Innovations

Factors Affecting Effective Utilization of Public Funds in Addis Ababa City Government, Ethiopia

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Abstract: In a dynamic modern environment with diverse and increasing citizen demands and preferences, effective use of limited public financial resources is critical for achieving the intended goals and bringing change and development. This study explored the effect of financial management practices on the effective use of public funds in the Addis Ababa City Government of Ethiopia. The effects of financial records management practices, internal financial control practices, accounting and financial reporting practices, and financial accountability on the effective use of public funds were mainly considered. In line with this, an explanatory research design was adopted and conducted at Addis Ababa city government finance and economic development bureau and offices, using 853 financial officers as participants. To participate in the study, 265 financial management personnel were selected as a sample. Data was collected using five-point Likert scale administered questionnaires distributed to sampled respondents, and descriptive and inferential statistics were used to analyze the results using SPSS Version 26. Financial records management, accounting, and financial reporting practices did not have a significant effect on the effective utilization of public funds. On the other hand, internal financial control practices and financial accountability have a significant effect on the effective use of public funds. This leads to the conclusion that public financial management is responsible for prudently managing public funds to achieve the intended target through giving special attention to and maintaining sound financial control and financial accountability, beyond effective financial record management, accounting, and financial reporting practices.

Key words: 1. Accounting and Financial Reporting, 2.Effective Utilization of Public Funds, 3.Financial Accountability, 4.Financial Records Management, 5.Internal Financial Control, 6.Public Financial Management

1. Introduction

Government has responsibility to transform its jurisdiction through socio-economic change and development and to enable citizens to get quality public services at the required quality and level by discharging their responsibilities effectively and efficiently (Griffiths, 2016). Improving the quality of public service outcomes through efficient and effective use of public resources based on approved budgets, sound public financial management is indispensable(Kwarteng, 2017). Financial resources have been planned, managed, and controlled within the public financial management system to facilitate and influence the efficient and effective achievement of public service goals (CIPFA, 2010; Pulham, 2015). As a result, how financing is used to address local goals, the availability of financial resources for investment, and the cost-effectiveness of public services are all influenced by public financial management. Within this framework, maintaining strong financial stewardship, accountability, and transparency in the use of public funds enable the general public to have trust in and confidence in governmental sector operations (IFAC, 2012).

In devolved local governance system to make financial management effective, the power to plan, mobilize resources, and implement development programmes is decentralized from the national government to local governments (Prud'homme, 2003). Within this system, fiscal power is passed to local governments for budgetary authority in order to give them the power to make revenue generating and spending decisions (Bahl, 2008; Ave et al., 2008).

To make public goods and services provision effective, following the downfall of the "Dergue" regime in 1991, the Federal Democratic Republic of Ethiopia adopted the decentralized system that resulted in the formation of nine regional states and two city governments, each with autonomy in terms of planning, developing budgets, raising funding, and providing services to their residents (FDRE, 1995). As a result, fiscal decentralization led to a paradigm shift in overall governance in state and local governments and financial management: revenue collection and management and expenditure incurrence and management. Within the framework of the federal constitution, the 2003 revised charter of Addis Ababa City Government has been formulated and granted the mandate and responsibility to the city government for the management of revenue, expenditure, and overall financial affairs (FDRE, 2003). As mandated by the charter, the City government has enacted a financial management law that must be implemented by all public bodies involved in financial affairs and public money management (AACG, 2017). The law mandates the wise use of public funds for the intended purpose in a responsible way, as well as financial reporting transparency and responsible financial management.

2. Problem Statement

Effective financial control system, as Haward (1994), Dagbah (2011) and Yogendrarajah (2013) argued, to maintain financial discipline in which financial resources have been efficiently utilized; adequate monitoring of the inflow and outflow of financial resourceswill be in place, and no room for financial resource wastage. Financial control, thus, (Agyapong, 2017), enables an organization to meet its targets, take measures to control expenses and prevent fraud, improve productivity, report accurate financial data, improve operational efficiency by evaluating financial data, monitor and measure performance, direct, allocate, manage, and use financial resources effectively and efficiently, and maintain financial accountability (Douglas , 2011).

