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**Integrated Financial Management System and Financial Control in
Uganda: A Review of Issues and Concerns**



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Integrated Financial Management System and Financial Control in Uganda: A Review of Issues and Concerns

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Abstract

Purpose: This study aimed to analyze the issues and concerns within the government's policy on Integrated Financial Management System as a financial control in Uganda.

Methodology: The study adopted a literature review approach in which the reviewers identified, assessed and studied obtainable literature from a variety of sources majorly on line and from the government libraries.

Results: The review indicated that IFMS contributed to financial control in many ways, such as enhanced internal controls, improved budget execution and control as well as strengthened cash and debt management. However, a number of challenges emerged mid-way viz, resistance to change, inadequate user training, technological challenges and weak project management. To counter, the challenges there is need to strengthen change management strategies, enhance capacity building and training, improve technological infrastructure and integration, strengthen governance, and ensure strong political commitment and support.

Unique contribution to theory, practice and policy: This review contributes to the understanding and further appraisal of the government policy on IFMS learning from its successes as a way of thwarting the emerging threats and failures. The review encourages for a deliberate investment in comprehensive training programs for users at all levels to ensure they understand FMIS functionalities and can utilize them effectively; regularly reporting on the IFMS performance and sharing lessons learned with key stakeholders so as to promote transparency, accountability, and continuous improvement; Developing a robust and resilient IT infrastructure and establishing robust data quality assurance processes to validate the accuracy and reliability of information entered into IFMS, ensuring decision making is based on reliable data.

Keywords: *IFMS, Financial Control, Performance, Budgeting, Accounting*

Introduction

An Integrated Financial Management System (IFMS) is a comprehensive software application that helps governments and public sector organizations manage their financial operations and processes more efficiently. IFMS integrates various financial functions, such as budgeting, accounting, procurement, payroll, and revenue management, into a single, centralized system (World Bank, 2017). The concept of Integrated Financial Management System (IFMS) emerged in the 1980s and 1990s as a response to the inefficiencies and shortcomings of traditional public financial management systems in many developing countries (OECD, 2019). These legacy systems were often characterized by fragmented, manual, and paper-based processes, leading to problems such as: dearth of financial transparency and accountability; Weak budget planning and execution; Delays in financial reporting and decision-making; Poor internal controls and risk management.

1.1 Background to the Integrated Financial Management System (IFMS)

In early 1990s, the concept of integrated financial management system began to emerge as countries recognized the need to modernize their public financial management practices. This period saw initial experiments and pilots in various countries to integrate financial functions such as budgeting, accounting management and reporting. Mid to late 1990s, several countries particularly Europe and North America started implementing early versions of IFMS. These implementations were often driven by a desire to improve efficiency, transparency and accountability in public sector financial management. Later on between 1990s and 2000s, IFMS gained momentum as international agencies such as world bank and IMF, begun promoting these systems as part of broader governance reforms in developing countries in Africa, Asia, and Latin America started adopting IFMS with varying degrees of success and customization to local contexts. 2000s to present, IFMS marked a period of rapid expansion and refinement of implementations worldwide. Many countries updated and expanded their systems to encompass more comprehensive financial management functions and integrate with other government systems.

Uganda recognized the need to modernize its public financial management systems to improve efficiency, transparency and accountability. Initial steps towards this included the introduction of computerized systems for budgeting and accounting. 2003-2005 Uganda embarked on a comprehensive reform program known as the public financial management (PFM) reform strategy. This strategy aimed at strengthening budget execution, financial reporting and oversight mechanisms. By 2005, the Government of Uganda, with support from development partners, for example, the World Bank and European Union initiated the implementation of IFMS. The primary objectives were twofold, namely; (a) integrating financial management process across government entities, (b) improve expenditure control, enhance budget

credibility and reduce leakages. Consequently, the IFMS implementation in Uganda progressed through several phases, starting with software to fit Ugandans specific needs and governance structure. The system was designed to cover budget formulation, budget execution, accounting, cash management and reporting.

