*Quest Journals*
*Journal of Research in Humanities and Social Science*
*Volume 12 ~ Issue 7 (2024) pp: 56-67*
*ISSN(Online):2321-9467*
www.questjournals.org

**Research Paper**

# Public Financial Management And Local Government Performance In Rivers State, 2012 – 2023

1. WECHIE, CHIKWELE HENRY – GEORGE
2. PROF. L,E.B IGWE
3. DR. E.O. DAVIS
4. DR. O. J. OSAI

*DEPARTMENT OF POLITICAL SCIENCE, FACULTY OF SOCIAL SCIENCES, RIVERS STATE UNIVERSITY, PORT HARCOURT, NIGERIA*

***ABSTRACT***
*This paper investigated the relationship between public financial management and local government performance in Rivers State, Nigeria, from 2013 to 2023. The aim of the paper is to contribute to the existing knowledge base by providing a detailed analysis of the context-specific factors that influence local government performance, with a focus on budgeting, revenue mobilization, expenditure management, and auditing, which are key factor that shape public financial management. In creating a theoretical explanation for the surge of public financial management and local government performance, the Public Finance Management theory was adopted. Interview method was the source of the primary data source, while secondary data came from journals, textbooks, government papers, and other sources. The paper, among others, discovered that good budgeting and auditing system are lacking in the local government system in Rivers State in particular and Nigeria at large. Based on the finding, it was recommended that the appropriation Bye-Law of the Councils must be published on the website of the respective Councils to make it available to members of the public for effective monitoring of its implementations. Also, no procurement should be done without internal auditors' approval, to name but a few.*

***Key Words:** **Finance, Local Government, Management, Performance, Public.***

***R**eceived 01 July, 2024; **R**evised 09 July, 2024; **A**ccepted 11 July, 2024 © The author(s) 2024.*
***P**ublished with open access at **www.questjournals.org***

## I. Introduction:

Money is the main issue facing local government administration in Nigeria. "Finance is the fuel of any form of administration, whether private or public," according to Adekoya (2020) (p. 340). This has decreased over time as a result of the financial crisis and economic downturn. The financial crisis has played a role in the limited room for growth and development in local government, particularly when it comes to the provision of feasible developmental initiatives and socioeconomic advancements (Okala, 2015; Nwekeaku, 2014).

Lack of funding is not the sole reason for the large number of abandoned projects in local government regions; poor management, misallocation, and inefficient use of funds are other contributing factors. This action puts the health and safety of the local population in danger. In recent times, there has been a lack of trust, faith, and confidence in local government administration due to the fundamental failure and inefficiency of some local governments in accomplishing significant growth of their locality, which has been attributed to their bad financial management strategy. Furthermore, the ongoing seizure and manipulation of local governments' statutory funds and allocations by certain state governors has had a detrimental impact on these governments' ability to fulfil their constitutional obligations.

The Federal Republic of Nigeria, 1999 (Amended) Constitution's Section 162 has introduced the State Joint Local Government Account, which has limited the ability to achieve sustainable development at the local level through financial autonomy and strength. A joint account may occasionally be used to force local government to undertake collaborative initiatives that are outside the immediate needs of the community or that have little to do with the citizens inside the local government. Therefore, the financial autonomy of local government is now an illusion due to the State and Local Government Joint Account Allocation Committee and extensive oversight from numerous Ministries and Agencies (Kanu, Obi, & Akuwudike, 2021; Wada & Aminu, 2014).

This is consistent with the ideas of Ojirika & Egobueze (2017). The majority of local governments currently deal with the issue of a large disparity between the expectations and needs of their residents and the available funding. Population growth, improper use of funds, high standards of service in the health, education, and water infrastructure sectors, among other areas, leaks in internally generated revenue due to theft, corruption, and a lack of desire on the part of revenue officers, and ineffective equipment for producing and providing quality public goods and services were some of the factors that contributed to this gap at different points in time.

Additionally, a lot of people have a bad impression of the financial management of local governments. Most often, this is the result of a weak internal control system that allows excessive fraudulent revenue collection activities and the insertion of the names of fictitious employees into the local government payroll system. This leads to the loss and leakage of funds that could have been used for the area's development and management. Crucially, corruption and poor financial management have severely affected how well local government bodies in Nigeria and Rivers State specifically operate. As a result, the local government has failed to fulfil its obligation to provide the public goods and services that the people have demanded.

This is the main goal of the study, which is based on an investigation into the ways in which the efficient operation of Rivers State's local government councils can be facilitated by the financial management components of budgeting, monitoring, and auditing, which define and ensure transparency and accountability.
The aim of this paper is to investigate the impact of public financial management on organizational performance, focusing on Rivers State. The specific objectives are to:

i. examine the impact of budgeting on the performance of Local Government Councils in Rivers State.
ii. investigate the effect of internal and external auditing on the performance of Local Government Councils in Rivers State
iii. determine the impact of Legislative oversight of the Appropriation Bye–law on the performance of Local Government Councils in Rivers State.

In view of the above, the following research questions are relevant:

i. What is the impact of budgeting on the performance of Local Government Councils in Rivers State?
ii. What are the impacts of internal and external auditing on the performance of Local Government Councils in Rivers State?
iii. How does Legislative oversight functions of the Appropriation Bye–law impact on the performance of Local Government Councils in Rivers State?

