

IMPACT OF CONTROL ENVIRONMENT ON PUBLIC FINANCIAL MANAGEMENT OF PUBLIC TERTIARY INSTITUTIONS IN ADAMAWA STATE.

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ABSTRACT

The study sought to assess impact of Control Environment on public financial management of Public tertiary institutions in Adamawa State. The study sought to determine the impact of control environment on Public Financial Management of Public Tertiary Institutions in Adamawa state. The population of this study is made up of the staffs of bursary/finance department, staffs of internal audit unit and the staffs of registry department of Public Tertiary Institutions in Adamawa State. Questionnaire method was utilized to collect data in this study. The study applied descriptive statistics, correlation and regression analyses to analyze the data collected. SPSS V 22 was used to conduct the analysis. Results were presented in tables. The findings in regards to hypothesis, the result from Pearson correlation and OLS regression analyses results reveals that control environment has a significant positive relationship with and a significant positive effect on public financial management of Public tertiary institutions in Adamawa state. The paper recommended that management of Public tertiary institutions in Adamawa state should strive to improve their control environment since it have significant positive effect on public financial management of Public tertiary institutions in Adamawa state so as to have a more robust and effective public financial management.

Keywords: Internal Control, Public Financial Management, Tertiary Institutions

1. INTRODUCTION

The prime intent of any control system is to systematically boost the operational performance of an organization, particularly with regards to the effectiveness and efficiency, that is, the judicious use of the entity's resources to get the best outcome, ensuring the reliability of financial reporting, including reports on budget execution, financial statement which is devoid of risk, fraudulent act and errors. It also ensures strict compliance with applicable laws and regulations (COSO, 1994).

It should be noted that internal control system only ensures reasonable and but not absolute assurance. It could be dribbled through circumvention by employees and or deliberate principles overriding by the management. However, Internal Control System is a vital tool which can assist Public tertiary institutions administrators to achieve the objectives for which the institution is out to achieve, that is, providing enabling environment, resources and structures conducive for teaching, learning and research.

Public Financial Management (PFM) is a system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public goals. PFM refers to the budgeting, accounting, internal control, outsourcing, financial reporting, auditing arrangements by which they receive funds, allocate them and records their use (Rachael, 2018). According to Abba cited in Simon, Sharma & Aziz (2011) PFM underlies all government activity. It encompasses the mobilization of revenue; the allocation of these funds to various activities; expenditure management and accounting for spent funds.

There are developments in many countries, several administrative and financial reforms were carried out in Nigerian Public Finance to make the public sector more responsive to the needs of the public by increasing the accountability, promoting efficiency and effectiveness in resource allocation, revenue management, and public expenditure management. Some remarkable reforms in recent years are the adoption of Electronic Payment System (E-payment), Integrated Payroll and personnel Information System (IPPIS), Government Financial Management Information System (GIFMIS), the adoption of International Public Sector Accounting Standards (IPSASs) and Pension reform in 2004, (Mohammed, 2017).

Tertiary Institutions are part of Educational institutions which are offering range of courses, technical and Vocational courses. Tertiary Institution was established Primarily to provide full time and Part time courses of instruction and training, in technology, Applied Sciences, commerce and Management and in such other fields of applied learning relevant to the need and development of Nigeria in the areas of industrial and Agriculture Production and distribution and for the research in the development and adoption of techniques as may from time to time determine by

Nigerian law. For Tertiary Institutions to achieve these laudable goals and objectives, sound internal control system and financial management have to be established in order to enable the Tertiary Institutions work as organized and discipline environment. Generally, Tertiary Institutions are seen as a center for learning, engaged in training and research as means of achieving growth and development of the society.

Tertiary Institutions are expected to achieve certain specified objectives, like any other organization. Anyafo (2000) opined that the prime objective of Tertiary Institutions is to provide educational services to desirous and qualified members of the public. It is also important to know that for educational Institutions to achieve their objectives, they most have an enabling operating environment as well as other resources both financial and non-financial.

One of the major constraint Tertiary Institutions in Adamawa State were facing is grossly underfunded by the Government and the inability of those who managing them to judiciously utilize the scarce resources at their disposals. This is making it tedious for the Tertiary Institutions in Adamawa State to achieve their objective which is providing educational services to the desired members of the society (Hansen, 2008). Another constraints of Tertiary institutions in Nigeria are facing is inadequate funding by their financers (Muhammad, 2015). This common fact is more pronounced in government owned institutions. Thus, since Tertiary institutions cannot be adequately funded, the administrators of the Tertiary institutions are expected to devise a strong, resistive, and formidable mechanisms which are capable of ensuring that the scarce resources allocated to them are judiciously and optimally utilized with a view to achieving their pre-determined objective(s) in the most effective and efficient manner. This can only be possible where there exist effective control environment, and sound control system on resource allocation, revenue management, expenditure management, budget and budgetary control, internal and external audit and other components of Public Financial Management that will assist to achieve greater efficiency and effectiveness in the Public Tertiary institutions.

