

The Impact of Public Financial Management on Financial Performance of the Government Ministries in Afghanistan

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Abstract - Budgeting and financial planning is the process of allocating scarce resources to an organization's prioritized needs. In most situations, the budget is the legal authority for a governmental entity to spend money. The financial planning is the process of optimally evaluating and managing the use of financial resources to accomplish the goals and objectives of an organization. However, internal control is a mechanism for ensuring the organizational performance and efficiency of an entity, accurate financial reporting, and compliance with legislation, regulations, and policies. Internal control, a broad term, includes all that controls an organization's risks. The objective of this study is to determine the impact of public financial management on the financial performance of the government ministries in Afghanistan. The study also aims to evaluate how budgeting and financial planning and internal control influence the financial performance of government ministries in Afghanistan. Purposive sampling technique is used for data collection and descriptive research design are used in this research. A total 480 questionnaires were distributed to the target population and a sample of 217 was collected and considered for the analysis. Descriptive statistics and Regression analysis were employed to analyze the data. The results of the study show that there is a significant positive relationship between both budgeting and financial planning and financial performance, and as well as between internal control and financial performance of the government ministries. The study recommends that the alignment between budget planning process and the strategic planning priorities of the ministries should be strengthened and improved. Also a medium-term plan is required to be adopted by ministries to define priorities for their daily tasks. Effective implementation of the budget at ministry level should be facilitated through capacity building, robust systems and processes, close monitoring, and assessment prioritization. Moreover, the study recommends that organizational leadership should put in place an efficient and effective safety-net to reduce frequent theft, misuse and misappropriation. The organization management should also organize regular training for employees on the control mechanism. The findings of study will help the budgetary units in the government ministries improve their budgeting and financial planning process and adopt proper monitoring and evaluation mechanism. It will also contribute to the PFM theories and body of knowledge.

Keywords: Budgeting and Financial Planning (BFP), Internal control (IC), and Public Financial Management (PFM) Practices.

I. INTRODUCTION

Public financial management (PFM) refers to the set of laws, regulations, systems and procedures used by governments to mobilize revenue, allocate public funds and undertake government spending, account for funds and audit results [1]. PFM also contains all components of the country's budget process-both upstream (including strategic planning, medium-term expenditure framework, annual budgeting) and downstream (including revenue management,

procurement, control, accounting, reporting, monitoring and evaluation, audits and oversight).

In Afghanistan, the PFM system has improved significantly since the reconstruction efforts began in 2002. Afghanistan has moved from a state of emergency to a mostly disciplined PFM system. Significant achievements include establishing a legal, institutional and operational framework for PFM and ancillary functions and the introduction of modern budget tools and automated payments. These advancements have gradually strengthened confidence in PFM, leading to

increased use of national systems by the Development Partners [2]. It is clear that a transparent financial system ensures rapid economic growth for a nation. An effective financial management system and a sound accountability system can improve not only the trust of Afghans but also increase the trust of donors in the government of Afghanistan.

PFM performance has influenced the three fiscal and budgetary outcome, aggregate fiscal discipline, strategic allocation of resources and the efficiency in service delivery. Afghanistan has displayed the ability to control expenditure to prevent unexpected deficits, but the low predictability of donor resources impacts fiscal discipline. The execution of the budget for domestic taxes is robust. Still, the total expenditure level and the predictability of the flow of donor funds are major problems. This weakened the overall credibility of the budget as seen in the high fluctuations in spending. A large portion of the budget is funded and implemented by donors, and the government has little influence over these projects. Therefore, the lack of appropriate availability of indicative planning statistics, the weaknesses in the budget execution process and the lack of effective and efficient monitoring of the extra-budgetary units and corporations also negatively influenced fiscal discipline.