**Theoretical Framework**

The public finance management theory has its route in the works of scholars like James Buchanan, Vincent Ostrom, and Richard Musgrave (Shoup, 1959). These proponents looked at how governments could best manage their financial resources. It combines economics, accounting, and political science to create a comprehensive understanding of the role of government in managing public finances. Financial resources in public sector should be managed in a transparent and responsible manner to achieve good governance. The theory looks at how governments can effectively raise revenue, spend money, and invest in the economy. It also considers the role of institutions and policies in shaping public finances. Buchanan (1960) for instance looked at how individuals make decisions in the context of collective decision-making, such as when they vote or participate in the political process.

According to the theorist, individuals are rational actors who will act in their own self-interest when making decisions. Ostrom in her work on "The tragedy of the Commons", argued that when resources are shared, individual may act in their own self-interest and deplete the resources. She also stated just as individuals can act in selfish manner, they can also come together to solve collective action problems. One example of how Ostrom's ideas could be applied to public finance management is in the context of public goods. Public goods are non-excludable, which means that no one may be excluded from using them, and non-rivalrous, which means that one person's use of the item does not limit another's ability to use it. These ideas suggest that the provision of public goods can be improved through the use of local institutions and rules (Ostrom, 2008).

Allocative efficiency refers to the allocation of resources to maximize economic efficiency. Distributive justice refers to the fair distribution of resources. Macroeconomic stability refers to the ability of the economy to maintain a stable level of output and employment. In practice, public finance management requires governments to balance competing priorities and make trade-offs between different policy goals. This requires policymakers to consider factors like the cost and benefits of different policies, the political context, and the risks and opportunities involved.

Public financial management theory can guide local administrations in developing and implementing budgets that align with their goals and priorities. It helps ensure that financial resources are allocated efficiently and effectively to support local programs and services. The theory can assist local administrations in developing long-term financial plans that consider revenue projections, expenditure forecasts, and investment strategies. It helps them make informed decisions to achieve financial stability and sustainability. Public financial management theory emphasizes the importance of accountability in local administration. It encourages the establishment of robust financial control mechanisms, such as regular audits and financial reporting, to ensure transparency and prevent financial mismanagement.

The theory can guide local administrations in implementing performance measurement systems to assess the effectiveness and efficiency of their financial management practices. It helps them evaluate the impact of financial decisions on service delivery and make necessary improvements. Public financial management theory guides managing debt in local administration. It helps local governments make informed decisions regarding borrowing, repayment schedules, and debt service costs to maintain fiscal discipline and avoid excessive debt burdens. The theory can assist local administrations in exploring various revenue generation strategies, such as taxation, user fees, and grants. It helps them diversify their revenue sources and optimize revenue collection to support local development initiatives. Public financial management theory emphasizes the importance of transparent financial reporting in local administration. It guides local governments in adopting standardized reporting practices, ensuring that financial information is accessible to the public and stakeholders. Finally, by applying these principles, local administrations can enhance their financial management practices, promote accountability, and effectively serve their communities.

In sum, flowing from the foregoing explanations, based on the prevailing circumstances in local government administration in Rivers State and Nigeria at large, the theory best suites this study because its assumptions are based on prudent management of resources which has always been a major challenge of the Local Government Councils in Nigeria. Local Government Councils in the nation have greatly lost grip of the essence of their mandate. They have been greatly accused of corruption, which has incarnated poor management of human and material resources. The Councils have been berated for lack of frugality and adoption of fiscal regime in public expenditure, which is pivotal for good governance.

Accountability and transparency have been integrity issues confronting grassroots governance in Nigeria. These are experienced in revenue generation, management of public financial resources, budgeting, and efficient allocation of resources, as well as financial control. All these are the key focus of the theory which underpins prudent management of public funds, cordial relationships with international communities, and promotion of good governance. Adekoya (2020) argued:

Globally, the government implemented a variety of Public Financial Management (FM) reforms to improve Local Government (LG) performance. A bad FM has contributed to LG's failure and inefficiency in attaining significant development, while most LG face the challenges of a vast gap between people' requirements and financial resources (p. 339).

The idea outlines guidelines for financial processes, effective resource management, programme prioritisation, and the use of control to fend off threats. One example of a product of this approach is the Treasury Single Account (TSA), which was developed largely to prevent instances of public funds being misappropriated in the public sector.

**Conceptualizing Public Financial Management (PFM)**

Recently, there has been a growing consensus on the need of public financial management (PFM) in both established and emerging economies. Public financial management (PFM) has become an essential component of a functioning administration, underpinning all government actions (Morgner & Chne, 2014).

Olowe–Okere (2021, p.1) observed that "for the past 20 years, the international development community has been investing in reforming public financial management (PFM) systems to ensure effective and efficient service delivery and good governance." Thus, Fritz Sweet & Verhoeven (2014, p. 4) noted that "PFM systems support decision-making on fiscal policy and underpin budget implementation and reporting." To Adekoya (2023, p.2935), "Public Financial Management (PFM) is all about planning, coordinating, controlling, and utilization of government financial resources, and formulation of policies for the wellbeing of the citizens and the society at large."

PFM is the collective term for the laws, regulations, procedures, and systems that sovereign states (as well as subnational governments) employ to raise public money, distribute them, carry out public spending, account for those monies, and conduct audits. It is the administration of finances to fulfil management's goals. It includes all tasks related to generating income and allocating such funds to the realisation of local government goals. Financial planning, control, and management are managerial functions that are supported by the application of accounting expertise, economic models, mathematical formulas, systems analysis, and behavioural science. Financial management is influenced by a number of related fields, including economics, law, quantitative methods, behavioural science, and management and financial accounting.