Thus, it is necessary for Tertiary institutions Administrators to once more establish another internal mechanism capable of systematically examining their financial procedures with a view to achieving internal efficiency. The internal mechanism normally employed by organization is the Internal Control System (ICS). This system is simply defined by International Organization of Supreme Audit Institution (INTOSAI, 2001) as a whole process, an interconnected web of policies, procedures, attitudes and actions that work together with a view to achieving the desired objectives in a more effective and efficient manner.

The main objective of this paper is to determine the impact of control environment on Public Financial Management of Public Tertiary Institutions in Adamawa state with a view of enhancing control environment, it is expected that where there is good control environment resources will be utilized; expenditure controlled and laid down financial regulations observed.

The Paper null hypothesized that:

H₀- Control environment does not have significant impact on Public Financial Management of Public Tertiary Institutions in Adamawa state.

2. LITERATURE REVIEW

Concept of Control environment

Control environment refers to the attitude and character of management. It is about accountability i.e. the extent to which those who are delegated authority, responsibilities and power, appreciate the fact that they are to give account of their stewardship. Control environment if properly designed has the ability to compel the achievement of overall objectives of an organization. The control environment is the control consciousness of an organization; it is the atmosphere in which people conduct their activities and carry out their control responsibilities.

Control environment is but the overall attitude, awareness and actions of management of an organization regarding the efficacy of the instituted control variables (Hansen, 2008). It encompasses the management style and the corporate culture and values shared by the whole organization (Muhammad 2015). In contrast, control activities are those policies and procedures in addition to the control environment and the information system that management establishes to provide reasonable assurance that their objectives are achieved (Sabari, 2003). This is an indication resources can only be achieved where there is an effective control environment. By implication resources may not be utilized where there is weak control environment.

Where there is a sound and well-articulated control environment, the remaining components can be achieved with relative ease. There are certain fundamental features which affect the control environment among which are integrity, competence, delegation of authority, and good organizational structure (ICAEW, 1999).

If an organization really wants to achieve good result, the management must instill discipline in the entire staff. This is not possible if the top management officers do not have discipline in them. There should be high integrity which gives room to high ethical values. Reading, Sobel, Anderson, Head, Ramamoorti, Salamadick and Riddle (2007) found that for the resources of an organization to be utilized effectively

there is the need for the top management to show good example worthy of emulation. Failure to portray such good example will inversely affect the organization.

D'Aquila (2003) provides evidence from CPA's practicing in the industry that most organizations that suffer financial wastage were due to inert attitude to competence by their employees particularly those at the top. Tanko (2003) found that management's attitude, philosophy and operating style has direct impact when it comes to instituting sound internal control system which will invariably promote sound, effective and efficient public financial management. Studies have shown that higher control environments are associated with higher financial reporting quality. Similarly, D'Aquila and Bean (2003), provide experimental evidence that personnel placed in a right place and for the right job will perform better and will not waste resources, but where there is data mismatch i.e. assigning wrong job to the right man or right job to the wrong man it is tantamount to deliberate invitation of failure. Again, in situation where control environment does not foster ethical decisions, unethical decisions are more likely to prevail.

Role of Control environment in Tertiary Institutions

Control environment is an indispensable mechanism which plays vital role in all Tertiary Institutions. For a Tertiary Institutions to provide quality education, good and enabling teaching, learning and research environment, it must establish a sound Control environment. The system assists the Tertiary Institutions administrators in no small measure particularly when financing decisions are to be made. Control environment keeps an organization on course toward its objectives and the achievement of its mission, and minimizes wastages along the way.

Adejola (2009) opine that to have a robust, effective and efficient Internal Control System (ICS) five basic factors must be present, which include God factor, time management factor, knowledge factor, ICT factor and finally competence and integrity factor. This is to say that employees whether at the management level or the rank and file should go about discharging their responsibilities with the fear of God and make best and judicious use of time. They should regularly update their knowledge and exhibit the virtues of integrity and competency at all times.

Effect of Weak Control Environment in Public Tertiary Institutions

There are so many issues that make an Control Environment to be weak, these include management overriding the established controls, inadequate or improper record keeping and accounting, reluctance of senior staff to accept independent oversight, lack of good and all round audit coverage, understaffing, abnormal separation of duties, and improper and untimely reconciliations of major assets and liabilities (Olatunji, 2009; Petrovits, Shakespeare & Shih, 2009; Rotberg, 2000; Hawk, 2000).