According to Ministry of Finance, Planning and Economic Development (IFMS Journey, 2003-2020), Uganda adopted IFMS as a result of the Uganda historical financial control challenges such as inaccurate, untimely, and inappropriate budget and accounting information. This was characterized by manual and semi-automated systems, inadequate systems for collection and tracking of revenue, backlog of un-reconciled bank accounts, lack of a uniform Chart of Accounts that complied with Government Finance Statistics (GFS), endemic budget overruns, ad-hoc and uncoordinated IT acquisitions; and non-compliance with international public sector accounting standards.

As such Government commissioned a Fiscal Management Systems Study (FMS) that took place between October 2001 and April 2002 undertaken by Ernst & Young Consultants ((Ernst & Young, 2002). The goal of the study was to evaluate the then current state of the FMS and provide recommendations for improvements. After the study, the consultants conducted a thorough review of the FMS. It included analyzing the then existing processes, technologies, and data management practices. They also interviewed key stakeholders across government agencies that utilized the FMS (Ernst & Young, 2002) after which they delivered its report in April 2002 with the following as key findings of the FMS: (a) the FMS was highly fragmented, with multiple soiled systems that did not effectively integrate with each other; (b) data quality and accessibility issues were widespread, hampering financial reporting and decision- making; (c) outdated technologies and manual workarounds were common, reducing efficiency; and (d) governance and change management processes were lacking, making it difficult to keep the FMS up-to-date.

In lieu of the aforementioned findings, a roadmap was drawn the report provided a roadmap of recommended improvements to modernize and streamline the FMS. This included recommendations to implement an integrated enterprise financial management system, enhance data management capabilities, and strengthen overall governance of the FMS (Ernst & Young, 2002) with a government wide IT based Fiscal Management Systems that would meet current and future needs. The consultants prepared and submitted an Information Technology Architecture and Plan (ITAP) report detailing the recommended business and information processes as well as the User Requirements Specifications and proposed technology options. Following a selection process closely supervised by Government of Uganda and the World Bank, a contractor, M/s Hewlett Packard (HP) was contracted to implement the IFMS. HP was assisted by a number of sub-contractors among them Oracle Systems Limited, Computech Uganda Ltd, Venture Communications Group Ltd and RPC Data Ltd. A turnkey concept was

adopted where Government of Uganda held one supplier (HP) responsible and accountable for all the deliverables including those of the sub-contractors. HP was responsible for the supply, installation, integration, testing, commissioning and providing the related support services for the IFMS solution under this arrangement. The costs for IFMS implementation were financed with assistance from the World Bank and other Development Partners. Government of Uganda also allocated counterpart funds in the budget to support the IFMS implementation with the view to eliminate financial malpractices and wasteful public spending.

The piloting of IFMS in Uganda initially focused on several districts to test and implement the system at the local government level. The districts selected for pilot included Kampala, Mbale, Mbarara, Lira and Gulu. These Districts were chosen strategically to represent a mix of urban and rural settings as well as different regional contexts within Uganda with the aim to evaluate the feasibility, effectiveness and scalability of IFMS in the decentralized financial management at the district level, before gradually expanding the system to more Districts across the country. It is upon this background that motivated me to assess the different ways in which Integrated Financial Management System has contributed to the financial control (African Development Bank, 2018).