Pandey (2005) defines financial management as the managerial task of organizing and arranging a company's or organization's financial resources. A company's finances are its lifeblood, and their management is essential to its success. Thus, according to Banerjee (2009), financial management entails methodical management efforts committed to the management of finances required for all organisational activities. This has to do with funding sources and how they are used across different organisational divisions to achieve goals. According to Hassan (2011), financial management is often only advantageous when operations are well-planned and carried out.

It is a system as a whole, meaning that when one component fails, the entire construction fails. Financial management for local governments includes revenue collection, fund allocation, resource administration, and treasury management. The process is commonly conceptualized as a six-phase cycle, comprising the following stages: policy formation, strategy updating, budget preparation, budget implementation, accounting/monitoring, and external audit and evaluation at the end. It encompasses more activities than only financial management. Many players are involved in this "PFM cycle" to ensure that it operates transparently and efficiently while upholding accountability.

**Importance of a strong public financial management system**

An effective state's institutional framework must include a robust PFM system.

(a) Growth and poverty reduction are directly linked to the efficient provision of public services, and nations with robust, accountable, and transparent PFM systems typically have more equitable and efficient markets and service delivery. In this regard, the majority of development outcomes require strong PFM, if not require it. The capacity to impose reasonable taxes, manage spending, and do so effectively is a fundamental aspect of statehood.

(b) Donor staff should be aware of PFM systems even if they do not actively seek to strengthen them. This is because they will often operate either through or with them, providing project-financed interventions that are staffed and maintained through the national budget, or through them by providing budget support or climate finance.

(c) According to Acemoglu and Robinson (2012), these are necessary characteristics of "inclusive" governmental institutions since they promote trust, stimulate creative energies, and enable societies to thrive. Enhancing a PFM system's efficacy could have far-reaching and enduring advantages, which could support broader societal movements towards inclusive institutions and, consequently, towards more robust states, gender equality, and balanced development. PFM is important, in other words, and all donor staff members should be familiar with it.

**Objectives Public Financial Management**

Setting a PFM system's end goals, or the ultimate outcomes that will be used to measure performance, is essential before evaluating it. While it is often accepted that a PFM system should achieve the first three objectives, we would like to suggest adding a fourth: the encouragement of openness and accountability. Due to its direct connection to the concept of inclusive institutions, this objective is becoming more and more significant.

**a.** The primary goal of a public finance management (PFM) system is to maintain aggregate fiscal discipline, which is to guarantee that overall tax collection and public spending levels align with fiscal deficit targets and do not lead to unmanageable levels of public borrowing;

**b.** Secondly, a PFM system should guarantee the allocation of public resources to established strategic priorities, or the achievement of allocative efficiency;

**d.** c. The PFM system should also make sure that operational efficiency—that is, obtaining the best possible value for the money when providing services—is attained;

**e.** Lastly, the PFM system must adhere to due process and be perceived as doing so by being open and transparent, making information available to the public, and utilising democratic checks and balances to guarantee accountability.

ACCA of Pakistan has identified four key objectives that effective public financial management include:

1. Aggregate Financial Management: A state often raises money through borrowing, the establishment, sale, or privatisation of state-owned enterprises, taxes levied against the general public, and natural resources

within its jurisdiction. The annual budget then distributes these funds across the many governmental departments in accordance with the priorities that have been determined and approved by the various stakeholders. In addition to being essential for achieving fiscal goals, tracking progress towards targets, and making efficient use of available resources, public financial management can also help the government establish future priorities and maintain fiscal sustainability (Shaikh & Naeem, 2012).

2. Operational Management: Sound financial management has a direct impact on short and long-term decision-making, performance measurement, strategic planning and management of public services. Some operational aspects that are directly affected through financial management are asset acquisition and disposal, treasury management, review and performance evaluation and reporting to stakeholders.

**3.** Governance: "Ensuring the organisation is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner" is the definition of good governance in public services as provided by the Audit Commission UK in 2009. The decision-making structure in a good governance system is assigned to individuals who can be trusted to carry out their responsibilities effectively; this is only achievable when individuals who possess the necessary technical skills and have demonstrated the ability to manage their roles have been hired. Making decisions gives one the chance to select from among accessible options; hence, if an effective governance framework is put in place, one may anticipate that the options selected will maximize the intended results. Understanding the accountability systems in the public sector requires knowledge of the constitutional framework that governs a nation. The public is generally held accountable by government agencies in the majority of jurisdictions/countries through parliaments or democratically elected representatives. This is facilitated by parliamentary oversight of the government's performance and the provision of easily understood, accessible, and transparent information via a strong public finance management system (Utman, 2017). Cultures that combat fraud and corruption are intrinsically related to sound public financial management. A public entity's ability to conduct independent internal auditing is essential to its overall governance. It is crucial to have control mechanisms in place to determine whether the allotted funds are being used to achieve the intended results. Public enterprises are under growing pressure from the public and other stakeholders to enhance their internal control and financial discipline in order to reduce the likelihood of fraud and other wrongdoings through better governance frameworks.

**4.** Fiduciary Risk Management: To reduce both expected and unforeseen risks that public entities encounter while pursuing their goals, fiduciary risk management needs to be adaptable and intuitive. Continuous evaluation of accomplishments relative to objectives facilitates prompt error correction, issue area identification, and risk assessment. One method of addressing the risks that could prevent the accomplishment of intended goals is to have a public audit conducted by an impartial external third party. An enterprise's or government department's records and reports are examined by professionals or others other than those in charge of their creation during a public audit. Even while no independent authority can confirm every transaction, external audits can nonetheless offer a sufficient level of comfort regarding the organization's governance, its ability to fulfil its financial management responsibilities, and its cost-effectiveness. It may also draw attention to any areas that need managerial intervention.