The of weak Control Environment cannot be over emphasized. It distorts the plan of Tertiary Institutions, paves way for financial indispline, irregularities, and misallocation of resources. Lawal (2005) contend that some Tertiary Institution administrators use resources meant for developing the Tertiary Institutions into personal activities, which cannot be possible where the control system is effective. The study conducted by Norvee (2017), shows that one of the major reasons behind the collapse of giant institutions is as a result weak Control Environment. Ahmad (2005) found that one of the main reasons why fraudsters normally have their ways with relative ease is as a result of the lapses in the structure of Control Environment of organisations.

Most institutions who failed to achieved their predetermined goals is not because of any far fetch reason but is connected with their laxity and weak control systems. Mahmud and Karma-Sahayak (2018) contend that weak Internal Control System (ICS) exposes an organisation to many types of risks namely financial, interest and liquidity risks. Sound Control Environment ensures that ressources are not wasted or misallocated, and financial information are reliable. However, weak Control Environment does not have the ability to stoped misallocation of resources or false fianancial reporting (O'leary, 2015).

Concept of Public Financial Management

Public Financial Management (PFM) is concerned with the planning, organizing, procurement and utilization of government financial resources as well as the formulation of appropriate policies in order to achieve the aspirations of members of that society. Premchand (1999) sees public financial management as the link between the community's aspirations with resources, and the present with future. It lies at the very heart of the operations and fiscal policy of government.

Components of Good Public Financial Management

Ahmad (2013) discusses the processes related to efficient management of funds and describes public financial management as consisting of five key sub-sectors identified as budgeting, financial reporting, and auditing, regulatory framework and revenue collection. Commenting on the works of Ahmad, Andersen and Isaksen (2013) identify governance as a sixth sub-sector of public financial management. Further, Agranoff and McGuire (2010) confirm that all the identified sub-sectors of public financial management are important in a development context and must be improved in order for government to implement its development objectives. It is further stated that, these six sub-sectors exist as a system of related components and that reform or development of one sub-sector is dependent on and conditioned on the

state of the other components if development objectives are to be met.

Several authors globally (Ahmad, 2005; Andersen & Isaksen, 2013; Broback & Sjolander, 2001; Ojo, 2009; Simson, Sharma, & Aziz, 2011) based on the systems approach note that although there is no succinct definition of PFM there are six key core components which emerge. The six components are planning and budgeting, revenue mobilization, public expenditure and payments, financial reporting, auditing and regulations. Broback and Sjolander (2001) argue that these PFM components are interrelated and exist as a system. Anderson and Isaksen (2013) assert that all the identified components are important in a development context and must continuously be improved in order for government to implement its development objectives. Simson et al. (2018) further note that improvement of one component is dependent on and conditioned on the state of other components if development objectives are to be met.

Moderating Role of Public Financial Management

The ability of the management to manage their finances in accordance with the laid down rule is of significance importance. Institutions that have good financial planning will achieve good result. In his contribution Abdullahi (2009), contend that financial management is about financial discipline whose essence is ensuring accountability and prudent utilization of scarce financial resources, and that organizations are bound to collapse unless the culture of financial discipline prevails in all ramifications. Shand (2006), opine that before one begins to look for additional support, financial wise he must make sure that the resources available have been fully utilized, this is only possible where there is a sound Financial Management (FM) system.

The United Nations Economic Commission for Africa UNECA (2005), contended that the World Bank in its role as a multilateral funding entity considers three fundamental aspects of good governance amongst which include, the political affiliation in operation in that economy; the procedure through which a country is managing its economic and social resources and the ability of the government to design, formulate and discharge its civic responsibilities. This invariably means for an economy or an organisation to enjoy any world bank grant or aid, such an economy or organisation must established sound Financial Management FM. This invariably means that Tertiary Institutions that have good financial management will have more resources from both government and other local or international donors.