On the other hand, a weak budget execution process is the result of poor project selection and uninformed budget allocation decisions. The weak public investment management framework (PIMF) impacts fiscal discipline and lowers the efficiency of development expenditures, the projects are chosen in the development budget without proper research for cost implications and development effects, as political imperatives take precedence. Failure to integrate procurement planning into the budget process has often resulted in unreasonable budget allocations and the resulting variances in expenditure. On the other hand, While the internal control system recommended is fairly comprehensive, enforcement is varied. Issues of non-compliance with the specified controls related to the division of duties, lack of audit trail, override in management and non-adjustment of advances have been identified by the auditors. Internal auditors were hired, and guidelines and toolkits were developed. The internal audit focuses in large part on financial compliance. Internal examination is yet risk-based and does not deal with system enhancement and quality assurance. The efficient control environment is constrained by poor ability. However, the strategic allocation of the resources Afghanistan National Peace and Development Framework (ANPDF) describes high-level policy priorities, but these are not reliably explained into expenditures through the budget. Also, the imperfect adoption of modern budgeting practices challenges allocative efficiency [3]. However, the lack of performance information hinders operational efficiency in public service

delivery. The centralized powers and processes are aimed to achieve value for money but impede efficiency.

II. LITERATURE REVIEW

Budgeting and Financial Planning

The budget is essential financial management instruments that are used to guide and control the affairs of large and diverse institutions. The authors used not only by governments where budgeting has its roots, but also by other public bodies, by industry and trade, and by private families. In management, a budget is a simple method. It determines the activities and services, taking into account the limited financial resources available to the organization, should be actively followed, emphasized or ignored in the timeframe covered by the scope. Three essential goals, namely the maintenance of fiscal discipline, the achievement of allocation efficiency, and organizational or technological efficiency, need to be accomplished by any successful budget process. The primary aim of budget reforms has been to maintain fiscal discipline [3].

The extension of the role of the legislature in budgeting is a new contemporary problem for budgetary approaches. New roles must be accommodated with statutory budgeting, both in long-standing allocation procedures and in political relations with the government. Moreover, the new role of the legislature in budgeting should not derive from the shortcomings of the government. The budget is the end result of a long process involving treasuries and other departments to track and manage public finances.

Budgeting requires the spending agencies to be released with funding to help them to execute their spending programs [5]. The study by Baogange [6] developed that three distinctive logics focused on administration, political reform and citizen empowerment are behind China's participatory budgeting. Each of the three logics denotes different principles and understandings of participatory budgeting, which constitute different contexts within which participatory budgeting programs and activities have been introduced. In starting a good working relationship between the regional governments and the people, the introduction of participatory Budgeting in China has played a greater role. This was accompanied by increased service delivery quality and strong prioritization of what the citizens required.

As part of its policy-based budgeting assessment, PEFA found that the orderliness and participation in Afghanistan's annual budget process remains good; that there is a clear and comprehensive annual budget calendar and that ministries have reasonable time to complete their detailed estimates [2]. However, the budget is still not approved by Parliament on a timely basis, and the budget circular did not include precise budget ceilings in the most recent budget preparation exercise, which caused a slight deterioration in the overall rating of PI-11 from the PEFA assessment [7]. On the other hand, the reform agenda was informed by the diagnosis of

the functionality of the PFM system in the development of the reform programme, in order to make better use of the budget as a tool for development. In the current PFM framework, the review identified key issues, including fragmentation and risks of incremental budgeting, weak budget and policy links to development priorities, and insufficient internal controls [3].

Internal Control

Internal control is the control within an organization that includes the payment authorization process, budget management, reconciliation procedures, and so on. These controls should be explicitly designed to minimize the possibility of losses [8]. Internal control of organizations is structured to ensure the efficiency and effectiveness of operations, the reliability of the information, compliance with relevant regulations and the timeliness of financial reporting [9]. He stated that the Internal Control System includes control policies and procedures such as withdrawals, applications for funds and grants accounts, bank and cash, purchases, payments and monitoring, evaluation and reporting.