To a certain extent, it is feasible to evaluate the PFM system solely by comparing performance to these four goals. Internationally, it is easy to gauge the attainment of fiscal discipline, and the Open Budget Index (OBI) offers a reliable stand-in for transparency. However, specific research is needed to quantify allocative and operational efficiency. These are routinely carried out by a few Organisation for Economic Co-operation and Development (OECD) member nations through value-for-money audits or programme reviews. While some Public Expenditure Reviews (PERs) deal with these difficulties as well, these studies are often uncommon in underdeveloped nations and their structure makes it difficult to compare results across borders. In actuality, the evaluation of PFM systems concentrates on the institutions, policies, and practices that are most likely to guarantee the accomplishment of the PFM system's primary goals, which is one level below outcomes. This method, first created in the 1930s, was revived by Allen Schick of the Maryland School of Public Policy (Reading 1). This technique serves as the conceptual basis for the Public Expenditure & Financial Accountability (PEFA) evaluation system, which was developed by the IMF and World Bank in partnership with the EU, DFID, and other bilateral donors. It provides a set of 31 high-level indicators that are useful for determining the efficacy of a PFM system. Since 2005, almost 300 PEFA assessments of national and subnational PFM systems have been carried out.

In spite of the unavoidable drawbacks of such a standardised system of assessment, the PEFA framework has rightfully garnered widespread recognition and, when appropriately construed, offers a useful overview of PFM systems. In 2015, a revised set of PEFA indicators is scheduled for release.

**The Challenges of Public Finance Management**

The PFM system in the majority of Africa's developing nations has a number of obstacles, including issues that hinder budgets from operating efficiently and producing the intended results. The main causes of these issues are poor budgeting processes, capacity limitations (financial, technical, and human resources), and weak institutions. Unfavourable external variables including macroeconomic volatility and reliance on donor money also play a role. Countries that deal with multiple of these issues at once frequently experience subpar budgetary performance. But it must be underlined that inadequate formal PFM systems are not always the main cause of the apparent low performance. Instead, throughout time, a large number of developing nations have implemented contemporary PFM institutional frameworks and legislation—typically in response to pressure from foreign donors, specifically the World Bank and the IMF.

As a result, the PFM formal framework is frequently well-designed in theory. However, because informal rules and processes typically predominate in the management of public finances, these legal frameworks are frequently disregarded in reality (Watse & Ibrahim, 2017). In such instances, there is a serious threat to the prospects for development- and poverty-reduction-oriented public policy, as well as the efficacy of multi-year plans and annual budgeting as vital tools for carrying out national strategic programmes. Annual budgets for the purpose of reducing poverty rely heavily on the alignment of formal rules and processes with PFM's real-world activities. Thus, it is intimately related to at least three essential elements: the political will of the participants in the budget process; a sophisticated institutional framework providing them with appropriate incentives and effective control mechanisms; and adequate technical, human, and financial resources to enable the efficient and effective execution of tasks throughout the budget cycle.

**Legal framework for financial management practices and standards in local government in Nigeria**

A number of financial management challenges with regard to accountability, consistency, honesty, economy, and value for money are addressed by accounting standards and procedures. Financial management makes ensuring that financial reports are not only accurate and timely, but also a valuable tool for different interest groups and stakeholders to use in their decision-making. The following are included in Nigeria's financial management law framework:

1. The Federal Republic of Nigeria's Constitution: This establishes the broad guidelines for municipal governments' financial management and oversight of public monies. It describes the different kinds of government funding as well as the patterns of receipts and outlays. It offers the framework for government financial transaction reporting for accounting, auditing, and budgeting purposes.

2. The amended Finance (Control and Management) Act of 1958, currently known as CAP F 26 LFN 2004. This describes how public monies are managed and used in general. It establishes guidelines for the different books of accounts that must be kept, controls accounting systems, and specifies the steps that must be taken in order to prepare government final accounts and financial statements.

3. The Budget for the Year Bye-law: This is an annual budgeting procedure that outlines the revenues and outlays to be made during a fiscal year after being authorised by the relevant Local Government Council legislative arms.

4. The Public Procurements Law of 2007 sought to guarantee competition, integrity, openness, efficacy, and efficiency in local government purchases of products, services, and construction projects.

5. The 2007 Law on Fiscal Responsibility: The Fiscal Responsibility Acts 2007, which were passed into law in 2007, served to reaffirm financial discipline in government. The Act aims to promote accountability, openness, and sound governance in the public sector by putting best practices in public finance management into effect. The FRA Acts seek to provide individuals with full information on government financial activities, enforce high standards in financial transparency, ensure responsible management of financial resources, and improve accountability and sound financial management in government. Additionally, they support openness in the planning, carrying out, and reporting of budgets.

6. The Ministry of Finance has released a number of directives and guidelines known as the Treasury and Finance Circulars to regulate the financial management of the public sector.

7. A third-tier legal structure that is used as a tool for accounting and financial control is the Financial Memoranda. It describes the acceptable and unacceptable behaviour guidelines for the local International Journal of Economics, Commerce, and Management. It is a set of regulations pertaining to record keeping. It addresses topics and methods related to financial reporting, funding sources, spending trends, and fund management.

8. The Audit Act (1956) provides standards and procedures for the audit of financial statements issued by local governments.