In local governments,(Wilson et al. (2010), financial reporting aids to make economic, social, and political decisions and assess accountability. Based on the input of the report, the appraisal will be done by comparing actual results with the legally adopted budget, assessing financial condition and results of operations, assisting in determining compliance with financial laws, rules, and regulations, and evaluating efficiency and effectiveness (Razak et al., 2000; Reck et al., 2019). Financial reporting, hence, has to provide information that assists users to evaluate financial activities and whether the current period's resources are sufficient to support the current period's services and make an informed decision.

Financial accountability demands responsible financial resource management, as well as integrating financial and non-financial reporting, control, budgeting, and performance, and reporting exhaustively on what have been accomplished with the funds (Sahgal & Chakrapani, 2000). Financial accountability, (Brinkerhoff, 2004), is concerned with tracking and reporting on financial resource allocation, disbursement, and utilization of financial resources, auditing tools, budgeting, and accounting methods and practices. Sound financial accountability, (Adeyemi et al., 2012), maintains tight control over public funds' inflows and outflows. Consequently, financial accountability compels those responsible for public funds utilization and management to spend the resources wisely in the delivery of public goods and services.

The Addis Ababa City Government financial management is governed by financial management laws and requires that all public bodies must assure transparency, accountability, wise use of financial resources, financial reporting accuracy, and responsible financial management (AACG, 2017). But, the Addis Ababa City Auditor's Office report pointed out the presence of weak financial management that is characterized by cost inflation, improper payment of construction contracts, irregular payments, lack of supporting documents on payments, and weak internal controls (AACGAG, 2021). Due to poor financial management practice, there is inaccurate capturing of accounting transactions, gaps in financial reporting, and inefficient and ineffective handling and management of limited financial resources. Scant consideration was given to the value of the taxpayer's money. Consequently, this study sought to look into the effect of financial management practices on the effective use of public funds in the Addis Ababa City Government.

3. Review of Related Literature

To guide this study as a theoretical framework, agency theory was considered since public administration is based on a series of principal-agent relationships.

The agency theory focuses on the relationship between the principal (who appoints others) and the agent, who is hired to provide services in the interests of the principal (Van Horne & Wachowicz Jr., 2009). Principals delegate decision-making authority and responsibility for running the business and hiring agents to managers and directors (Jensen Hekling, 1976). The agency theory has a positive effect in that it enables the agent to act in the best interests of the principal unless there is a conflict of interest between the principal and the agent. Since the agent has more financial information than the principal, if the agent does not act in the best interest of the principal, the agent might tend to maximize self-interest and mutualize the resources of the organization (Ghulam, 2012).

In the modern era, public administration is based on a series of principal-agent relationships, in which the general public appoints, assigns, or delegate administrators to manage government affairs on its behalf (Lane, 2003). Administrators, in turn, hire managers and other public work performers, who must all act on behalf of society in carrying out responsibilities, ensuring accountability and transparency, meeting goals, prudently deploying public resources, and smoothly operating public organizations to provide goods and services at the required quality and level, thereby elevating the locality's development and change (Latifah, 2010). However, unless government administrators, managers, and workers discharge their responsibilities in the best interests of society and ethically, a conflict of interest will arise and they prioritize their own interests and the benefits of patronage-networked people over the public organization's goals (Lane, Jan-Erik, 2003), which will have negative effect on the management of public resources.

Sound public financial management (Allis, 2004; Fung, 2015, as cited in Munge et al., 2016), plays a critical role in raising funds for short-term and long-term uses and effective utilization of public funds in providing goods and services to the citizens, achieving the intended target, and bringing change and development in the jurisdiction (Frank, 2006). The availability of financial resources for spending and investment, the way funds are used to address local priorities and the cost-effectiveness of public services are affected by public financial management practices (Kwarteng, 2017). Public financial management entails revenue mobilization, the allocation of these funds to various operations, expenditure, and accounting for spent funds. Public financial management,(Simson et al., 2011), is the foundation for all government activities, and evaluating the practices and broader system of rules and regulations that govern the management of public financial resources as well as the goals that these functions are supposed to achieve is indispensable (Ahmed et al., 2010).

