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# EFFICIENT GOVERNMENT ACCOUNTING SYSTEM: AN INSTRUMENT IN THE EFFECTIVE MANAGEMENT OF NIGERIA'S LIMITED FINANCIAL RESOURCES

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### Introduction

Following the global economic recession, and particularly the world oil glut, Nigeria's financial future was thrown out of its depth. As a result, our resources dwindled from apparent prosperity to near economic collapse. This, in part, is due to the fact that as a member of the world community, Nigeria cannot be immune to a world economic depression. But, more importantly, it was due to our near total dependence on oil revenue and the fact that, despite our apparent "richness" in the 1970's resulting from "petro-naira", our economic planners did not sufficiently provide for the rainy day.

Since 1973, oil has become a major source of Nigeria's foreign exchange

earnings and has generated over 80% of the federal government revenues. It accounted for an average of 85% of our merchandise exports in the last two decades, reaching a peak of over 96% in 1980, compared with about 1% in 1960.

After 1980, there was a slump in the world oil market. Revenue from oil declined and Nigeria was exposed to the fullest impact of the disarray in the world because we were not forearmed with counter economic measures. The economic depression resulting from low oil revenues was such that it culminated in Nigeria's largest federal budget deficit in 1983.

Nigeria's export of goods and services amounted to about ₦10 billion while the figure for imports was ₦11.4 billion, leaving a current account deficit of ₦1.1 billion as against ₦2.6 billion in the previous year. Since then, the

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downward plunge of our economy has persisted.

A number of economic measures have either been taken by the federal government, or been suggested, to revamp the economy. For instance, the federal government has introduced, *inter alia*:

- i The Economic Stabilisation Act 1982 which introduced severe austerity measures.
- ii. Efforts to control smuggling.
- iii Means of curtailing foreign exchange spree.
- iv. Ethical revolution, and
- v. Structural Adjustment Programme with its Second-tier Foreign Exchange Market (SFEM).

Also, a number of steps have been taken which include devaluation of currency, currency convertibility, finding alternative sources of revenue, and means of improving our existing collection system. While some of these measures may have long-term effects, others are mere palliatives which may be useful only in the short-run.

Although Nigeria cannot "fully be insulated from the global economic blizzard", the effect can be minimised by making efficient use of some simple tools at our disposal for the efficient management of what we have at any point in time. One of these tools is an efficient government accounting system.

The purpose of this paper is to

project an efficient government accounting system as one of those effective tools that will have a long-run effect of piloting our battered economy to an even keel.

### **Nature and Objectives of Government Accounting**

#### *Nature and Scope*

The federal, state and local governments derive a lot of revenue through taxes and other levies on the citizens. Government spending on behalf of the taxpayers is also enormous. Apart from the primary government functions of ensuring "the security and welfare of the people", there was substantial government participation in the productive, distributive, and service sectors of the economy. However, as a deliberate policy arising from the implementation of the structural adjustment programme, government is divesting some of her economic interests in these sectors by way of privatisation and commercialisation.

The necessity of government accounting arises in theory partly from the involvement of government in the affairs of a country as long as every aspect of the involvement has financial implications, for instance, government entities engaged in transactions of economic and accounting nature, such as purchase of goods and services, borrowing and investment of funds, collection and acquisition of equipment and retirement of loans. These and similar transactions must, of necessity,

be accounted for. In practice, government accounting aids government entities in prosecuting these economically, efficiently and effectively. More specifically, it aids government entities in economic planning, project evaluation, tax policy formulation, capital formation, and decision-making.

#### *Objective*

According to the US National Committee on Governmental Accounting, "the end toward which government accounting is directed is the production of timely, accurate, pertinent, and fairly-presented financial statements and reports for use by management, legislative officials, the general public and others having need for public financial information". The objective of a government accounting system is, therefore, to develop financial information that is useful to interested parties, such as legislators, the administrators of government entities, and the general public. The internal reporting objective of a good government accounting system is to maintain control of the financial affairs of the entity and to ensure compliance with the legal and administrative provisions. The external reporting objective of an efficient system, which must ensure an effective fiscal control over the public purse and require adequate disclosure of budgetary and actual financial data of government entities, should satisfy the citizens right to know (i) the sources and uses of

government resources, and (ii) the efficiency, economy and effectiveness of government operations and programmes. This guarantees genuine accountability. Any government, which fails to guarantee this stewardship function of administrators of government entities, is not an ideal instrument in the effective management of our lean resources.