**The impact of budgeting on the performance of Local Government Councils in Rivers State:**

The Chartered Institute of Public Finance and Accountancy (CIPFA) has stated that the public financial development system is an essential component to building sustainable public services in emerging economies. It stressed that a carefully prepared budget provides a framework for all aspects of public financial management, including budget execution, financial reporting, and security to boost service delivery at the country, regional, and entity level (CIPFA, 2018). CIPFA (2018) opined that good governance translates to accountability, transparency, reporting and auditing good practices deliveries to improve local service. Therefore, managers should pay major attention to the management of public revenue to effectively spend public funds judiciously to bring the dividend of democracy to the people. An increase in tax, royalties, vat charges are geared to increasing government revenue, thus providing more funds for the general welfare of public employees, and consumers which affect the market share (effectiveness) of the MOF Rivers State, positively. Adams (2013) expressed that any action of the government which increases expenditure must be backed up by an estimate of the budgetary or financial impact in the year.

Emphasizing on the importance of budget on the performance of local government, Kitale (2008) revealed that budget is a detailed annual plan of how much revenue the local government will raise and how much revenue will be spent in line with the local government objectives, needs and priorities. He opined that budgeting is a process of determining the future revenue of a local government for a given period and then allocating that revenue between the local government needs and priorities (Local Government Act, 1997).

Responding to the impact of budgeting in the performance of Local Government Councils, an interviewee, who was a former Clerk House Committee on Finance as well as Local Government and retired Deputy Clerk, Rivers State House of Assembly revealed that:

> The process of budgeting is clearly stated in the Local Government Finance and Accountability Act, 1988. Its efficacy also is noted in the Rivers State Local Government Law of 2018. The budget process which usually streamlined the planning process must capture the plans, priorities and objectives. Therefore, local government estimate demonstrates the extent and the management of its income and expenditure while determining the performance of the system, Indeed, after the presentation of the budget, it becomes a Bill, once it is passed, it becomes an Appropriation Bye -law. Like every other law, the Appropriation is a bye – law, and none implementation is expected to come with stiff punishment. Let me note that at the Local Government level and even in most States, it is just a ritual. Budget implementation has always been challenging in Nigeria. This is the same case with Rivers State and its Local Government Councils. This has negative impact on PFM. (L. Dumnu, personal communication, December 6, 2023)

Responding to the above interview, Green and Onouha (2021) claimed that a budget is therefore a central policy document of any level of government showing how it will prioritize and achieve its annual and multi-annual objectives. Apart from financing new and existing programs, the budget is the primary instrument for implementing fiscal policy, and thereby influencing the economy as a whole. Alongside other instruments of government policy such as laws, regulation and joint action with other actors in society the budget aims to turn plans and aspirations into reality. More than this, the budget is a contract between citizens and state, showing how resources are raised and allocated for the delivery of public services. Such a document must be clear, transparent and credible if it is to command trust, and to serve as a basis of accountability.

In consonance with the above scholars, a Deputy Head of Department Planning, Research and Statistics of the Rivers State House of Assembly in an interview revealed that:

> Budget guides against extravagant spending and wastage. It ensures that local government performance (success and failure) is measured. It is the local government-citizens document that determine the direction of the councils and its staff in terms of motivation and other benefits attached. If budget figures are used as a clear basis for assessing their performance, it becomes clear to staff what must be achieved in order to be considered successful. It helps to set and achieve the goals and objectives while determining the performance of the selected local councils (L. Okeleke, personal communication, December 6, 2023).

Some other impart of the local government estimate as provided by Dogara (2014) include the valuation of cost required for local government administration and cost estimation, presents and make available the financial resources require to execute performance or achieve a common goal. It demonstrates performance control and determine the plan of action for the future. It controls the operational activities and act as a measure of check to promote efficiency and prevent waste. Further to this, some respondents revealed that budget is an enforcing document that empowers every organization, be it public or private, governmental or non-governmental to act and engender operations and service satisfaction. The author concluded that budget results in more rational use of the firm's resources and facilities which contributes to staff welfare since it tends to stabilize the demand of their services and improve on the performance of the council areas.

Despite all the discussions of the impact of budget and local government estimates on the performance of the selected local government councils, there are identified factors that have constantly impeded on the performance and service delivery of these councils. Lambe (2012) opined that effective performance of the local government is tied to certain factors. He discussed the following factors as responsible for poor performance and poor service delivery in the local government councils:

1) High dependence on the federal and state government
2) Absence of strategic development planning and implementation targets
3) Lack of knowledge among the electorate on the civic functions of the councils
4) Political power without authority over planning and budgeting
5) Corruption and public Service Delivery in the Local councils
6) Abuse of Public Office
7) Poor quality of local legislatures
8) Failure of councillors to provide link between the council and the local people
9) Poor record keeping

Reacting to the above factors outlined by the Lambe (2012), an interviewee who responded to questions of issues responsible for poor performance of budget in the council revealed that:

> There is a gap between the council, budget (Appropriation Law) and the people. Both revenue and expenditure of the council are most time orchestrated, determined by the Governor of the State, and the Chairmen of Councils. They determine the implementation process. Because the Councils heavily depend on the State governor for revenue generation and the process of service delivery, local government performance is achieved at abysmal level, the people and local communities suffer stagnated development while the Councils live at the mercies of state actors – the Governor and Members of the State House of Assembly, the Ministry of Local Government and the Local Government Service Commission. These gaps have positioned the councils to perform below expectation (F. Nwoke, personal communication, December 15, 2023).