1.2 Objectives of the Integrated Financial Management system

There are several objectives which IFMS aims to achieve, viz.:

- a) *Improving fiscal management:* Achieving timely, accurate financial information for Local and Central government. This would provide a centralized, integrated platform for all government financial operations, including budgeting, accounting, cash management, procurement, and reporting. Automate and streamline financial processes to enhance efficiency, reduce errors, and improve internal controls through establishing standardized financial procedures, policies, and reporting formats across all government entities.
- b) *Achieving timely financial information:* Another objective is to implement real-time data capture and processing capabilities within the IFMS to provide up-to-date financial information. In addition, ensure reliable and secure data transmission between local and central government entities, as well as between different government agencies. This can be done through developing user-friendly dashboards and reporting tools to enable easy access and visualization of financial data.
- c) *Ensuring transparency and accountability in the handling and use of public resources.* IFMS aims to provide real-time access to financial information, budgets, and expenditure records through the IFMS. Publish regular, comprehensive financial reports and statements on government websites and other public platforms. Furthermore, ensure data is presented in a standardized, accessible, and machine-readable format to facilitate

public scrutiny and analysis by ensuring clear disclosure policies and guidelines for proactively sharing financial information with citizens and civil society organizations. While on the part of Accountability, implement robust internal controls, audit trails, and segregation of duties within the IFMS to prevent fraud, misappropriation, and abuse of public funds. It also aims to integrate the IFMS with other government systems (e.g., procurement, payroll, asset management) to enhance end-to-end traceability and accountability. This would empower government oversight institutions, such as supreme audit institutions and public accounts committees, to access and scrutinize IFMS data.

- d) *Improving revenue management.* This brings into play the automation in pricing adjustments, inventory replenishment, and promotional strategies, freeing up human resources to focus on more strategic initiatives.

1.3 Key Features of IFMS

As stated by World Bank (2017), there were several elements that characterizes the IFMS. Among them are: (a) *Centralized financial data management* in which IFMS consolidates financial information from multiple sources and departments into a single, unified database; (b) *Automated financial processes* whereby IFMS automates and streamlines various financial tasks, such as invoice processing, payment authorization, and financial reporting; (c) *Improved financial controls and reporting* in which IFMS enhances financial controls and provides real-time financial reporting capabilities, enabling better decision-making and accountability; and (d) *Enhanced transparency and accountability* in which case IFMS increase transparency in financial operations and improves accountability by providing comprehensive audit trails and financial records.

1.4 Theories underlying Integrated Financial Management Systems

There are several theories which have been collectively used to justify the operationalization of IFMS, specifically the Systems Theory describes a complex interconnected structure where various subsystems (e.g., budgeting, accounting, procurement) are integrated to achieve optimal performance (Chêne, 2009). For example, The Tanzanian Integrated Financial Management System (IFMS) is designed based on systems theory principles, integrating different financial management functions to improve coordination and information sharing (World Bank, 2017). The Public Finance Management theory according to Diamond & Khemani, (2005), is a theory emphasizes the importance of efficient, transparent, and accountable management of public financial resources, with IFMS as a key enabler of PFM objectives (Diamond & Khemani, 2005). The major emphathies of Public Financial Management theory look at the importance of using public resources efficiently, effectively, and transparently to deliver public services and promote economic development and therefore approached the resources management from a digital view point which could not be easily manipulated (World Bank,

2013). For instance, the computerized systems designed to manage a government's financial resources and operations in a holistic and integrated manner specifically to manage the Budgeting process; Accounting and financial reporting; Cash and debt management; Procurement; Asset management and Human resource and payroll management (Premchand, 1993; Cangiano et al., 2013; OECD, 2015; Diamond, 2002; Kopits & Craig, 1998).

Other theories which guide the IFMS includes the Institutional Theory which suggests that the success of IFMS depends on its alignment with the existing institutional environment, including legal, regulatory, and organizational structures (Uddin & Tsamenyi, 2005); Organizational Change Theory that emphasizes the importance of managing the human and organizational aspects of IFMS implementation, such as resistance to change, leadership support, and capacity building (Dener et al., 2011). For example, the successful implementation of the Ghana GIFMS was attributed to the government's comprehensive change management strategy, including stakeholder engagement, user training, and communication campaigns (OECD, 2019).

1.5 Methodology

The study adopted a literature review approach in which the reviewers identified, assessed and studied obtainable literature from a variety of sources majorly on line and from the government libraries. Specifically, academic journals, statistical data, periodic reports, and policy documents were examined using the thematic method.