Within the public financial management system, effective internal control (Moeller, 2014; Graham, 2015; Hightower, 2009) is required to improve operational effectiveness and efficiency, provide reliable financial and operational information, protect assets and records, encourage adherence to established policies, and comply with applicable laws, rules, and regulations. According to Allen and Tommasi (2001) and Agyapong (2017), having effective financial controlenable to ensure that government programmes and desired outcomes are met; that resources used to implement programmes are aligned with the stated goals of the organizations involved; and that financial resources are protected from waste, fraud, and poor management by obtaining, maintaining, reporting, and using reliable and timely financial information (Whittington & Pany, 2016; Kushlak, 2015; Suye & Sulaimon, 2012).

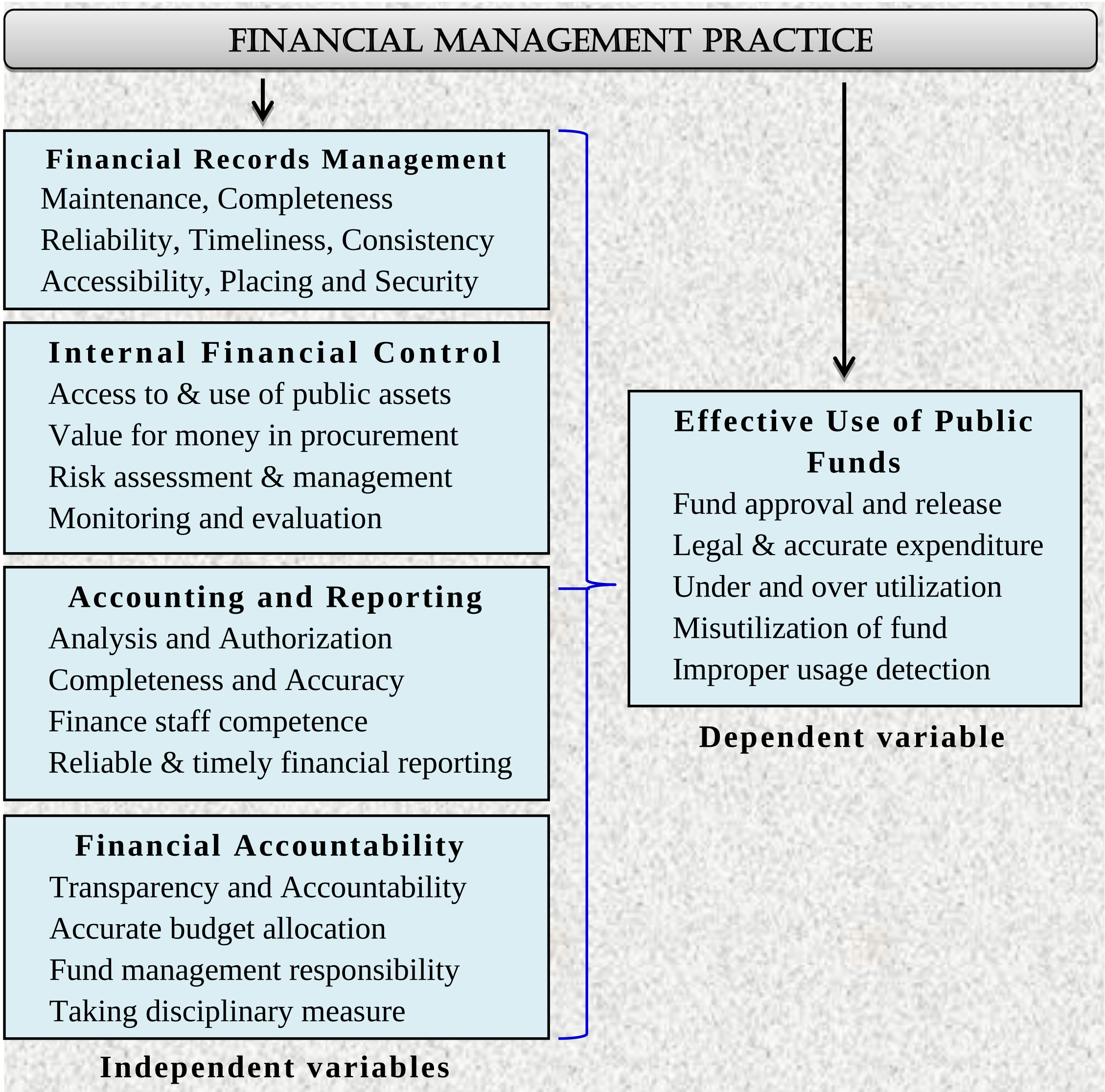
The systematic examination and control of information captured, preserved, or used by an organization in connection with financial operations, procedures, and activities is linked with financial records management (Read & Ginn, 2011). All financial records are systematically controlled in an effective financial records management system, from their generation or reception through processing, distribution, organization, storage, and retrieval to their ultimate disposition (Harries, 2012). Financial records are essential resources that document the work of public authorities, support their operations, and form the basis for the many services they provide (Abdul-Rahaman & Adejare, 2014). They also aid in promoting good governance, in which changes in public administration are introduced to ensure accountability, transparency, efficiency, and effectiveness in public service delivery and the protection of citizens' privileges (Smith, 2007). As a result, an effective financial records management system avoids accounting errors, improves the efficient use of financial resources, and enables tracking of financial information for an organization's operation, thus serving as a control tool and being critical to an organization's growth (Muhammad, 2020). Accurate records of actual expenditure, budgeting, and reconciling budgets are critical to the accounting function, and the literature also underlines the importance of records management for responsible financial management (Harries, 2012). However, research has shown that even though records are vital in financial management, they are not properly maintained and kept in public sectors (Ngoepe & Ngulube 2014), and finance officers are responsible for maintaining and handling accounting records.