Also, another respondent claimed that the powers, functions and roles of these local councils to prepare, present and implement a detailed and comprehensive estimate have ruined by the activities of the state government. The local government find it difficult to implement Bye-laws regarding PFM because most of the revenue they derive end-up in the hands of the principal officers, and State actors that are known as stakeholders. The remaining is used to pay salaries. Reacting to the above, a respondent who is the current Deputy Clerk, Rivers State House of Assembly, Clerk House Committee on Public Account and former Clerk House Committee on Local Government assert that:

> There is no strategic long-term investment plan that can provide a framework for setting long-term development targets and budget allocations. For example, the Councils have no clearly defined targets for key sectors such as education, health, drainage system, or even local revenue collection over a number of years. These exist on paper – the Appropriation Bye – law, which is abysmally implemented/ Indeed, the absence of long-term strategic development targets denies the Councils the opportunity to operate in a more strategic manner and to measure their own performance on the basis of clearly defined development and service delivery benchmarks (C. Ojirika, personal communication, December 22, 2023).

Another respondent who corroborated the claims of Lambe (2012) noted that the local government is a dump for rewarding mediocrity. He stressed that the lack of competence has manifested in the low level of education of most councilors who do not really or averagely understand the financial and other functions constitutionally bequeathed by the councils where they administered. Based on the foregoing argument, a retired director of Personnel Management interviewed stated:

> There is high level of incompetency experienced in Local Government administration. This level of incompetence has opened many Councillors and staff who do not understand the essence of record-keeping to public criticism. The most painful part is that most of the staff and Councillors have become 'O yes' members" in meetings. They lack sense of contribution to developmental issues and the performance level of their councils. They cannot even account for or tender local assessment of performance within a given period of time. The budget/appropriation bye-law should also address staff performance to avoid misallocation of funds (B. Bari, personal communication, November 30, 2023)

Further assessment revealed that about 200 respondents representing 80% claimed that the budget or estimate is a necessary document that determines the performance of the councils and the socio-economic survival of the communities. However, despite the enormous importance placed on the budget of the Local Government Councils (LGC), poor institutional management has watered down public financial management and undermined local government performance in River State. Therefore, the budget as an instrument of the PFM made very little impact on local government performance within the period under review, because the budget and appropriation were mere rituals.

**The effect of internal and external auditing on the performance of Local Government Councils in Rivers State:**

Civelek (2018) observed that audit is safeguarding the assets of the Councils by a way of defining procedures or policies that provide assurances from unofficial use and disposal of the council's assets which could have a negative interpretation on the financial management and statement of the local government councils.

So many scholars have queried the procedures adopted in making internal audits more effective since it is more concerned with achieving performance and profitability while preventing loss. Mohammed (2018) viewed audit effectiveness as achieving the audit's objective by gathering sufficient and appropriate audit evidence in order to express reasonable opinions regarding financial statements compliance with generally acceptable accounting principles. Also, Malachy (2017) argued that audit effectiveness is the number and scope of deficiencies corrected following the audited process. Mbieli (2018) state that effective internal auditor professionals possess the characteristics to align the structure of internal audit with the dynamics of the organizational operation and recommend strong relationship between management skill skills intaining appropriate visibility and audit committee needs and expectations. The consistency in approach, standards, and delivery, including the ability to maintain audit focus and alignment of resources to the plan tends to improve performance.

In line with the above, a former Auditor General of Rivers State observed that the audit process is necessary for the survival of entities, particularly in Nigeria's public sectors. He maintained that auditor's independence must be maintained to allow for smooth audit work. He revealed further that:

> By level of training, experience and educational background, auditors are regarded as professionals whose abilities, capacities and skills are required to project a strong financial position for any entity, in this circumstance, the Council. Its independence builds an effective control mechanism that could resist external pressure and exact correctness for the purpose of improved-performance in the system (E. Akazua, personal communication, December 5, 2023)

The view of this interview was confirmed when Khalil & Salihu (2011) opined that the level of training, education, experiences as well as professional qualifications of the internal auditors influence the effectiveness of the internal audits. They stressed that the above characteristics are essential building blocks to an effective internal audit system. Hence, they defined an auditor's independence as the ability to resist the client's pressure. Similarly, audit standards and guidelines (2008) define an auditor's independence as having freedom from situations and relationships which make it probable that a reasonable and informed third party would conclude that objectivity either is impaired or could be impaired. An auditor's report would not be deemed credible and investors and creditors would have little confidence in it, if auditors were not independent in both fact and appearance (Kazeem, 2013). In responding to the above claim, an interviewee, who was a staff of the Rivers State House of Assembly for 20 year, and currently a Senior Lecturer in the Department of Political Science responded to an auditor's report and revealed that:

> I worked in the Rivers State House of Assembly for over 19 years, and I served at

> different times, Clerks to House Public Accounts Committee (PAC), Finance and Local Government. Let me state inter allia that the Rivers State Local Government Law, 2018 provides enough framework that would enhance proper auditing of the Councils both internally and externally, but operators of the system, have made implementation of the law highly ineffective due to corruption. It is important to note that auditing the LGCs would better position them for effective service delivery. The Auditor's report should be held sacrosanct to direct and present an unbias financial statement about the Council for future reference. Unfortunately, I do not think the Auditor General for Local Government (AGfLG) has ever forwarded the audited reports of Local Government Councils to the State House of Assembly for deliberation. The Executive arm of Government has always not allowed this to happen, especially, in the last 8 years. This negates the principles of the PFM, and indeed, good governance. Both internal and external audits are crucial for LG performance and very necessary instruments to engender a good PFM regime. This is indeed lacking in the LGCs in Rivers State. It is very regrettable and unfortunate. (A. Egobueze, personal communication, December 11, 2023).