1.6 Purpose of the study

This study aimed to analyze the issues and concerns within the government's policy on Integrated Financial Management System as a financial control in Uganda. Specifically, we answered three questions; (a) what is the contribution of IFMS to the financial control, (b) what are the emerging challenges to the implementation of IFMS, and (c) what are the potential strategies to address the challenges facing the Implementation of IFMS.

1. Responses to the research questions

2.1 Contribution of IFMS to the financial Control

Integrated Financial Management Systems (IFMS) have contributed to financial control in many ways, namely:

- a) *Improved budget execution and control:* IFMS integrates budgeting, accounting, and reporting functions, enabling tighter monitoring and control over budget execution (Chêne, 2020). For example, consistent with OECD (2019), in Tanzania, the IFMS implementation facilitated the government's effort to track budget allocations and expenditures in real-time, leading to better budget discipline and reduced instances of overspending.

- b) *Enhanced internal controls*: In the work of Dorotinsky and Watkins (2013), it is established that IFMS incorporates robust internal control mechanisms, such as access controls, audit trails, and segregation of duties. For example, in the Districts in Uganda, the IFMS has strengthened internal controls by enforcing approval workflows and spending limits, reducing the risk of fraud and misuse of funds (Government of Uganda, 2018).
- c) *Strengthened cash and debt management*: As cited by Hashim & Piatti-Fünfkirchen (2018). And World Bank, (2020) IFMS provides a centralized platform for managing government's cash resources and debt obligations that was typified by the IFMS in Uganda which confirmed the improvement of cash flow, planning and monitoring, helping the government avoid cash shortages and better manage its debt servicing.
- d) *Improved financial reporting and accountability*: In the findings of Dorotinsky and Watkins (2013), it was noted that IFMS generates comprehensive and timely financial reports, enhancing financial transparency and enabling better oversight by government officials and external stakeholders. This was also confirmed in the World Bank report (2019) where in Ghana, IFMS has facilitated the production of auditable financial records, supporting accountability and scrutiny of public funds (World Bank, 2019).
- e) *Data integration and analysis*: IFMS integrates financial data from various government agencies and departments, providing a centralized source of information (Hashim & Piatti-Fünfkirchen, 2018).
- f) *Streamlined procurement processes*: According to Chene (2020), IFMS has enabled the automation and standardization of procurement procedures, improved transparency and reducing the risk of corruption. Thus, controlling the loss which conventionally used to be observed before the adoption of the technologies. For example, in Ethiopia, the IFMS has helped streamline the procurement process, leading to cost savings and better value-for-money (UNDP, 2018).
- g) *Improved budget planning and forecasting*: From the perspective of Hashim & Piatti-Fünfkirchen (2018), IFMS provides a centralized platform for budget formulation and planning, enabling more accurate forecasting and scenario analysis. For example, the World Bank report (2017) showed that in Rwanda, the IFMS was able enhanced the government's ability to plan and forecast budgets, supporting more informed decision-making in the country.
- h) *Enhanced financial management capacity*: IFMS implementation often includes training and capacity building for government staff, improving their financial management skills (Dorotinsky & Watkins, 2013). Example in Liberia, the IFMS project included comprehensive training for public officials, strengthening their ability to effectively

manage public finances (World Bank, 2018).

