems in government institutions. This is confirmed by Christopher (2013) who feels that most of those who prefer Microsoft products (spreadsheets being one of them) to other commercial products do so due to economic constraints they are subjected to in entering accounting data in government institutions. Opondi (2013) equally resonates but from a different argument that accounting spreadsheets require less maintenance than other accounting software. This is quite true since spreadsheets do not require as many updates as are required by the other rival accounting systems.

The study by Indira (2008) reasons its findings from the perspective of American local governments which operate differently from the Somali firms. The findings are found to be significantly consistent with the recommendations of Lenny (2010) who suggested that firms should rely on commercialized accounting systems due to the several shortcomings which he highlighted in his study. It is not conclusive that the institutions did not prefer accounting systems due to the recommendations of that particular study but the fact that they are consistent is worth noting especially in the case of Garowe local governments.

The study also found that the institutions did not have customized or tailored accounting systems which are highly effective. Mwango (2012) encountered this in his study about the influence of computerized accounting systems on organizational efficiency. He finds that as much as organizations may be economical, they don't do this at the expense of quality of service especially when it comes to technological systems. Wellington (2012) considers custom designed accounting systems as the most effective in maintaining accounting records in organizations and it is possible that the local governments in Garowe share these sentiments. It is believed that this should best explain the situation in Garowe as found out by this study.

5.1.2 The Effect of Budgeting on Financial Management Systems.

This study established a significant effect that budgeting has on the financial management systems in local governments of Garowe, Somalia. A study by Tracy (2010) reveals that there are large numbers of public sector industries (especially natural monopolies), which are established and managed for social welfare of the public. Budget is prepared with the objective of making various provisions for managing such enterprises and providing those financial help. For this purpose, budgetary policy aims to mobilize sufficient resources for investment in the public sector and help in reinforcing the financial management systems of the local. Therefore, the government makes various provisions in the budget to raise overall rate of savings and investments in the economy.

Julia (2011) reckons that through the budgetary policy, Government aims to reallocate resources in accordance with the economic (profit maximization) and social (public welfare) priorities of the country. Government can influence allocation of resources through taxes and subsidies (Julia, 2011). To encourage investment, government can give tax concession, subsidies etc. to the producers which is good for the financial management systems in local governments.

Lorino (2012) conducted a study to establish the role played by budgeting in the management of expenditures in government institutions. He reckons that fiscal discipline has a close relation with the control of budget magnitudes effectively and it assumes a binding role on both macro level and expenditure unit by means of expenditure ceilings (Lorino, 2010). In macro financial discipline, budget totals do not only arrange expenditure demands; results in decisions applied must be clear as well. These totals should be set before individual spending decisions are made, and should be sustainable over medium-term and beyond. This study is quite consistent with Lorino (2012), since they both deliberate on the relevance of budgeting on financial management.

5.1.3 The Effect of Management Practices on Financial management Systems Integrity

The study deliberated on the management practices on financial management systems integrity in Garowe, Somalia. There was a high effect that was established. Because the management practices were lowly assessed by the respondents, the financial management systems also became lowly assessed too.

The study by Jeru (2004) argued that with better management practices such as formulation of good organizational policies, it is likely that public institutions will be able to manage their financial management issues better. He also added that such policies lead to better integrity in these systems. The consistency of these findings with those made in this piece of research is undoubtedly high. It seems that the integrity issues that Garowe local governments had with their financial management systems stemmed partly from poor management policies and practices. As established in the study, there were poor motivation, communication and other important deficiencies in the local governments in question.