The previous studies on internal control on the financial performance of the firm, companies in china, technical training institution in Kenya, health service in Uganda and water service providers in Kenya shows that there is a significant positive relationship between the internal control system and financial performance [10], [11], [12], [13]. At the same time, there is a positive and significant relationship between the components of internal control on the Effects of internal control system deficiency on capital project management in the Nigerian public sector [14]. Impact of the elements of internal control and the effectiveness of the internal control on the moderating effect of the People's bank on corporate governance in Sri Lanka [15].

Article 6 of the Public Finance Expenditure Management law 2005 in Afghanistan, along with the financial regulations, assigns each budgetary unit the responsibility for controls in their operations in 2006 [16]. The effectiveness of the payroll control and non-salary expenditure in comparison rate assessment of 2008[7] and 2013[2] found that overall rating moved from C+ to B means to form the medium and poor to a good and medium performance by international standards. However, the assessment PEFA found that there are weaknesses in commitment controls and associated compliance with rules and procedures. There are also weaknesses in performance management for service delivery and lack of independent evaluations of performance achieved on service delivery [2].

Performance

Between June 2005 and December 2007, Afghanistan's public financial management (PFM) system achieved significant improvements. In relation to other countries for which assessments of public expenditure and financial

accountability (PEFA) have been carried out, the ratings for Afghanistan are better than the average for other low-income countries and better than the average for middle-income countries in some areas. As funding from domestic revenues and donors has been stable, the operating budget is credible. The gap between the budget and implementation, however, remains significant in the expenditure on the development budget. The comprehensiveness of the budget is generally good, although there is a need to improve reporting and, in particular, transparency. Fiscal risk supervision of state-owned enterprises and municipalities, however, is virtually non-existent and therefore problematic. The budgetary process is based on multi-year fiscal planning and relatively detailed budgeting at the level of ministries and agencies, but the cabinet has so far lacked the necessary strategic prioritization of resources at an early stage [17].

Afghanistan has moved from a state of emergency to a mostly disciplined PFM system. Significant achievements include establishing a legal, institutional and operational framework for PFM and ancillary functions and the introduction of modern budget tools and automated payments. These advancements have gradually strengthened confidence in PFM, leading to increased use of national systems by the Development Partners (DPs) [3].

In 1999, the Tanzanian Government introduced strategies such as the Performance Management System (PMS) to the public sector, including local governments, as part of its broader public sector modernization and reform agenda, for the planning, implementation, monitoring and evaluation and reporting of public services in Tanzania. The system is aimed at providing quality public service to the public, improving the performance of public service institutions, improving accountability and responsiveness, ensuring efficient and effective use of public resources, and setting standards for comparison and benchmarking within public service institutions in Tanzania and other public service institutions worldwide [18].

Research Gap

Despite the significant progress made over the last two decades, many challenges remain to the country's PFM system. Several scores have declined when the security transition in 2014 and provincial security issues have impeded the execution of the budget in some cases. The withdrawal of a significant number of international and national technical advisors created capacity gaps from 2015 up to present, particularly in the Central Line Ministries. At the same time, significant resources for development partners have been shifted on the on-budget in both the security and non-security sectors [3]. The ministers in Afghanistan are not capitalizing their developmental budgets because of low capacity, corruption, lack of monitoring and evaluation, lack of time management, lack of proper administrative structure and insecurity. Moreover, Open Budget Survey 2017, conducted by the International Budget

Partnership, weakly scored Afghanistan 's parliamentary budget oversight. This will further deteriorate the Finance Ministries already poor accountability to parliament and citizens. Afghanistan 's performance in creating opportunities for public participation in the budgeting process is as poor as 15/100 in the Open Budget Survey. Failure to consult the public and key civil society stakeholders legitimizes the low score in the 2017 survey [4].