In the modern information age in which information is a vital resource, understanding and processing information is the core function of accounting, which provides financial information to users for decision-making (Wild et al., 2015; Clarke et al., 2019). To accomplish this goal, finance officers measure, identify, record, and communicate relevant, reliable, and comparable financial information about the organization's economic activities by ensuring the completeness, accuracy, validity, and timeliness of financial transactions (Fisher & Moses 2014; Cohan, 2019). Strong in-place accounting practice, (Simson et al., 2011), allows for analyzing, recording, classifying, and summarizing financial transactions as well as ensuring budgetary compliance and demonstrating that public funds are used only for their intended purposes. Within this framework, financial data has been gathered, presented, and reported in a way that allows for easy analysis, and the output helps improve operational compliance and provides valuable input to internal and external stakeholders to evaluate financial performance (Danida, 2015).

Governments are entrusted with public funds and are expected to account for and manage them prudently while maintaining financial accountability and the need to account for financial resources that have been seriously considered (Keakopa, 2018; OECD, 2005). Financial accountability requires anyone in charge of public financial resources utilization, a public office, or any other position of trust to manage prudently and to report on the resources' or designated office's intended and actual use, and to use financial resources efficiently, effectively, and faithfully (World Bank, 2015; Robert, 2018; Campo, 2010). Consequently, financial accountability involves responsible stewardship of public funds and is a means of ensuring that public funds are spent responsibly and productively. Also, it entails ensuring effective control over entrusted financial resources, the legality and regularity of financial accounts, as well as ensuring that the best value for money is obtained in the utilization of resources (Sharman, 2001; Chalam & Ng'eni, 2017; Mihret & Yismaw, 2012).

4. Conceptual Framework

The conceptual framework portrays the effect of public financial management practices (financial records management practice, internal financial control practice, accounting and financial reporting practice, and financial accountability) on the effective use of public funds.