#### **Characteristics of Government Accounting**

Government accounting is concerned with the flow of economic resources in as much the same way as business entity accounting, and it is a natural reflection of the need for government to account to the tax payers. The essence is to ensure that any expenditure authorised under any particular expenditure head is effectively controlled.

The National and State Assemblies are supreme over matters concerned with raising and utilisation of money. They appropriate money for specific purposes from authorised sources and effect control by regular checks and audits. In view of the extensive control of government entities through laws and regulations, a government accounting system must, first and foremost, comply with the legal provisions. At the same time, it is required by the need of proper accountability to determine fairly and with adequate disclosure, the financial position and results of financial operations of the government entities. The needs to simultaneously comply

with the legal provisions and to properly account to the taxpayers will often result in a conflict between the applications of legal provisions and correct accounting principles. When there is a conflict between the applications of legal provisions and the generally accepted accounting principles applicable to government entities, the basic rule is that legal provisions must take precedence.

Another characteristic of government accounting, which arises from the need to comply with the legal provisions, is the formal integration of the legally approved budget in the accounts of the funds operated on an annual basis. It is recommended that an annual budget should be adopted by every government entity, whether it is required by law or not, and the accounting system should provide budgetary control over general government revenues and expenditures.

The need to demonstrate compliance with legal requirements led to the development of the fund accounting concept, which is so basic that the term "fund accounting" is often used to denote the kind of accounting recommended for government and non-profit entities.

### **Criteria for Effective Government Accounting System**

Some of the criteria for an efficient government accounting system are contained in the report of research conducted on the subject by the United Nations Organisation. The recommendations include:

1. Accounting systems have to be designed to comply with the constitutional, statutory and other legal requirements of the country.
2. Accounting systems must be related to the budget classifications. The budgetary and accounting functions are complementary elements of financial management and must be closely integrated.
3. The accounts must be maintained in a manner that will clearly identify the objects and purposes for which funds have been received and expended and the executive authorities that are responsible for custody and use of fund in programme execution.
4. Accounting systems must be maintained in a way that will facilitate audit by external review authorities and readily furnish the information needed for effective audit.
5. Accounting systems must be developed in a manner that will permit effective administrative control of funds and operations, programme management and internal audit and appraisal.
6. The accounts should be developed so that they effectively disclose the economic and financial result of programme operations, including the measurement of revenues, identification of costs and

determination of the operation results (the surplus or deficit position) of the government and its programmes and organisations.

7. Accounting systems should be capable of serving the basic financial information need of development planning and programme and the review and appraisal of performance in physical and financial terms.
8. The account should be maintained in a manner that will provide financial data for economic analysis and reclassification of governmental transactions, and assist in the development of natural accounts.

### **Present State of Government Accounting in Nigeria**

#### *Constitutional Requirements*

Chapter V Part 1 (e) and Part 2 of the Constitution of the Federal Republic of Nigeria (1979) contain provisions on "Powers and Control Over Public Funds." They regulate certain financial matters for both the federal and the state governments and, by extension, also for the local governments. They deal *inter alia* with the Consolidated Revenue Fund, Statutory Salaries, the Public Debt, and the Audit of Public Accounts.

The constitution therefore spells out not only the accounting, but also the total framework of financial management as well as the issues of public

accountability and Public Revenue. It also laid the foundation for the institutionalisation of Fund Accounting as the structural framework of our government accounting system.

#### *Legislative Requirements*

The other financial matters are further regulated by laws enacted by the state legislatures in the form of Appropriation laws, Financial Laws and Audit Laws. Some of these laws have effect only in relation to the financial transactions of one year, for example an appropriation law. These state laws often influence the structure and form of government accounts.

#### **Financial Instructions Circulars, Regulations and Directives**

Financial Instructions (FI) are prepared in accordance with and issued under the authority of the relevant state laws. FIs apply to the control and use of government funds and stores. Nothing in the FIs can overrule or impair any obligation laid upon a public officer by an ordinance law, or subsidiary legislation.