Although Afghanistan has shown the ability to control expenditure to prevent unexpected deficits, the low predictability of donor resources has an impact on fiscal discipline. The execution of the budget for domestic revenue is robust, but according to the world bank assessment the overall revenues and expenditures forecast for the fiscal year 2019 show a 3% decrease compared to the previous year. The total cost is estimated at 399.4 billion Afs (25.5 per cent of GDP), of which 47 % cent comes from domestic revenue and 50 per cent from foreign aid. Therefore, in the following major problems, the overall budget level and the predictability of the flow of donor resources. This undermines the overall credibility of the budget, as evidenced by the high variations in expenditure. A large proportion of the expenditure financed by the donor and executed projects, over which the government has little control. Therefore, this study is an effort to explore and evaluate the effect of budgeting and financial planning, Internal control and revenue mobilization on the financial performance of the government line ministries [2]; [3].

III. OBJECTIVES OF THE RESEARCH STUDY

The followings are the objectives of the study

1. To examine the impact of the budgeting and financial planning (BFP) on the financial performance of the government ministries in Afghanistan.
2. To evaluate the impact of the Internal Control (IC) on the financial performance of the government ministries in Afghanistan

IV. RESEARCH HYPOTHESES

The following are the hypotheses of the study

- H₀₁:** Budgeting and financial planning has no significant effect performance of the central ministries in Afghanistan
- H₀₂:** Internal control has no significant impact performance of the central ministries in Afghanistan

V. RESEARCH METHODOLOGY

The research design used for this study was descriptive and explanatory. This study describes and critically assesses determinants of the impact of Public Financial Management on the Financial performance of the government in Afghanistan.

The study used a descriptive research design and a purposive sampling technique. A total of 480 questionnaires distributed to the nine selected central line ministries directorates (Finance and Accounting, Finance Policy/Macro-Economic and General Budget Directorates). The total response rate was 226, which is about 43 per cent of the comprehensive questionnaires distributed. A sample of 217 usable and suitable for analysis responses, 13 form Directors, 23 from Managers, 146 from the Officers, and 35 from the Advisors and experts were considered for the analysis.

Table: 1. Sample Size

Category	Sample size
Finance and Accounting Directorate	177
Finance Policy and Macro-Economic Directorate	28
General Budget Directorate	12
Total	217

Source: Primary Data.

Descriptive statistics (frequency, percentage, mean, and Standard. deviation) and inferential statistics (correlation and regression) were used to analyze the data. The data gathered through the questionnaire was analyzed using SPSS. Pearson-product moment correlations and multiple regression analysis were used to show the relationship between PFM and financial performance, and to test the research hypotheses.

VI. MAJOR FINDINGS

Descriptive Statistics

a) Impact of Budgeting and Financial Planning on the Financial Performance Ministers in Afghanistan

The first specific objective was to examine the effect of budgeting and financial planning (BFP) on the performance of central line ministries in Afghanistan. The descriptive analysis result can be seen from Table 2, obtained the following rating: (71.9%) (M 3.77, SD 0.894) of the respondents opined that the budget guidelines before preparation of budgets are clear to the participants. Sixty-eight point seven per cent (68.7%) (M 3.68, SD 0.750) of the respondents noted that Organization allocations based on priorities in Afghanistan National Peace and Development Framework (ANPDF), National Priority Program (NPP) and the organization strategies planning. On the other hand, 66.17% (M 3.65, SD 0.905) of the respondents argued that Effective cooperation between leadership and subordinates in budget planning and exaction process. 62.1% (M 3.62, SD 0.869) of the respondent agreed that there is effective coordination among the various activates during budget planning and execution. Within the study, 64.1 % (M 3.62, SD 0.938) of the respondents concluded that their budget is allocated based on the realistic requirements in my department hand. 48.1% (M 3.33, SD 0.923) of respondents

suggested that the Medium-term expenditure framework it is realistically estimated by the organization. 71.5% (M 3.77, SD 0.928) of the respondents observed that there is no timely disbursement of resources to their departments. Sixty-six point eleven per cent (66.11%) (M 3.71, SD 0.924) of the respondents agreed that the organization has proper communication between budgetary units during the process of budget planning and implementation. Moreover, 63.1%

(M 3.64, SD 0.908) of the respondents mentioned that management could overcome the challenges of budget planning and execution. 79% (M 3.98, SD 0.923) of the respondents maintained that Financial planning and budgeting could be used as a tool to prevent financial challenges. 65.13% (M 3.58, SD 0.979) of the respondents opined that the financial plan(s) has/have monitoring mechanisms that indicate financial health.