- i) *Reduced transaction costs:* Chêne (2020) noted that IFMS can automate and standardize financial transactions, leading to reduced processing times and lower administrative costs. According to ADB, (2018), in the Philippines, the implementation of IFMS helped the government save on transaction costs and improve the efficiency of financial operations.
- j) *Improved monitoring and evaluation:* IFMS, or Integrated Financial Management Information Systems, has helped to improve monitoring and evaluation in several key ways:
 - i. *Real-time data access:* IFMS provides real-time access to financial data and transactions, allowing for more frequent and effective monitoring of budget execution, expenditures, and other key indicators (World Bank, 2018).
 - ii. *Improved reporting capabilities:* IFMS systems include robust reporting functionalities that enable the generation of standardized reports, dashboards, and analytics. This enhances the ability to track progress, identify issues, and make data-driven decisions (Hashim & Piatti- Fünfkirchen, 2018).
 - iii. *Enhanced transparency and accountability:* The centralized nature of IFMS and its audit trails promote greater transparency in financial management. This, in turn, strengthens accountability mechanisms and facilitates more effective monitoring and evaluation (Dener et al., 2011).
 - iv. *Streamlined processes:* IFMS often automates and integrates various public financial management processes, such as budget formulation, execution, and reporting. This streamlining helps to improve the efficiency and effectiveness of monitoring and evaluation activities (Hashim & Piatti-Fünfkirchen, 2018).
 - v. *Integration with other systems:* IFMS can be integrated with other public sector information systems, such as human resource management, procurement, and project management systems. This integration facilitates the consolidation of data from multiple sources, enabling more comprehensive monitoring and evaluation (World Bank, 2018).
 - vi. *Improved data quality:* IFMS systems often include built-in controls, validations, and data quality assurance mechanisms. This helps to ensure the reliability and accuracy of the financial data used for monitoring and evaluation purposes (Dener et al., 2011).

The above serves to explain that, the implementation of IFMS has played a significant role in enhancing the monitoring and evaluation capabilities of governments and public sector

organizations, leading to more effective oversight, decision-making, and resource allocation (Hashim & Piatti-Fünfkirchen, 2018).

2.2 Challenges affecting the implementation of IFMS

In their study, Mbelwa et al., (2021), identify five challenges that were found to impinge the adoption and successful implementation of IFMS:

- a) *Resistance to change:* IFMS implementation often faces resistance from public sector employees who are accustomed to traditional manual systems. Example: A study in Tanzania found significant resistance to the adoption of the Integrated Financial Management System (IFMS), the country's IFMS. Most local government to date still faces these challenges hence interruptions in the payroll, and Budgeting system
- b) *Inadequate user training:* Insufficient training provided to IFMS users leads to a lack of understanding and buy-in. Example: The same study in Tanzania revealed that the training provided to IFMS users was inadequate, contributing to the challenges of the system's implementation. Some Administrators, Managers and end users have to date have not been trained on IFMS with claims of lack of funds in most local governments in Uganda
- c) *Technological challenges:* IFMS can face technical issues, such as system downtime and integration problems with other systems, disrupting its functionality and reliability. Example: The IFMS implementation in Tanzania experienced technical problems, including system downtime and integration issues with other systems. In local governments for instance at the end of a financial year, most funds earmarked for development components are returned back to the consolidated funds because of system breakdown
- d) *Weak project management:* IFMS implementations often lack effective project management, with poor coordination and oversight from responsible government agencies. Example: The Tanzanian study found that the IFMS implementation lacked effective project management, with poor coordination and oversight from the responsible government agencies;
- e) *Insufficient funding:* Governments may not allocate adequate financial resources to support the IFMS implementation and ongoing maintenance. Example, the study in Tanzania revealed that the government did not provide sufficient financial resources to support the IFMS implementation and its maintenance.
- f) *Other challenges are the deficient political commitment:* Successful IFMS implementation requires strong political commitment, which may be lacking in some cases. For example, a study in Malawi found that the lack of political commitment was a

significant challenge in the implementation of the country's IFMS (Chinsinga & Chirwa, 2015). In Uganda, the deficiency of political commitment translates into inadequate resources allocated to training, infrastructure and maintenance of the system. Also, is the challenge of data quality and integration issues given that IFMS may face challenges in ensuring data quality and integrating with other systems, which can undermine its effectiveness. Example: A study in Ethiopia highlighted the data quality and integration challenges faced by the country's IFMS implementation (Melese & Senbeta, 2020).