Still on audit, another important component of the auditor's report in the council is the public expenditure which deals with the spending made by local councils on collective needs and wants such as education, healthcare and housing, security, infrastructure etc. Justice & Onuaha (2021) opined that public expenditure was limited as laissez faire philosophies believed that money left in private hands could bring better returns. They stressed that in the 20th century, John Maynard Keynes argued the role of public expenditure in determining levels of income and distribution in the economy. Since then, government expenditures have shown an increasing trend. A source privy to financial information and staff of the office of the Auditor General for Local Government revealed that:

> Public expenditure management is seen as the heart of economic policy making. Many nations need to invest and earn returns on investment. However, public expenditure in the local government was considered wastage of money. Of course, there are cases where expenditure exceed allocation. This breeds allocation inefficiency which only holds if markets themselves are inefficient in both informational and transactional. That is the situation in many Local Government Councils in Rivers State in particular and Nigeria at large (Ananimous, personal communication, December 21, 2023).

Izueke, Anyadike & Nzekwe (2013) opined that local government audit report must reflect the character of expenditure in public financial management. To this end, only an efficient market is one in which all pertinent data regarding the market and its activities is readily available to all market participants and is always reflected in market prices guided and supervised by local government councils in their respective areas. For the market to be efficient, it must meet the prerequisites of being both informational efficient and transactional or operationally efficient. When a market is transactionally efficient, all transaction cost is reasonable and fair. This ensures that all transactions are equally executable by all parties, and not prohibitively expensive to anyone. If these conditions of fairness are met and the market is efficient, capital flows will direct themselves to the places where they will be most effective providing an optimal risk or reward scenario for investors (Izueke, Anyadike & Nzekwe, 2013). The scholar noted that aggregate fiscal discipline in public financial management can be instilled through audit report. However, some scholars argued that there is a challenge which seek to address allocation in a constrained budget. It simply means the government spend the money depending on the priorities of the society and the cost of the programs and activities needed to meet those priorities. Reacting to the foregoing, a respondent noted that:

> Operational efficiency is a component of fiscal discipline to enhance audit efficiency. It stays within the limits of the budget and spend based on priorities. If these priorities are not properly set, it could cause misalignment. The more severe the misalignment, the higher will be the cost of monitoring the performance of staff and the council. And the higher the cost of monitoring, the less monitoring there will be. A review of the Local Government system indicates that both internal and external audit mechanisms are lacking. Internal auditors are held in chains in their functions. They merely perform the confirm the appropriation directed by the Treasurer. It is indeed unfortunate (F. Chinenye, personal communication, December 20, 2023).

However, as beautiful as audit plans and reports are to every entity such as the council areas under study, there are also unfortunate situations that have placed the council and other public sector agencies in jeopardy. Indeed, a staff of the office of the Auditor General of Local Government who was interviewed stated that:

It is regrettable that the audit system is not very functional. We try to perform our duties, but the State is not ready to implement. My boss has been trying to make it work, but our reports are hardly presented to the Rivers State House of Assembly in line with the Rivers State Local Government Law. It is indeed very unfortunate that the State is not ready yet to open its books to public scrutiny. Even adequate funds and appropriation is not given to us to perform our sundry assignments. This negates the spirit of PFM (Ananimous, personal communication, December 21, 2023).

Going further, about 210 respondents representing 84% who responded to questions raised on the practicability of auditing in the local government councils in Rivers State in particular revealed that the local government is a worship centre where misapplication, misappropriation, diversion and wastage of funds/allocations is celebrated. They outlined lack of fiscal discipline, lack of qualified audit personnel and facilities, lack of audit independence, bribery and corruption, provision of inadequate financial information and lack of efficient audit control inhibit local government performance in public financial management. In summary, the study observed that the poor performance of the internal and external auditing has negatively impacted on the performance of Local Government Councils in Rivers State

## II. Conclusion

Financial management has been a topical issue in governance and a key issue in the evaluation of good governance which has several indicators like accountability, transparency, and accessibility. These core factors that determine good governance are the major challenges of Local Government Councils in Rivers State and Nigeria at large which precipitated this study. The paper on "Public Financial Management and Local Government Performance in Rivers State from 2013 to 2023" has provided a comprehensive analysis of the relationship between effective public financial management systems and the overall performance of local governments in Rivers State over the given period. The issue of financial management has been a concern to modern day governance. Good governance is highly measured by the extent of compliance to public financial management which involves interrogation of accountability and transparency of the government. Accountability and transparency are the hallmarks of good governance, which the State is expected to deliver to its citizens. However, unfortunately, this has been lacking in most developing States in Africa, Latin America, Eastern Europe, Asia to name but a few. Nigeria as a State has witness deficit in governance due to the absence of a good PFM regime. Rivers State is one of the subnational units of Nigeria, and this study investigated the extent to which the Local Government Councils in the State adhere to the PFM principle. The study has highlighted the significance of transparent and efficient financial management practices in ensuring the optimal utilization of resources, promoting accountability, and ultimately, enhancing the quality of services delivered to the citizens. Several key findings have emerged from this research, including the importance of budgeting, revenue mobilization, expenditure management, and auditing in shaping the local government's performance. The study has also emphasized the role of political will, institutional reforms, and capacity building in fostering a conducive environment for improved financial management. Moreover, the thesis has underscored the need for continuous monitoring and evaluation of public financial management systems to ensure their effectiveness and sustainability. It has also suggested potential areas for further research, such as exploring the impact of external factors, like economic fluctuations and policy changes, on local government performance. In deed, this thesis offers valuable insights into the intricate relationship between public financial management and local government performance in Rivers State. It serves as a foundation for policymakers, local government officials, and researchers to develop and implement strategies that can enhance the efficiency and effectiveness of financial management practices, ultimately leading to better services and improved quality of life for the residents of Rivers State. Finally, five recommendations were made on how to advance good governance through a sound PFM.