Table 2. Respondent Frequency Budgeting and Financial Planning on the Financial Performance of Government ministries in Afghanistan.

Statements/Items		Frequency (percentage)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. deviation
1	The budget guidelines before preparation of budgets are clear to the participants.	N	2	23	36	118	38	3.77	0.894
		%	0.9	10.6	16.6	54.4	17.5		
2	Organization allotments based on priorities in ANPDF, NPP and organization strategic planning ANPDF and NPP	N	3	12	53	133	16	3.68	0.750
		%	1.4	5.5	24.4	61.3	7.4		
3	Effective cooperation between leadership and subordinates in budget planning and exaction process	N	3	27	40	119	28	3.65	0.905
		%	1.4	12.4	18.4	54.8	12.9		
4	Effective coordination among the various activates during budget planning and execution.	N	3	23	52	115	24	3.62	0.869
		%	1.4	10.6	24	53	11.1		
5	Budget is allocated based on the realistic requirements in my department.	N	5	27	45	113	27	3.6	0.938
		%	2.3	12.4	20.7	52.7	12.4		
6	Medium-term expenditure framework it is realistically estimated by the organization.	N	5	39	66	93	14	3.33	0.923
		%	2.3	18	30.4	42.9	6.5		
7	There is timely disbursement of the resources to my department.	N	3	23	36	113	42	3.77	0.928
		%	1.4	10.6	16.6	52.1	19.4		
8	The organization has proper communication between budgetary units during the process of budget planning and implementation.	N	3	23	45	108	38	3.71	0.924
		%	1.4	10.6	20.7	49.8	17.5		
9	The management can overcome the challenges of budget planning and implementation.	N	4	22	52	109	30	3.64	0.908
		%	1.8	10.1	24	50.2	13.8		
10	Financial planning and budgeting can be used as a tool to prevent financial challenges.	N	5	13	25	112	62	3.98	0.923
		%	2.3	6	11.5	51.6	28.6		
11	The financial plans have a monitoring mechanism that indicates financial health.	N	8	28	37	119	25	3.58	0.979
		%	3.7	12.9	17.1	54.8	11.5		

Source: Primary Data (SPSS analysis).

In conclusion, the results showed that a positive statistically significant relationship existed between the two variables with Budgeting and Financial Planning (BFP) explaining 59.4% of the financial performance of the government ministries in Afghanistan 40.6% by other factors outside the model.

Budgeting is a critical tool to record the incomes and expenditure during the financial year, and financial planning offers essential tools that help government budgetary organizations to determine their current conditions and plan for its future. BFP involve evaluating the current financial situation of the government, examining the future growth prospects and options, evaluating the development options to achieve the stated growth objectives, estimating funds necessity and considering alternative financing options and measuring actual performance with the planned performance. The BFP include budget and budgetary practices, financial forecasting practices and financing decisions practices. Therefore, budgeting allows government budgetary units to plan, make proper choices, and decide on the mission and direction of government strategic goals. However, the study found that the various organizations and budgetary units utilize ANPDF, NPP and organizational strategic plan as its primary planning

document for all the projects and programs. Also, the timely disbursement and resource allocation have always remained the principal means of implementing them.

b) Impact of Internal Control (IC) on the Financial Performance of Government Ministries in Afghanistan