Where there is any conflict between FIs and accounting circulars issued by the Accountant-General or the Ministry of Finance before the date of the publication of the FI, invariably the FI will prevail. But accounting circulars issued after the date of the relevant chapter may override that chapter until it is next revised.

**Adequacy of Accountability at the Present State of the Art**

As noted earlier, the end towards which all government accounting is directed is the production of timely, accurate, pertinent and fairly presented financial statements and reports for use by management, legislative officials and the general public. In order to serve the above objectives, which will enhance the effective management of our limited resources, our government accounting system is expected to meet the following conditions, among others:

- i. Serve as major information system of support for economic and development planning.
- ii. It should be integrated and harmonised with relevant budgeting system, good management of liquidity, effective public accountability concept, timely and regular audit, etc.
- iii. Ensure technical and mathematical accuracy.
- iv. Maintain flexibility and be subject to innovation.
- v. Make adequate provision for the variety of user groups.
- vi. Maintain simple, clear and logical presentation format.
- vii. Ensure promptitude of presentation.
- viii. Provide procedures and mandate that will ensure compliance with legal and fiscal provisions.
- ix. Provide essential data to facilitate the appraisal of the efficiency and economy of operation, the evaluation of the effectiveness of the programme; as well as assess the continued ability of the government entity to provide the service of goods for which it exists.

Contrary to the above conditions, the accounting records and statements of our government accounting systems merely reflect the decisions of the legislature and simply show how far authorisations have been carried out. The emphasis is not the efficiency of an entity's activity or the effectiveness of execution of project, but on whether an authorised activity has been executed at all, and in compliance with the statutory and other legal requirements. The focus is not on net income determination (even where that is possible and necessary) but upon receipts and expenditure of monetary resources in accordance with the legislative or other control-oriented restrictions. The emphasis is, therefore, on the entity to which appropriations are made, i.e., on the expendable fund.

As long as the legal requirements are complied with, our government accounting system is capable of disregarding the Generally Accepted Accounting Principle (GAAP) with ruthless abandon. This is why proper accountability becomes elusive. There is hardly any coherent package of accounting principles recommended for

adoption in our government accounting system. For instance, the issue of adopting cash basis or accrual basis or modified accrual in government accounting is debatable. For the practical uses of accounting in the business of government, the GAAP as they apply to enterprise organisations will, of necessity, be tailor-made to achieve the goal of government accounting. It is for the government entities and the accounting profession to cooperate in order to create a reporting system that satisfies the needs of the interested parties.

There has been little or no innovation in our government accounting system. They have virtually remained as our colonial masters left them, about two and a half decades ago. In many African countries, the system inherited from the colonial powers has not seen any appreciable change. This fact is supported by some studies of various aspects of accounting in Africa. Our system is therefore not innovative enough to take care of the radical changes in the size, complexity, affluence and dynamic development of programmes of the government, the exposure to knowledge and crimes of the citizenry and their political and social awareness. Such an outdated and backward system of accounting can hardly be a good tool in the effective management of our limited financial resources.

Our government accounting system is bedevilled with tardiness in reporting

of accounts. Auditing of government accounts also lags behind. The accounting system is not adequately integrated with an effective budgeting base and, therefore, it lacks feedback, control and planning mechanisms.

When Nigeria was poor, the effect of a poor accounting system was not felt. But the impact was felt when oil-naira was apparently over-flowing because an error of omission or commission by an accounting officer under a poor and inadequate accounting system involved the country in loss of good sums of money. An accounting system that allows the regular occurrence of such costly errors of omission or commission is not efficient, and cannot be an effective instrument in the management of our limited financial resources.

### **Some Important Issues Requiring Attention**

In order to render our government accounting system efficient for purposes of being an effective tool in the management of Nigeria's limited financial resources, some aspects of it require adequate attention and improvement. These include the preparation of two sets of accounts where necessary, management of liquidity in government, proper integration of accounts with good budgetary system, external auditing, public accountability, provision of adequate and capable manpower and general understandability of issues of government accounting. However, a

cursory treatment of each of them will suffice for our purpose.

