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Impact of accountability and financial reporting on public financial management in Nigeria

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Abstract

Financial reporting is one of the best indices of accountability. However, accountability and transparency in Nigeria leave a lot of room for improvement. The accountability and control apparatus in the public service has some minimum technical components that should elicit tolerable standards of accountability and transparency. This paper examines Fiscal accountability, Managerial accountability, Program accountability, and Individual accountability within the context of the role of government/public sector financial reporting in public accountability in Nigeria. Personal interviews and Accountability Evaluation Questionnaires were used as research instruments. Descriptive statistics were employed in analysing the data. The study reveals that the effective implementation of development policies and programs is anchored on purity of action, honesty of purpose, probity and integrity, which are important hallmarks of accountability and transparency. There are reasonable regulations, albeit inadequate, due to outdated accounting procedures, stringent sanctions and poor public financial auditing. While financial reporting is considered the best index of accountability, it holds also that accounting remains the undisputable index of stewardship. However, both financial reporting and accountability stand to lack their true essence if they are based on outdated and unwholesome accounting procedures and practices that inhibit complete and accurate recording and measurement of government resource inputs and the resultant outputs.

Keywords: Accountability, transparency, financial management, public sector, financial reporting, auditing

Introduction

Although most of the developed and some of the developing countries have witnessed radical Public sector reform initiatives in terms of changing roles of state and its impact on public sector management resource and efficiency, the same could not be said of Nigeria, the supposed 'giant' of black Africa whose public accounting and financial management are based on traditional cash-based accounting system. Nigeria public sector accounting is obviously lagging behind international trend towards a unified global public sector accounting standards; and also lacking in providing the financial information required for the discharge of her fiscal, managerial, program and public accountability responsibilities. It is also recognized that the existing structures of public sector resource management and management practices, including accounting information systems used in the general government sector in Nigeria, are inadequate to ensure the fulfillment of government plans aimed at a more effective utilization of Nigeria's public resources.

This paper undertakes a critical review of government financial reporting and accountability system, and carries out an empirical examination of the various aspects of accountability viz: Fiscal accountability, managerial accountability, program accountability, and individual accountability within the context of the role of government financial reporting in public accountability in Nigeria while providing appropriate recommendations on the required improvement of Nigeria public sector corporate accounting and reporting system that covers all the aspects of government accountability responsibilities.

Legal Framework of Nigerian Public Sector Accounting

Traditionally, it is generally accepted that many peculiarities are imposed upon Government Accounting by legal requirements and this view has not changed. Stringent legal requirements place restraints not only on the type of records to be maintained but also on the mode of presentation of financial information. The legal instruments taken together

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determine the structure of the accounting system and affect the format in which the accounts of the government are presented. Most importantly and as an end in itself, the Government Accounting system is required to provide information which is useful in assessing whether financial and related laws and regulations have been complied with, i.e. fiscal compliance.

The operations of government Accounting are governed by certain rules and regulations, which are subject to review or amendment in view of political, social or economic changes. Daniel (1999) ^[8] gives the legal bases of public sector as: i) the Nigerian Constitution (1979, 1989 and 1999) of the Federal Republic of Nigeria (FRN) as amended. The constitution specifies the payment of revenue into the Federation Account and Consolidated Revenue Fund (CRF), the authorization of expenditure from the two accounts, the Audit of public Accounts and the revenue allocation. ii) the Audit Act of 1958; Finance, Control and Management Act, 1958 and 2004: This Act governs the management and operation of all government funds. It regulates the accounting system, the books of accounts to be kept and the procedures to be followed in the preparation of Accounts and financial statement. The Appropriation Act: An appropriation bill when passed into law by the legislature is called an Appropriation Act. This is also the approved estimate/budget for the year; any expenditure incurred outside the approved budget is an illegal expenditure which must be queried by the Auditor-General. The Appropriation Act regulates financial matters. Financial Regulation: The financial regulations are accounting and financial control documents. Specifically, they provide a body of guiding principles as well as a number of methods or uniformity in the recording of financial transaction, event and positions. The Public Service as a large and complex organization, needs predetermined standards for uniformity in order to achieve the set financial objectives of the government. Financial Regulation sets out the procedures for revenue collection, security of cash, properties as well as the categories of officers that are supposed to be responsible for each action.