5. Objective of the Study

The main objective of the study was to explore the effect of financial management practice on the effective use of public funds in the Addis Ababa city government of Ethiopia. The specific objectives were to assess the effect of financial records management practice, internal financial control practices, accounting and financial reporting practices, and financial accountability on the effective use of public funds in Addis Ababa City Government.

6. Research Hypothesis

Hypothesis1: Financial records management does not have a significant effect on the effective use of public funds at Addis Ababa City Government.

Hypothesis 2: Internal financial control practice does not have a significant effect on the effective use of public funds at Addis Ababa city Government.

Hypothesis 3: Accounting and financial reporting practice does not have a significant effect on the effective use of public funds at Addis Ababa city Government.

Hypothesis 4: Financial accountability does not have a significant effect on the effective use of public funds at Addis Ababa city Government.

7. Research Methodology

7.1. Research Design and Strategy

Research design has a great bearing on the reliability of the results arrived at and comprises the firm foundation of the entire structure of the research work (Berman & Rabin, 2008). Therefore, it is crucial for a researcher to be on the way, and thus an efficient and appropriate research design has to be prepared before starting research operations (Kothari & Garg, 2019). The type of research employed in this study was an explanatory research design to investigate the relationship between independent and dependent variables. In addition, a descriptive research design was considered to describe the responses of the respondents.

7.2. Target Population and Sampling Technique

The survey population of the study considered employees who are working in the finance departments of the Addis Ababa City Government and constitutes a total of 853 finance officers in the finance bureau and offices. In research work, complete enumeration of all items in the population is impossible, even impractical, because of the requirement of a great deal of time, money, and energy, and thus, a sampling design is required (Kothari, 2004). A sample design, thus, is determined before the survey data is actually collected to draw a sample from a given population and serves as a basis for the selection of the survey sample. To obtain a valid and reliable sample size from the total target population, the researcher used the sample size determination formula proposed by Kothari & Garg (2019) as indicated below.

$$n = \frac{\mathrm{N.Z^2.p.q}}{\mathrm{e^2(N-1) + Z^2.p.q}}$$

n = required sample size when total population is less than 10,000

Z = 95% confidence level, i.e. the table value of chi-square for 1 degree of freedom at the desired confidence level, which is 1.96

p = the population proportion to be included in the sample, assumed to be 0.5

q = 1-p (0.5 unsuccessful failures)

N = the population size

e = the degree of accuracy expected-margin of errors (0.05)

$$n = \frac{853 * 1.96^2 * 0.5 * 0.5}{0.05^2(852-1) + 1.96^2 * 0.5 * 0.5} = 265$$

7.3. Data Collection Method

Based on variables of the study, structured questionnaires were prepared and pilot test has been conducted to test the questionnaires for checking understandability, consistency and reliability. A research instrument is considered reliable if it produces consistent results after frequent cases (Mugenda & Mugenda, 2003). The reliability of the questionnaire for this study was achieved by administering a pilot questionnaire to selected finance personnel of the Addis Ababa City Government who were not involved in the actual study, and the results of the pilot study were excluded from the main study. As a rule of thumb, it is recommended that 5% to 10% of the target sample should constitute a pilot test (Cooper & Schilder, 2011). As a result, for the current study, 10% was chosen, representing 25 questionnaires.

Following, finalized questionnaires that consist of 28 question items in a definite order on form were distributed to sampled respondents who are expected to read and understand the questions and write down the response in the space provided for the purpose of responding the questionnaire.

Table 1: Reliability Test Results

Variables	Number of Tests	(α)
Financial Records Management	8	0.946
Internal Financial Control	6	0.849
Financial Accountability	5	0.909
Effective Utilization of Public Fund	3	0.897
Accounting and Reporting	6	0.946
Overall	28	0.827

The instruments obtained an overall reliability coefficient of 0.827. Fraenkel et al. (2011) and Fraenkel and Wallen (2009) provided guidance on instrument reliability, stating that an alpha value of 0.7 and above is regarded as adequate for making accurate group inferences, and so the instruments were deemed to be reliable.