#### *Preparation of Two Sets of Accounts*

As we mentioned earlier, an efficient government accounting system will, *inter alia*, be able to serve as a major information system to support economic and development planning, make provision for the variety of user groups, provide procedures that will ensure compliance with legal and fiscal provisions, and to assess efficiency, economy and effectiveness of operations and programmes as well as assess the potentiality of the entity. It is clear that conflicts may exist between accounts prepared in compliance with legal provisions and accounts prepared in accordance with generally accepted principles of accounting applicable to government entities. Yet a balance must be maintained if government accounts will be capable of serving other useful purposes as well as complying with the law. This, therefore calls for the preparation of two sets of accounts, where it becomes necessary, to maintain the balance.

#### *Integration of a Good Budgetary System*

All government entities or units should be controlled by budgets. The budget which is used to plan, control and appraise the performance of an entity for a period of time and for a specific purpose usually shows authorised

appropriations and estimated revenues.

It is usual in our system for the executive arm of government to prepare the budget and then submit it to the legislative branch for review, modifications, approval or disapproval. When the budget is approved, it is returned to the executive and serves as a basis for the operations of the government entity for the fiscal year. Accounting for the government entity begins when the budget is adopted.

Budgets of government entities are prepared on a programme or function basis. Under programme budgeting, in which government programmes and objectives are defined, resources are budgeted for a programme or activity. Programme budgets emphasis control and performance appraisal, and reflect the managerial responsibilities of public officers.

In function budgeting, on the other hand, the object, character or activity of ministries/departments (other than programmes), is defined and budgeted e.g. education, health, the police and fire. This method is widely used in Nigeria at the present time.

However, one of the most recent promising developments in budgeting for government entities, which should be recommended for use in Nigeria, is the Zero Base Budgeting (ZBB). It could be argued that in the new political system it will serve as a useful tool for the management of Nigeria's declining financial resources. ZBB requires total rejustification of every activity or



operation each year as if that operation had never existed and it integrates planning, evaluation and budgeting. Each budget unit therefore commences its planning afresh from a Zero base. The advantages of ZBB include:

- i. It examines the desirability for, as well as the accomplishment and effectiveness of, subsisting programmes as if they were being proposed for the first time.
- ii. It allows proposed new programmes to compete for limited resources on a more equal footing with existing programmes.
- iii. It focuses the budget process on a comprehensive analysis of objectives and desirability and combines planning, evaluation and budgeting into a single process.
- iv. It requires administrators to evaluate in detail the cost effectiveness of their operations, and secures extensive managerial participation at all levels of government and at all levels in the budget process.

Although ZBB may be more costly in terms of time and money than the traditional budgeting procedure, its benefit in the effective management of our limited resources will more than compensate for the cost.

#### *Management of Liquidity in Government*

Liquidity in this sense connotes the ability of government to meet financial

obligations in cash or its equivalent. The importance of this issue became pronounced in the '70s when it was believed that Nigeria had an excess liquidity and did not know what to do with it. The issue was equally important in the '80s and also in the '90s when it was obvious that Nigeria had deficient liquidity. The feeling is widespread that Nigeria had not been able to manage its liquidity – either surplus or deficient – effectively. Liquidity, whether excess or deficient, poses problems for the government as much as it does for any business enterprise. Whereas deficient liquidity raises the problem of finding funds to meet obligations, excess liquidity poses a challenge to account for the efficient utilisation of the resources. Therefore, liquidity management should be as important in the public as it is in the private sector.

It is safer to assume that excess liquidity is much more difficult to manage effectively than deficient liquidity. Where the funds accrue abundantly and evenly, the tendency, in the absence of good management, is to spend them recklessly with little or no rank-ordering of priorities. Any mistakes due to misapplication of funds are not easily noticed since there is always more money available for spending. However, the society losses in the end due to much money wasted. But when the excess fund accrues unevenly there is the tendency to neglect programmes and activities when resources are limited and to

indulge in such spending whenever funds accrue. The effect is uneven development within the relevant period. This is unhealthy.

#### *External Auditing*

Section 78(2) of the Constitution of the Federal Republic of Nigeria, 1979 provides for the audit of the public accounts of the Federation. Similar provisions are made in Section 117(2) of the constitution in respect of the audit of public accounts of the states. The Auditor-General of the Federation is required by Section 79(3) to submit his reports to each House of the National Assembly for consideration. In the same way, under Section 117(3) the state Director of Audit shall submit his reports to the state House of Assembly for consideration.