Limitations and Criticisms of Nigeria Public Financial Reporting

Financial Reporting is limited by the nature of information that it can provide. Users of financial reports and their needs are also diverse in nature. General purpose financial reports cannot meet the needs of all users (IFAC, 1991) ^[18]. Accordingly, the type and amount of information provided aims to satisfy, to the extent practicable, the common needs of the external users. Most external users have limited access to information and rely heavily, if not exclusively, on those general purpose reports. The general purpose public sector financial report may not provide all the information needed by those who have an interest in government. Indeed, users may seek other sources of economic information to satisfactorily answer their questions about the state of government finances. As government financial reporting develops some of these other types of information may be integrated into the financial reports. Users may need to combine information pertinent to their specific interest. The information in financial reports is generally quantifiable usually in terms of monetary units. There is always

uncertainty inherent in financial information. Items reported may not be appropriate measures of past events. Sometimes the measurement or valuation of an item is uncertain because it depends on the outcome of future events. In other cases, relevant data concerning an event that has already occurred is not available or is too costly to gather.

It is important to note that there are some criticisms against financial reporting in the Public sector. Obazele (2000) ^[22] argues that Public sector financial reports provide basic stewardship information and summarize activities, but that they inadequately reflect the benefits received from activities. They are considered too detailed and so cannot meet the needs of users of financial reports. The financial reports offer too little explanation to assist the reader through the wealth of financial details. The reports are directed at a small specialist audience rather than at the broad range of constituent.

Generally, the basis of accounting is a set of rules that determine when revenues and expenditures or expenses are recognized. The cash basis of accounting recognizes transactions and events only when cash has been received or paid (IFAC, 1991) ^[18]. This takes place independently of the time when goods and services are ordered, delivered and consumed. Goods and services, for which payments are made, are considered to be consumed when suppliers are paid. This means that the cash basis of accounting only shows the volume of disbursements. Such disbursements do not reveal the amount of resources used and the value of actual work done. According to the cash basis, the statement of receipts and expenditures is prepared to disclose information about cash flows during a period and cash balances at the end of that period (IFAC, 1993) ^[19]. Consequently, the financial statements include only three elements: cash receipts, cash disbursements, and cash balances. Cash receipts and cash disbursements represent cash inflows and cash outflows respectively, and the cash balance is the difference between cash inflows and cash outflows.

Objectives of Government Accounting

In the light of Financial (Control and Management) Act No. 33 1958, Anyafo (1994:64) ^[2] states the objectives of government accounting as:

- a) To ensure that a full account is made to the legislature on management of public finances and that its financial control as prescribed by in accordance with the provisions of the Constitution of the Federal Republic of Nigeria (section 5); and
- b) To enable the Accountant-General to present to the Auditor-General for audit purposes, the accounts showing fully the financial position as at the last day of each financial year of the Consolidated Revenue Fund and all other Government funds (Section 24).

In essence, the purpose of government accounting is to provide information about the economic and financial affairs of government agencies, institutions and units. It is tailored to emphasize the use of funds provided to accomplish objectives designed in the best interest of tax payers. However, use of funds requires stewardship reporting, which precludes external reporting by the government. Similarly, Glyn (1987:7) reports that in

Australia, the report of the committee on Public Sector Accounting stated the primary objectives of accounting in the public sector organization as provision of information necessary for management controls and public accountability.

It is however observed that what is published by the Nigerian government varies greatly in the relative emphasis given to each of these objectives and functions. The importance of using Published Government Financial Statements as a vehicle for public accountability through meeting external reporting requirements has been steadily increasing, yet the financial reporting requirement has not changed from what were the practices in the colonial period. A comparison of Nigerian Governmental Accounting System and the United Nations' model for Government Accounting further highlights the areas of discrepancies (Ngwu, 1999): Cash accounting seems to constrain the realization of Accounting system being capable of serving the basic financial information needs of development, program-planning and appraisal of performance in physical and financial terms, planning programming budgeting system (PPBS) and the accrual basis of accounting need to be firmly implemented for the accounts to provide financial data useful for economic analysis and reclassification of government transactions to assist in development of national accounts.