The second specific objective was to examine how Internal Control (IC) impact on the performance of government ministries in Afghanistan. The descriptive analysis result can be seen from Table 3, obtained the following rating: 72.8 % (M 3.71, SD 0.824) of the respondents observed that they were aware of the existence of the audit committee. Fifty-eight point one per cent 58.1% (M 3.48, SD 0.913) of respondents agreed that activities carried out as planned. 40.1% (M 3.11, SD 1.099) indicated that they are confident in the internal audit team. 69.6% (M 3.66, SD 0.812) of the respondents noted that the internal accounting system is manual. However, 47.9% (M 3.35, SD 0.859) of the respondents agreed that there are incentives to discover and report control deficiencies. Additionally, 56.2% (M 3.44, SD 0.916) of the respondents showed that there is a separation of duties and responsibilities in the audit team (for bookkeeping, deposits, reporting and auditing). 37.3 % (M 3.09, SD 0.817) of the respondent agree that there are robust accesses tracking mechanisms that serve to deter. While 58.1% (M 3.47, SD 0.817) of respondents believe that they considered corrective action if performance differs. 51.2% (M 3.41, SD 0.789) acknowledge Occasional accounting reconciliation is done.

In addition, fifty point three per cent 50.3% (M 3.34, SD 0.823) of the respondents pointed out that the leadership has a "hands-on" oversight involvement in the audit activities.

Table: 3. Response Frequencies for Internal Control on the Financial Performance of Government Ministries in Afghanistan

Statement		Frequency /Percentage	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Deviation
1	I am aware of the organization audit committee	N	5	15	39	137	21	3.71	0.824
		%	2.3	6.9	18	63.1	9.7		
2	Programs and activities carried out as planned	N	4	32	55	107	19	3.48	0.913
		%	1.8	14.7	25.3	49.3	8.8		
3	The internal audit team is reliable	N	21	41	68	70	17	3.11	1.099
		%	9.7	18.9	31.3	32.3	7.8		
4	The internal accounting system is manual	N	2	22	42	132	19	3.66	0.812
		%	0.9	10.1	19.4	60.8	8.8		
5	There are incentives to discover and report control deficiencies	N	3	34	76	92	12	3.35	0.859
		%	1.4	15.7	35	42.4	5.5		
6	There is a separation of duties and responsibilities in the audit team (for bookkeeping, deposits, reporting and auditing)	N	5	33	57	106	16	3.44	0.916
		%	2.3	15.2	26	48.8	7.4		
7	Access controlled to different parts of an accounting system via passwords, lockouts and electronic access	N	10	24	66	97	20	3.43	0.965
		%	4.6	11.1	30.4	44.7	9.2		
8	There are robust accesses tracking mechanisms that serve to deter attempts at fraudulent access	N	13	52	71	64	17	3.09	1.041
		%	6	24	32.7	29.5	7.8		
9	Considered corrective action if performance differs	N	5	22	64	118	8	3.47	0.817
		%	2.3	10.1	29.5	54.4	3.7		
10	Occasional accounting reconciliations are done	N	3	24	79	103	8	3.41	0.789
		%	1.4	11.1	36.4	47.5	3.7		
11	The officials has "hands-on" oversight involvement in the audit activities	N	3	29	88	86	11	3.34	0.823
		%	1.4	13.4	39.6	40.5	5.1		

Source: Primary Data (SPSS analysis).

In conclusion, the results showed that a positive statistically significant relationship existed between the two variables with Internal Control (IC) 51.7% of the performance of the government ministries in Afghanistan 48.3% by other factors outside the model. These findings agree on internal control practices that involve control activities, control environment; internal audits are mainly aimed at enhancing performance reliability, both directly or indirectly, by increasing the accountability of an organization's information providers. For any government line ministries, therefore, effective internal control is unambiguously correlated with the financial performance of the progress of government line ministers in achieving their budgeting target level.