5.1.4 Employee Capacity on Financial Management Systems Integrity

Building of employee capacity by management was found to be lowly practiced at the local governments of Garowe. The most significant aspect of this was in training. As Lameni (2013) warns, there are very severe consequences in not adopting this particular approach of training staff. He reasons that on-the-job training contributes to upgrading skills that are particularly important for specific jobs or specific work environments, emphasizing a learning-by-doing approach. Building employees' capacity helps to produce a stronger workforce and gives employers a greater understanding of their staff's skills base. The more a company invests in its employees through training, the greater the chances of retaining them, as they feel valued and are more aware of the opportunities in moving up the ladder. This is because one gets the support of the employer and training provider, earn a salary, gain qualifications, get motivated and learn job-specific skills that will satisfy national and/or international standards (Lameni, 2000). This definitely means that the local government was missing out on these important benefits which also had an effect on the employees who work on financial management systems.

In yet another study supportive of employee capacity building, McCoy (2004) reasons that an employee who receives the necessary on job training is better able to perform her job. She becomes more aware of safety practices and proper procedures for basic tasks since these have been contextually explained and taught to her at the right time. This form of training may also build the employee's confidence because she has a stronger understanding of the industry and organization and the responsibilities of her job. This confidence may push her to perform even better and think of new ideas that help her excel. Continuous on the job training not only keeps employees on the cutting edge of industry developments but assures them that they are part of an organization which is quality oriented (Lameni, 2013). As much as the local government is not a commercial entity, it also seeks efficiency from its employees in order to serve the public in a higher capacity. This informs of how wrong the local government were in disregarding On-the-Job Training of its employees. The fact that the local governments in Garowe did not consider this as a formidable strategy to attain the objective of a better work force means that the workers in the financial management did not have the right competence in executing their roles in the financial management systems.

5.2 Conclusion

The study was guided by four objectives. The first objective was fulfilled where it was determined that accounting systems had a significant influence on financial management systems in Garowe local governments. This meant that the poor rates of the integrity that financial management systems was as a result of the accounting systems which were not in good condition.

The second objective enabled the study to determine the influence that budgeting processes have on financial management systems. In this case the effect was also found to be high and significant enough. Even here, the same premise is held that the poor levels of integrity in the financial management systems in the local governments of Garowe was as a result of poor management of budgeting processes relating to the systems in question.

The third objective related to the examination of the role played by management practices which were identified as low. The effect on the other hand was found to be high and significant in influencing financial management systems' integrity at the public institutions. If there can be an improvement in management policies, it is likely that there is going to be higher integrity of the financial management systems at the local governments in Garowe, Somalia.

The final objective of the study was fulfilled where it was established that employee capacity has a significant but weak influence on the integrity of financial management systems in the local governments of Garowe, Somalia. This meant that such capacity needed to be built on these workers for them to effectively manage the financial management systems at the institutions.

5.3 Recommendations

The following are the researcher's recommendations regarding what needs to be done to ensure that the financial management systems have no integrity issues in future periods.

1. Updating the accounting systems. The current accounting systems need to be checked for consistency and therefore updating them to the latest versions will make sure that they complement the financial management systems even better at the local governments of Garowe, Somalia
2. Increase in the budget allocations made to financial management systems. One of the reasons that systems were not in good condition was due to funds inadequacy in the financial management systems departments of Garowe local government. This needs to be increased to financially empower the managers of these departments counter emerging issues as they come.
3. Better management practices in the financial management systems department. It has been indicated in the study that management practices have a significant impact on the financial management systems of the local government. Therefore, the department needs to have higher levels of management practices including motivation and communication.
4. Capacity building on the employees working in the financial management systems department. This will have to involve giving them more competence to enable them have a higher potential to work with the systems at the local government of Garowe, Somalia.

5.4 Areas for Further Research

This area of study is very wide and this research alone is not exhaustive in provision of the knowledge in this area. The researcher therefore suggests further studies to be carried in other areas such as the accountability measures in local government in budget implementation and how they are effective and affecting the management of local government resources, strategies to be investigated on how to improve revenue collections in the local government to make the implementation effective, to investigate how political influence is impacting on budget implementation and how such influence can be reduced or done away with and a further analysis of other factors affecting the implementation of local government budget besides the ones identified by this study can also be carried out.

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