2.3 Potential strategies for improving the Implementation of IFMS

In a bid to strengthen and enhance the success of IFMS, a number of strategic interventions have been proposed hereto, viz.:

- a) Strengthen change management strategies: A study published in 2022 in the International Journal of Public Sector Management highlighted the importance of developing robust change management strategies to address resistance to IFMS implementation. The study found that effective communication, stakeholder engagement, and promoting the benefits of the IFMS were critical for facilitating user adoption (Asiedu & Mensa-Bonsu, 2022).
- b) Enhance capacity building and training: According to Mbelwa et al (2021), inadequate user training was a significant challenge in the implementation of the Integrated Financial Management System (IFMS) in Tanzania and he recommended that governments invest in comprehensive training programs to ensure IFMS users have the necessary skills and knowledge to effectively utilize the system.
- c) Improving technological infrastructure and integration: There is need to improve IFMS technology and effective integration strategies to address technical challenges and data quality issues. Network infrastructure need to be constructed for the successful rollout of IFMS in the Ugandan public sector. The government need to invest in backup communication channels, such as satellite links or mobile broadband, to mitigate the impact of network disruptions (Horne et al., 2022; Melese & Senbeta, 2020).
- d) Strengthening governance: Governance forms the rock-hard foundation for any policy. Strengthening governance is a key strategy to facilitate the successful implementation and sustainability of Integrated Financial Management Information Systems (IFMS). This can be done through establishing clear roles, responsibilities, and accountability; monitoring and evaluation frameworks (Asante-Addo & Amankwah, 2021; Melese & Senbeta, 2020).
- e) Ensuring strong political commitment and support: A 2015 study in the Third World Quarterly found that the lack of political commitment and support was a significant

challenge in the implementation of IFMS in Malawi. The study emphasized the need for the government to demonstrate strong political will and allocate adequate resources to support the IFMS implementation and ongoing operations (Chinsinga & Chirwa, 2015).

- f) Promoting multi-stakeholder collaboration and coordination: Fostering collaboration and coordination among various stakeholders, such as government agencies, donors, and the private sector, to address IFMS implementation challenges. This can facilitate information sharing, decision-making, and problem-solving as cited in Asiedu & Mensa-Bonsu (2022).

2. Conclusion

The implementation of Integrated Financial Management Information Systems (IFMS) has played a very big role in the improvement of financial control and governance in the public sector and should be embraced by all public institutions if the value for money and accountability is to be enhanced.

3. Recommendations

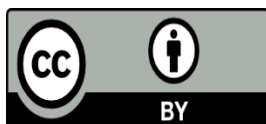
If the government takes robust steps, the implementation, effectiveness and sustainability of the Integrated Financial Management Information Systems can be enhanced leading to improved financial control, transparency and overall public financial management. As a consequence, it is encouraged that the government of Uganda gives more priority to the following potential measures:

- a) User training and capacity building: invest in comprehensive training programs for users at all levels (Administrators, managers and end users) to ensure they understand FMIS functionalities and can utilize them effectively. Establishing a continuous learning and development program can ensure that IFMS skills and knowledge are continuously updated, enabling users to adapt to system upgrades and process changes.
- b) Stakeholder reporting: Regularly reporting on the IFMS performance and sharing lessons learned with key stakeholders, including government agencies, development partners, and the public, can promote transparency, accountability, and continuous improvement.
- c) Construction of IT Infrastructure: Develop a robust and resilient IT infrastructure, including reliable network connectivity, secure data centers, and backup systems.
- d) Data Quality assurance: establish robust data quality assurance processes to validate the accuracy and reliability of information entered into IFMS, ensuring decision making is based on reliable data.

- e) User support and help desk: maintain a dedicated helpdesk r support team t address user queries, trouble shot issues promptly, and provide ongoing assistance to maximize user satisfaction and system utilizations
- f) Regular system updates and maintenance: implement a schedule for regular updates and maintenance so as to keep the IFMS software current, secure and optimized for performance

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