This will include a periodic review of the reliability and integrity of financial and operational records, an evaluation of the controls used to protect properties, and evaluation of the compliance of employees with government policies, procedures and relevant laws and regulations, and an evaluation of the efficacy and efficiency of the goals accomplished by the government.

c) Inferential Statistics of the Public Financial Management Practices on the Financial Performance of the Government Ministers in Afghanistan

Coefficient of Correlation

The Pearson Correlation Coefficient was used to measure the strength of a linear association between two variables, dependent variable (Financial Performance) and the independent variables Budgeting, Financial Planning and Internal Control (BFP and IC). Where the value of $r = 1$, means a perfect positive correlation and the value of $r = -1$ means a perfect negative correlation.

In this study tried to show the relationship between the study variables and their findings, the study used the Pearson's coefficient of correlation. This is as shown in Table 4 below. Based on the findings, there was a positive correlation between the independent variables, (BFP and IC), and the dependent variable Financial Performance. The analysis shows the coefficient of correlation, r equal to 0.794 and 0.613 for (BFP and IC).

Table: 4. Pearson Correlation

		Financial Performance	Budgeting& Financial Planning	Internal Control
Financial Performance	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	217		
Budgeting & Financial Planning	Pearson Correlation	.794**	1	
	Sig. (2-tailed)	.000		
	N	217	217	
Internal Control	Pearson Correlation	.750**	.613**	1
	Sig. (2-tailed)	.000	.000	
	N	217	217	217

** . Correlation is significant at the 0.01 level (2-tailed).

Regression Results on the Combined Public Financial Management (PFM) and Financial Performance of Government Ministers in Afghanistan

From the research findings in Table 5. The correlation results indicate that there is a positive relationship between PFM and Performance of government ministers in Afghanistan. A multiple regression analysis employed to find out whether independent variables; (Budget and Financial Planning, Internal Control all at once influence the dependent variable Financial performance of government ministers in Afghanistan. A hypothesis to guide the research was as follows; **Hypothesis H₀₃**: Joint public financial management system has a significant influence on the performance of government line ministers in Afghanistan. Therefore, to test the hypothesis, model, the model ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$) was fitted all at once with BFP and IC as independent variables.

Table 5 shows that the coefficient of determination, R^2 was 0.861 meaning that 74% of the performance of government in Afghanistan could be explained by PFM system with the

difference of 26% being described by other factors outside the model.

Table: 5. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.861 ^a	.741	.739	.24974

a. Predictors: (Constant), BFP and IC

Analysis of Variance (ANOVA)

The study used the analysis of the variance ANOVA to establish the significance of the regression model. The statistical significance was considered significant when measuring the significance level if the p-value was less or equal to 0.05. As per Table 6 below, the significance of the regression model was with P-value of 0.000 which is less than 0.05. This specifies that the regression model is statistically significant in predicting factors of financial performance. Based on the confidence level at 95% the

analysis shows high reliability of the results obtained. The overall ANOVA results indicates that the model was significant at $F = 306.901$, $p = 0.000$.

Table:6. Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.283	2	19.141	306.901	.000
	Residual	13.347	214	.062		
	Total	51.630	216			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), BFP and IC						

Regression Coefficients

The researcher conducted a multiple regression analysis as shown in Table 7 to determine the relationship between financial performance in the government ministries in Afghanistan and the two variables investigated in this study.

Table: 7. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.146	.147		-.993	.322
	Budgeting	.578	.047	.537	12.195	.000
	Control	.437	.046	.420	9.555	.000
a. Dependent Variable: Financial Performance						

The regression equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

$$Y = -0.146 + 0.578X_1 + 0.437 X_2$$

Where;

Y = The dependent variable (Financial Performance)

X_1 = Budgeting & Financial Planning

X_2 = Internal Control

In conclusion, β co-efficient for BFP and IC were significant ($\beta_1=0.578$, $t=12.195$ and $\beta_2 =0.437$, $t = 9.555$, $p<0.05$ respectfully. Thus, the model equation for combined Public Financial Management (BFP, IC) was; Model m1 ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$) and the estimated multiple regression model was given by, $Y = -0.146 + 0.578X_1 + 0.437 X_2$.