Government Financial Statements and Uses

The five Audited Financial Statements made available by the Auditor-General of the Federation represent the authentic and legal financial position of government at any time (Oshisami, 1992) ^[23]. These financial statements include, Consolidated Revenue Fund (CRF), Statements of Revenue, Statement of Recurrent Expenditure, Statement of Assets and Liabilities, and the Development Fund. All of the financial data in these publications contain up-to-date figures. The five statements conform to the basic minimum which should be prepared for government, under operational criteria: the balance sheet, statement of operations, statement of sources and operation of funds. However, the five statements suffer from some technical deficiencies in three areas (Oshisami, 1992) ^[23]: finalisation of accounts for publication, the presentation format, and the inadequacies inherent in the application of cash basis of accounting without supplementary information. Although the federal government supplies additional information, but does not remove all the inadequacies. It is held also that a presentation of financial statements for the year without budgetary comparisons is first of all not in conformity with standard accounting principles and practice, and is generally considered short of full disclosure (Anyafu, 1994) ^[2].

In the Corporate Report (1975) published in the United Kingdom, the users of corporate Reports are defined as: "Having a reasonable right to information concerning the reporting entity. We consider that such rights arise from the public accountability of the entity whether or not supported by legally enforceable powers to demand information".

The National Council on Governmental Accounting (NCGA, 1981) ^[20] of USA sponsored research paper identified many internal and external groups (and uses) as potential users. The Governmental Accounting Standard Board (GASB, 1987) ^[16] of USA however, following the

approach similar to that of Financial Accounting Standard Board (FASB, 1978) ^[13] and the American Institute of Certified Public Accountants (AICPA, 1974) paper group on the objectives of financial statement, focused on external users who have limited authority, ability or resources to obtain specific information. Ngwu (1998) ^[21] identified internal users (and uses) of Government financial reports as Government, Public Official, and Trade Unions. Chan (1992) ^[7] equally identifies external users of Government financial statements as: Citizens group: as Service Recipients, as Voters, and as Taxpayers; Legislative and Oversight Officials, Investors and Creditors, and other external users.

Form and Content of Accountability

By the nature of accountability, all those who have any role to play at any point in the organisational process carry the responsibility to account for actions undertaken (United Nations Development Programme, (UNDP, 1996) ^[26]. Furthermore, accountability is enhanced by the extent to which the duty to answer is discharged. Oral representation or verbal account of actions represent the minimum and weakest form in the discharge of responsibility for accountability, it becomes strengthened and even stronger if account is documented in writing and backed by supporting documents to evidence claims in the account. The form and content of accountability is further enhanced by procedural influences such as timeliness (or report authentication and communication) as well as the process (details of form and content). Accountability and transparency are inseparable (Aruwa, n.d). The mutually reinforcing transparency is worthless if it does not match appropriate accountability for use of discretion; and accountability is meaningless if it does not spring from transparent medium.

Four important criteria are regarded as basic to public service accountability. These include Fiscal accountability, Managerial accountability, Program accountability and Individual accountability (UNDP, 1996) ^[26]. Fiscal accountability is concerned with adherence to applicable laws and regulations, consistency with appropriate accounting principles and traditions, accuracy and fairness of reports; and complete legitimacy of expenditure. Managerial accountability deals with the generation of essential information for decision making, and the need for economy, efficiency, and effectiveness of operations. Program accountability is broadly concerned with overall evaluation of program impact and the extent to which intended goals and aspirations are attained. Individual accountability is related to the personal qualities and conduct demonstrated by accountable officers, it involves such attributes as commitment, honesty, trust, probity and integrity. It is held that individual accountability enhances overall transparency, (UNDP, 1996:5) ^[26]. It is also useful to note that the foregoing criteria serve to define the dimensions of accountability. The existence of procedures and regulations; the maintenance of adequate records and books of account, prompt generation of credible reports, the compliance with every pertinent provision or personal quality of moral and financial rectitude cannot singularly ensure accountability (Aruwa, n.d). The level of accountability and transparency in the public service has serious implications for economic and social development.

The capacity for efficient service delivery also depends on the honesty and integrity of the public service. The extent to which each element of accountability has to be strengthened to provide necessary and sufficient inducement for strong accountability should form the primary concern of such improvement (Ibid).