The study used item analysis to check if the objectives and items in the instruments actually measured what the study was trying to accomplish. The validity test was based on a four-point scale of relevant, somewhat relevant, not relevant, and not at all relevant, and was calculated using the Content Validity Index. The proportion of relevant and quite relevant was calculated by three professionals, according to Adams, Jackson, and Marshall (2007); one was a research supervisor, and the other two were lecturers from the Ethiopian Civil Service University's Accounting and Finance Department. All of the proportions were more than 0.5, showing that the questions were relevant to the study's variables.

7.4. Data Processing and Analysis

Descriptive and statistical analysis techniques were used to analyze the data. A descriptive analysis was conducted to describe the responses of the respondents. The inferential analysis was conducted to investigate the relationship between the response variable and predictor variables and see the extent of the effect of independent variables on the dependent variable.

Data gathered from primary sources through administered questionnaireshas been arranged and organized in a systematic way for analysis, and then processed using the Statistical Package for Social Sciences (SPSS) Version 26 analytical tool. Descriptive analysis was conducted through percentages of respondents' responses using percentages, and the results were presented in the form of graphs; inferentially, with the aid of parametric tests in the form of coefficient of determination, analysis of variance, and multiple regression analysis, the output was analyzed and interpreted.

7.5. Model Specification

Modeling the relationship between explanatory and response variables is a basic activity encountered in statistics for investigating the relationship between variables. In this regard, various regression models have been available as an option depending on the requirements of the study (Chatterjee & Simonoff, 2013; Gordon, 2012). Multiple regression analysis is a strong analytical technique that provides robust results and allows the researcher to predict relationships between independent variables and dependent variables as well as estimate the magnitude of factors affecting the response variable. Within the scope of this study, to analyze factors affecting the effective utilization of public funds in Addis Ababa City Government, a multiple regression model has been considered as indicated below.

$$Y_{EUPF} = \beta_0 + \beta_1 X_{1FRM} + \beta_2 X_{2FCP} + \beta_3 X_{3FA} + \beta_4 X_{4AFRP} + \varepsilon_a$$

Where, Y_{EUPF} – Effective Use of Public Funds, X_{1FRM} – financial records management practice, X_{2FCP} – financial control practice, X_{3FA} – Financial accountability, X_{4AFRP} – Accounting and financial reporting practice. The β's are the unknown regression coefficients. Each β represents the original unknown (population) parameter. The ε_a is the error (residual) of observation a.

8. Results and Discussion

Exploratory factor analysis has been performed after developing measures of variables to determine principal component factors. Based on the results of the factor analysis, 28 items were considered for further analysis, and 28 self-administered questionnaires on five variables were distributed to 265 sampled finance staff of the Finance and Economic Development Bureau and Offices of the Addis Ababa City Government. A total of 250 questionnaires were completed and returned, with a response rate of 94 percent deemed adequate.

To do a multiple linear regression, the required assumptions such as normality, linearity, multicolliniarity, and heteroscedasticity problems must be met, and thus these have been checked in this study, and the study is free from such problems. As a result, one of them, the data's normality, was tested using SPSS and the result is as indicated in table 1. The Kolmogorov-Smirnov test of normality must be used for a number of respondents greater than 50, and the p-value must be greater than 0.05, which was indicated in table 1, that is, the data was normally distributed.

Table 1: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Eff_Use_Pub_Funds	.202	250	.180	.858	250	.010
Finan_Accountability	.192	250	.200	.820	250	.140
Finan_Record_Mgt_Pract	.215	250	.120	.840	250	.120
Int_Finan_Cont_Pract	.220	250	.200	.825	250	.100
Acc_Finan_Reprot_Pract	.292	250	.250	.738	250	.150

a. Lilliefors Significance Correction

Relationship between response variable and predictor variables

A multiple regression analysis was conducted, as represented in table 3 regression model summary, to determine the relationship between the predictors and the dependent variable.