In conclusion, the results confirm that PFM system has significant influence on the financial performance of central ministries in Afghanistan and hence the null hypothesis, H_{03} is rejected.

VII. DISCUSSION ON RESEARCH FINDINGS

The inferential statistics indicate that there is a significant positive correlation between PFM system and performance, $r(217) = 0.861$, $p\text{-value} < 0.05$ explaining that developing

and maintaining of PFM system improved performance of government ministries in Afghanistan. An increase in the use of the PFM system led to an increase in financial performance. The optimal statistical model shows that the relationship between combined BFP and IC with the financial performance of government ministries in Afghanistan is significant ($F(6, 217) = 306.901$, $p < 0.05$ and $R^2 = 0.741$ meaning that PFMS can explain 74% of the financial performance of government ministers in Afghanistan with the difference that is 26% described by other factors outside the model.

In addition, β co-efficient for BFP and IC were significant ($\beta_1=0.578$, $t=12.195$ and $\beta_2 =0.437$, $t = 9.555$, $p<0.05$ respectfully).

In summary, Table 8 shows that all the 3 hypotheses, H_{01} , H_{02} and H_{03} that tested in the study rejected $p<0.05$, Hence for the two independent variables; BFP and IC had a significant influence on the financial performance of the government ministries in Afghanistan.

Table: 8. Test of Hypothesis

No	Variable	P-value	Direction	Deduction
H_{01}	Budgeting and Financial Planning	< 0.05	Positive	Reject H_{01}
H_{02}	Internal Control and Evaluation	< 0.05	Positive	Reject H_{02}
H_{03}	Combined Public Financial Management	< 0.05	Positive	Reject H_{03}

Source: Primary Data, (SPSS analysis).

VIII. CONCLUSION AND RECOMMENDATION

Conclusions

The aim of this study was to assess the impact of Budgeting and Financial Planning BFP and Internal Control IC on the Financial Performance of Government Ministries in Afghanistan. The result of this study is that effective budgeting, financial planning and internal control will improve financial performance significantly by helping ministries to substantially reduce inaccuracy in budgeting and financial planning as well as fraud perpetration. This was confirmed by the results of a statistical analysis showing that the obtained P-value (0.000) was lower than the 5% significance value specified in the SPSS for this analysis. Notwithstanding, the results showed that a positive statistically significant relationship existed between the two variables with Budgeting and Financial Planning BFP and Internal Control IC explaining 74 % of financial performance of government ministries in Afghanistan leaving 26 % by other factors outside the model. In addition, the study also concluded that BFP and IC contribute significantly to the achievement of the objectives and objectives of the government ministries, because the P-value obtained using regression analysis (0.000) was lower than the 5 percent significance value specified for this analysis in

SPSS. This means that organization management must discover new ways of strengthening the BFP and IC departments in order to rapidly improve ministries goals.

Recommendations

The researcher suggested the following recommendations:

- The study recommends that the alignment between budget planning process and the strategic planning priorities of the ministries should be strengthened and improved. Also a medium-term plan is required to be adopted by ministries to define priorities for their daily tasks.
- Effective implementation of the budget at ministry level should be facilitated through capacity building, robust systems and processes, close monitoring, and assessment prioritization.
- All stakeholders should get involved in budget execution in enhancing the overall budget implementation. In order to ensure prudent management of funds, financial management systems need to be supported. There is a need for adequate sensitization of both the employees and the public on best financial management practices so that the oversight role is enhanced.
- The study recommends that organizational leadership should put in place an efficient and effective safety-net to reduce frequent theft, misuse and misappropriation. The study also recommends that organizational management should organize regular training for employees on the control mechanism.
- The organization management should also organize regular training for employees on the control mechanism.

IX. IMPLICATION OF THE STUDY

The findings of study will help the budgetary units in the government ministries improve their budgeting and financial planning process and adopt proper monitoring and evaluation mechanism. It will also contribute to the PFM theories and body of knowledge.

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