Methodology

The primary data were sourced through personal interview and administration of Accountability Evaluation Questionnaire to the users of government financial statements, the staff of the office of the Accountant-General and Auditor-General of Bayelsa State and Local Government. The population of the study was 55 staff. A systematic random sample of the population of 40 was taken as representative of the aggregation of the elements that comprise the research sample. Documentary evidence was also used. The procedures employed for data analysis were based on responses from the likert-scale measures. The analysis tools used include mean, and use of tables for data presentation. The cut-off mean of 45.0 was determined along the following logic. The sum of weights 5,4,3,2 and 1 is 15 which when divided by 5 (number of response categories) yields 3.0. Since there are 15-items, the mean will be 45.0 (3.0 X 15).

Results and Discussions

Only 25 responses were received, accounting for a response rate of 62.5 percent. The respondents were from Office of the Accountant-General and Auditor-General of the Bayelsa State and that of the Auditor-General of its local government. We sought to know how much consideration is given by the current financial reporting system to the four forms of accountability. The following scores were reported in respect of fiscal, managerial, program, and individual accountability:

Table 1: Fiscal Accountability

	Mean Score
Adherence to applicable regulations	78.9
Consistency with good accounting principles	66.5
Accuracy and fairness of reports	52.6
Reality and legitimacy of transactions	35.5

Source: Field data 2019

At present, the combined mean score of 58.37 was indicated by the respondents in respect of the fiscal accountability in the governmental system. The common place knowledge that public servants can always produce receipts and supporting documents even where in fact there is little or nothing on ground is a clear testimony to the low mean score of 43.8 for reality and legitimacy of transactions.

Table 2: Managerial Accountability

	Mean Score
Competent information	40.90
Operational performance	44.10
Contribution to objectives	35.70

Source: Field data 2019

A combined mean score of 40.23 was reported for the level of managerial accountability. The recorded score depicts a

weak managerial accountability, which could have arisen from the following findings:

1. The researcher has shown that the information content of government financial statement does not convey adequate information to respective user groups (Aruwa, 2002) [4]. Again the reports are not timely made available, which is a limitation imposed by the constitution;
2. The financial reports do not provide information showing the relationship between services rendered and operating outlays, to enable groups external to the government obtain accounting information to assist them in evaluating the performance of functionaries in charge of government operations; and
3. The cash basis of accounting is deemed inappropriate for the attainment of objectives of government (Oshisami, 1992; Gary, 1992) [23, 14]; accounting is not presently integrated with budgeting, or budgetary objectives and financial reporting (Chan, 1992) [7].

Table 3: Program Accountability

Benefits	40.20
Impact	33.40
Sustainability	25.70

Source: Field data 2019

Similarly, the combined mean score of 33.1 was reported for programme accountability. This may be a function of the budgeting system in use- line item budgeting system and the inadequacy of the financial reports to meet the information needs of diverse user groups. Value for money audit is yet to be given practical effect to expect managerial and programme accountability. Auditing in the public service is generally governmental.

Table 4: Individual Accountability

	Mean Scores
Commitment	19.7
Honesty	18.6
Integrity	21.8
Transparency	18.9

Source: Field data 2019

An alarming combined mean score of 19.75 was reported for individual accountability. Public service is frequently characterised as a reflection of the general society. It is thus easy to find respondents justifying lack of accountability by the human components of the dimensions of accountability. The overall combined mean score is below an average score of 38.80. This result imposes responsibility on government to strengthen the accountability apparatus within the public service.

Conclusion and Recommendations

Nigeria current public sector financial reporting system is obviously inadequate to give a true and fair view of the activities of government and stem the tide of financial mismanagement making the need for a drastic reform in public sector accounting systems imperative. The existing accounting system in each administrative ministry or government agency, for example, does not provide the necessary information for economic management of

resources and operations. Also, the existing government accounting system does not provide adequate information necessary for effective control over all the government funds and properties. At present, the accounting system of Nigeria's public sector is cash based and has been designed to complement the categories of approved expenditure in the budgeting system. The Nigeria Public sector cash accounting system is inadequate to meet the needs of governments in times of fiscal restraint.

Nigeria's socio-economic and political development as an emerging economy largely depends on foreign direct investment and on the quality of financial management, control and accountability which her current public accounting system cannot provide. Therefore, the adoption of the International Public Sector Accounting Standards (IPSAs) which offer a promise of the best public sector financial accounting and reporting practices becomes a necessity.

The following recommendations on presentation, report content and legislative requirements are therefore pertinent: The right of users to request special financial reports must be legally mandated, and be made accessible; value for money audit should be mandated by law as well as a shift from stewardship reporting to emphasis on external accountability and programme planning budgeting.

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