Table 3: Regression Model Summary

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.522[a]	.273	.261	.63493
a. Predictors: (Constant), Acc_Finan_Reprot_Pract, Finan_Accountability, Int_Finan_Cont_Pract, Finan_Record_Mgt_Pract				
b. Dependent Variable: Eff_Use_Pub_Funds				

The coefficient of determination (R^2) indicates the extent to which changes in financial record management, internal financial control, financial accountability, and accounting and financial reporting can explain changes in the effective use of public funds. The $R^2 = 0.273$ result indicates that the financial management practices under consideration were responsible for 27.3% of the variances in the effective use of public funds.

The ANOVA test, as shown in Table 4, was used to determine the model's relevance in describing the association between variables.

Table 4: ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37.030	4	9.257	22.963	.000[b]
	Residual	98.770	245	.403		
	Total	135.800	249			
a. Dependent Variable: Eff_Use_Pub_Funds						
b. Predictors: (Constant), Acc_Finan_Reprot_Pract, Finan_Accountability, Int_Finan_Cont_Pract, Finan_Record_Mgt_Pract						

The calculated value $F(4,245) = 22.963$ is greater than the critical F value $F(critical) = 2.37$ implies that the model would be significant in explaining the purported relationship.

Table 5: Regression Coefficients

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.743	.277		2.685	.008
Finan_Accountability	.547	.059	.504	9.235	.000
Finan_Record_Mgt_Pract	-.041	.052	-.044	-.800	.425
Int_Finan_Cont_Pract	.216	.103	.115	2.105	.036
Acc_Finan_Reprot_Pract	-.013	.046	-.015	-.278	.782

Testing Hypothesis I

The regression analysis results in Table 5 (β = - 0.041, $p > 0.05$) indicate that, holding all other variables constant, the financial records management practices in the Addis Ababa City government had no significant effect on the effective use of public funds, and thus the study failed to reject the null hypothesis.

Testing Hypothesis II

As shown in Table 5, an analysis of the relationship between internal financial control practices and the effective utilization of funds ($\beta = 0.216$, $p < 0.05$) shows that, with all factors held constant, only internal financial control accounts for 21.6% of the variation in effective fund utilization. Thus, the null hypothesis was rejected and internal financial control practices significantly affected the efficient utilization of public funds in the Addis Ababa City Government.

Testing Hypothesis III

The regression analysis results in Table 5 ($\beta = -0.013$, $p > 0.05$) indicate that, holding all other variables constant, accounting and financial reporting practices had no significant effect on the effective utilization of public funds in the Addis Ababa City Government, and thus the null hypothesis was not rejected in this study.

Testing Hypothesis IV

Financial accountability alone accounted for 54.7 percent of the changes in public fund utilization, according to Table 5's analysis of the relationship between financial accountability and effective utilization of public funds ($\beta = 0.547$, $p < 0.05$),holding all other variables constant. As a result, the null hypothesis was rejected because financial accountability significantly affected the efficient utilization of public funds in the Addis Ababa City Government.

9. Conclusion

Sound public financial management systems and practices are crucial for prudently managing and utilizing scarce public financial resources to provide socially desirable goods and services, carry out productive operations, and achieve targets. Consequently, the government and its functional units, including public bodies, have the accountability and responsibility to utilize public financial resources transparently and wisely to maximize the benefits of citizens and thus ensure the welfare of society and the development of the region. As the result of the study revealed, securing strict financial accountability and strengthening internal financial control systems and practices on the ground are crucial and strictly required. In contrast, regarding financial record management practices and accounting and financial reporting practices, the study doesn't show the presence of a significant effect on the effective utilization of public funds, as the regression results of the study revealed. However, as different empirical studies show, they have a positive impact on the effective utilization of public funds. Hence, an effective financial records management system and practices, a strengthened accounting and financial reporting culture, and competent and ethical finance officers are essential ingredients for the effective operation of the financial management system and the prudent utilization of financial resources, which guarantee financial accountability.

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