The scope of the audit of public accounts required under the constitution ought to be far reaching. It includes:

- i. An examination of financial transactions, accounts and reports of government entities, as well as an evaluation of compliance with legal provisions.
- ii. An evaluation of the efficiency and economy in the use of resources and a review of effectiveness in achieving the desired result.

Both the executive and the legislature require frequent and regular financial statements of government

entities. This will enable them to monitor activities and exercise effective control over public funds. Belated audits are poor tools in the effective management of resources.

#### *Public Accountability*

The concept of public accountability is enshrined in the Nigerian Constitution of 1979 under Fundamental Objectives and Directive Principles of State Policy. Sections 13 and 14, which deals with the fundamental obligations of the government and the people respectively are apt. For instance, section 14(2) provides that:

- a. Sovereignty belongs to the people of Nigeria from whom government through the constitution derives all its powers and authority;
- b. The security and welfare of the people shall be the primary purpose of government;
- c. The participation by the people in their government shall be ensured in accordance with the provisions of the constitution.

In order to give full effect to the spirit of fundamental prerequisite of our democracy, the fifth schedule of the constitution provides for the Code of Conduct Bureau and Code of Conduct Tribunal.

Public accountability connotes the liability to be accountable and responsive

to the people to whom power belongs. The consent of the people to be governed is usually obtained in a free and fair election. Having received the people's mandate to govern, it behoved the governing class to be responsive to the welfare and security of the same people who gave their consent to be governed and to be accountable to them for their activities. The people are the best judge of good and bad government, and they exercise this authority of judgement in a free and fair election when the governing class seeks a fresh mandate.

The concept of public accountability is yet to be fully appreciated and implemented in Nigeria. And unless the governing class observes the spirit of public accountability, we shall have, according to Honourable Dureke: "Government of the mighty and the rapacious, of the greedy and the cruel, of the selfish and morally blind, of the ignorant and perverse, of the corrupt, and irredeemably narrow minded and intellectually blind." It is clear that the type of government imagined by Dureke in the absence of the spirit of public accountability, is not the type we can trust with the effective management of our resources.

#### *Provision of Adequate and Competent Manpower*

In order to develop and maintain an efficient government accounting system and be able to improve on it from time to time, it is necessary for government

entities to provide for adequate and competent manpower. This may require the development of a scientific system (e.g. human resources analysis and accounting) that will provide information about the entity's human resources needs in every aspect of government accounting system, including budgeting and auditing. This information will facilitate the acquisition, development, allocation, maintenance and optimal utilization of the human resources of the entity. Thus, a basis for recruitment of additional capable personnel will be established. Some accounting officers who operate our present government accounting system joined the civil service after a basic general education with a view to making their career in the government service. They are exposed to government accounting not through well-structured and programmed professional training, but by learning on the job and a series of Markov chain training of short duration. If this condition persists, it becomes far-fetched to think of introducing appropriate changes in our environment accounting system. A well-trained mind is in a better position to innovate and improve on a system. "Only when accounting in government is fully professional, not only in terms of training but in certification and accreditation, then and only then, can the full benefit of government accounting be reaped within the framework of development administration".

It is not enough to recruit, develop, allocate, and utilise human resources, the need to maintain staff in good working conditions need not to be over-emphasised.

It is an indication of unfavourable human organisation if there is a high level of absenteeism, conflict, grievances and labour turnover.

#### *Perception of Purposes of Government Accounting*

The end product of an efficient government accounting system is meant to be of use to intended parties, which include the executive, the legislature, the people, and the administrators. At the moment, there is widespread apathy and general lack of understanding and interest in the accountability of our resources.

#### **Conclusion**

As a contribution towards the ways and means of managing our oil revenue coupled with world economic recession, I have tried to project the tool which we already have, as an effective means in the management of our limited resources. This tool which is the "government accounting system" can be effective only if it is made to be efficient by making it comply with certain basic criteria and conditions. At the same time, some concomitants of the system, such as budgetary system, auditing, public accountability, adequate and competent manpower as well as multiple sets of

accounts require immediate attention and improvement, in the light of present day events.

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