3. METHODOLOGY

This study utilizes survey descriptive research design. The population of this paper consist six public tertiary institutions out of Ten (10) Public Tertiary Institutions in Adamawa state. Six (6) tertiary Institutions were selected as sample using random sampling Techniques. The Tertiary Institutions are: Modibbo Adama University of Technology (MAUTECH) Yola, Adamawa State University (ADSU) Mubi, Federal Polytechnic (FED POLY) Mubi, Adamawa State Polytechnic Yola (SPY), Federal College of education (FCE) Yola and College of education (COE). These Tertiary Institutions have common characteristics in terms of Controlling Environment and Financial Management. The data for this paper was collected through the administration of questionnaire. One hundred and twenty (120) Questionnaires were administered to Internal Auditors, Accountants, Executives and Administration Officers of the Six (6) Tertiary Institutions that were selected as sample; this is because the responsibilities they perform have direct bearing with the study. The hypothesis is tested using chi-square through statistical package for social sciences (Version 22)

4. RESULT AND DISCUSSION

This section analyzed and discusses the result from 120 Questionnaires distributed out of which out of which (104) were returned and adequately completed. The analysis is based on the returned questionnaires.

Table 1: Skewness and Kurtosis values

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Std. Error	Kurtosis	Std. Error
Public_Fin_Mgt	120	1.00	5.00	2.9475	1.28759	.058	.221	-1.190	.438
Cont_Env	120	1.60	5.00	3.6867	.85474	-.861	.221	-.117	.438

Source: Researcher’s Analysis (2019).

Correlation Analysis

Correlations analysis is used to explain the level by which one variable is related to another (Asteriou & Hall, 2007). This study measures the relationship between independent variables with dependent variable. Consequently, correlation analysis

was utilized to explore the independent variables' relationship as this would help in estimating numerous models, which will discover no relationship in circumstances where the correlation estimation is 0. On the other hand, the correlation of ± 1.0 means perfectly negative or positive relationship. Zero (0) for no relationship and one (1) means a perfect relationship. In addition, the relationship is seen as small where $r = \pm 0.30$ to ± 0.49 and where $r \geq 0.50$ the relationship strength is thought to be substantial. The correlation between the dependent and independent variables is presented in

Table 2: Correlation Matrix

	Variables	Pub. Fin Mgt.	Control Env.
1	Public Fin. Management	1.000	
2	Control Environment	0.616***	1.000

*** = Significance at the 0.01 level (2-tailed)

The Pearson's correlation result from Table 2 shows that the independent variable (control environment) has a significant positive relationship with the dependent variable (public financial management) at 1% level of significance. Control environment has a positive relationship with public financial management with a correlation coefficient of 0.616.

Multiple Regression Result

In order to achieve the overall objective of this study, which is aimed at assessing the impact of Control environment on Public Financial Management of Public Tertiary Institutions in Adamawa state, Ordinary Least Square (OLS) regression is used in analysing the data collected. The OLS regression result is displayed in Table 3 as follows:

Table 3: Ordinary Least Square (OLS) Regression Result

Variables	Coefficient	t-statistics	p>t
Constant	-0.139	-2.397	0.018**
Independent:			
Control environment	0.102	5.845	0.000***
Observations		120	
R ²		0.990	
Adj. R ²		0.990	

F (1, 116)

0.000***

Note: ** and *** = significant at 5% and 1% levels.

From the OLS regression result in Table 3 the value of R^2 is 0.99. This means that the regression model explains 99% of the variation in public financial management. As a result, the outcome is considered reasonable. Moreover, the R^2 value of 99% alongside the adjusted R^2 of 99% (which is not different from the R^2 value) is an indication that the variance in public financial management was statistically accounted for by the regression equation (independent variables). The same result from Table 3 also reveals that the model is significant ($F=1, 116; p<0.01$), indicating the validity of the model utilized.

In regards to hypothesis testing, the beta (β) coefficients are employed. The beta coefficient score for monitoring activities is 0.286, which makes the large contribution in explaining the variability of public financial management in the model. More so, the result is found to be statistically positively significant ($p<0.01$) at the 0.01 statistical significant level, which means that an increase in monitoring activities by 100% will lead to a better public financial management by 28.6%. This also portrays that monitoring activities has a statistical significant positive effect on public financial management of tertiary institutions in Adamawa state.

5. CONCLUSION AND RECOMMENDATION

Conclusion

Based on the above result and discussion summary, the Paper conclude that Control environment has a significant positive effect on public financial management of public tertiary institutions in Adamawa state. In precise control environment have statistical significant positive effect on public financial management of tertiary institutions in Adamawa state. Improving control activities of the public tertiary institutions in Adamawa state will ensure public resources utilization.

Recommendation

Based on the results and conclusions in this Paper, it is therefore recommended that management of Public tertiary institutions in Adamawa state should strive to improve their Control environment since it have significant positive effect on public financial management of tertiary institutions in Adamawa state. Specifically, the management

of tertiary institutions in Adamawa state should intensify the level of control environment so as to have a more robust and effective public financial management. Doing this will go a long way in ensuring that wastages are minimized if not eliminated and the predetermined financial motive of the institutions would be solidly met.

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