## III. Recommendations

The following recommendations are advanced to ensure that public financial management engenders the performance of Local Government Councils in Rivers State. These are:

i) Since the budget as an instrument of the PFM made minimal impact on local government performance within the period under review, it is recommended that the budgetary system be strengthened. The appropriation Bye-Law of the Councils must be published on the website of the respective Councils to make it available to members of the public for effective monitoring of its implementations.

ii) In view of the fact that both the internal and external auditing systems in the respective Councils performed poorly and this negatively impacted the performance of Local Government Councils in Rivers State, it is recommended that no procurement should be done without internal auditors' approval. Also, the Auditor General for Local Government should always forward his audited reports to the Rivers State House of Assembly for deliberation in line with the Rivers State Local Government Law of 2018. Furthermore, the deductions to the Office of the Auditor General of Local Government from all Local Government Councils in the State should be increased from 0.3% to 1%. This would enable the Office to conduct good audit without compromise.

## REFERENCES


[1]. Adekoya, A. A. (2023). Public Financial Management in Nigeria: The goals, concepts, legal and institutional framework, and reforms for good governance, International Journal of Management and Economics Invention, 9(5), 2935 – 2946.

[2]. Adekoya, A., A. (2020). Financial management in local government: The challenges and prospects of the 21st century - Nigeria perspective. International Journal of Economics, Commerce and Management, 8(8), 339-357.

[3]. Banerjee, B. (2009). Fundamentals of financial management, (Special ed.). PHI Learning Private Ltd.

[4]. CIFA (2018). Financial Institutions in Nigeria. Research Journal of Finance and Accounting, 5 (16), 12 - 26.

[5]. Egobueze, A. & Ojirika C. U. (2017). Fiscal federalism and local government financial autonomy in Nigeria, 1999 - 2015. Port Harcourt Journal of History & Diplomatic Studies (PJHDS), 4 (2), 157 – 178.

[6]. Hassan, M., M. (2011). Financial Management in Nigeria Local Government (revised ed.). University Press Plc.

[7]. Green, J., T., J. & Onuoha, B., C. (2021). Public Financial Management and effectiveness in Ministry of Finance, Port Harcourt, Rivers State, Nigeria. EPRA International Journal of Economics, Business and Management Studies (EBMS), 8(1), 2347-4378.

[8]. Izueke E. M., Anyadike, N. O. & Nzekwe, F. I. (2013). Management of local government finance in Nigeria: Challenges and prospects. International Journal of Research in Arts and Social Sciences, 5(1), 148-160.

[9]. Justice, G., J., T. & Onuaha, C. (2021). Public financial management and effectiveness in Ministry of Finance, Port Harcourt, Rivers State, Nigeria EPRA International Journal of Economics, Business and Management Studies, 8 (11), 37-47.

[10]. Kanu, S. I., Obi, H. K., & Akuwudike, H. C. (2021). Impact of public sector financial management on the economic growth in Nigeria. International Journal of Management Science and Business Administration, 7(4), 45-59

[11]. Kazeem, M., O. (2013). Legislative oversight functions in Nigeria – Odyssey of Hunters Becoming the Hunted. AUDJ, 9(2), 79-95

[12]. Khalil, S. & Salihu, A. A. (2011). Modelling local government system in Nigeria. Kuwait Chapter– Arabian Journal of Business and Management Review, 1(1). 136-154.

[13]. Lambe, I. (2012). Appraising the impact of budgeting and planning on the performance of local government councils' performance in Uganda. ACODE Policy Research Paper Series No.338010.

[14]. Malachy, A. (2017). Local government budget implementation, problems and prospects. Sandy New Jessy, Press Ltd.

[15]. Mbieli, P. (2018). Local government foundations of democracy (revised ed.). New York, Mirop Mav Associate Publication.

[16]. Mohammed, I. (2015). Politics, value and local government in Nigeria. Lagos, Malthouse Press.

[17]. Morgner, M. & Chêne, M. (2014). Public financial management study guide. Retrieved from: Topic_guide_on_public_financial_management_2014.pdf (transparency.org)

[18]. Ohaka, J., Dagogo, D. W. & Banyie, J. L. (2016). International public sector accounting standards and local government financial management in Nigeria. Journal of Accounting and Financial Management, 2(3), 1-10.

[19]. Olowo – Okere, E. (2021). Bringing Public Financial Management into the 21st century. World Bank blog. Retrieved from worldbank.org

[20]. Okala, N. (2015). Essay on Local government administration in Nigeria. Lagos, Estorise Publishers

[21]. Ostrom, E. (2008). The new pelgrave dictionary of economics. London, Palgrave MacMillian.

[22]. Pandey, I. M. (2005). Financial management (9th ed.). Ghaziabad, Vikas Publishing House PVT Ltd.

[23]. Shoup, C. (1959). The theory of public finance: A review article. American Economic Review49(5), 1018-1029.

[24]. Wada, E. & Aminu, I. (2014). The imperative of local government autonomy and improvemental relation in Nigeria. International Journal Public Administration and Management Research, 2(3), 74-83.