

# APPRAISING PUBLIC SECTOR ACCOUNTING IN NIGERIA FINANCIAL CONTROL SYSTEM (A CASE STUDY OF ONDO WEST LOCAL GOVERNMENT AREA OF ONDO STATE)

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## **Abstract**

*This study sought to appraise public sector accounting in Nigeria financial control system, using Ondo West Local Government as a case study, to determine the appropriateness of the control of public fund adopted by the local government, to investigate whether the source of revenue to the local government is enough and to determine whether the public sector accounting principles applied by the local government is effective. A total of 52 staff and members of Ondo West Local Government participated in the study. Data were collected from both primary and secondary source. Chi – square was used to analyse the responses from the questionnaire. Findings from the study revealed as follows: that the accounting principles applied by the local government is inappropriate and ineffective, while the control of public fund measures adopted by the local government is also inappropriate. It is recommended among others that an account committee be set up to control the accounting system, and monitor the day to day activities of the local government.*

**Keywords:** Public Fund, Financial Control, Accounting Principle.

Public sector is the sector of the economy established and operated by government and its agencies as distinguishable from the private sector. Public sector accounting on the other hand is the process that the government agencies and its municipalities use to record its financial transactions.

According to Mathias (2004), the focus of public sector accounting is somewhat different from the private sector accounting theory. He opined that most government agencies and municipalities need to track funds generated from tax revenues and expenditures related to projects or appropriations. He added further that nations may need to follow a set of standard of accounting principles different from the

private sector accounting rules. It must be recognized that the creation of an international accounting standard helps nations to follow similar rules in other to present accounting information in a similar manner. Government accounting typically uses a set of rules that track financial information. Rather than attempting to determine how-much money a public sector entity has made, the entity must report financial information to interested parties, primarily constituents. The separation of money into these funds makes it difficult for government agency or municipality to spend money on unauthorized purposes. Appropriation or spending authorization must be created through legislation to transfer funds amongst government fund accounts. This process attempts to restrict the spending of money on a free will basis that will quickly deplete an agency's resources. Similar to private sector accounting, public sector accounting principles often seek to lay a framework for accounting practices. According to Afolabi (2004), rather than creating a hard set of rules to follow, the principles allow for an application of basic principles to either large and small entities or municipalities. He goes on to say that an international set of accounting principles is also necessary for smaller nations to learn, and adopt rules that will enhance their internal national accounting process. Developing nations, in most cases do not have the resources capable of creating a framework for their public sector accounting practices. Adopting an international set of accounting rules will help them overcome some of those problems and typically help them start on the path of better infrastructure development. Public sector is a term used to identify the portion of a nation's economy that is focused on providing basic services to citizens through the framework of a governmental organization.

Accounting, according to Frank (1972) is often said to be the language of business, used by the business world to describe the transaction entered into by all kinds of government parastatals. He posited that in any office where money is used as a means of exchange, there is need to record all monetary transactions that took place in the office and this is done so that at any moment a reference can be made to find the effect of all transactions. In the opinion of Rogers (1989), users of the information view accounting as the process of identifying, measuring, communicating economic information to permit firm judgement and decision. This information is primarily financial and generally stated in monetary terms. Accounting then is a fundamental measurement and communicable process used to report on the activity of a profit seeking business organization and not for non profitable organisations. In his own contribution, Omolehinwa (1990), asserts that accounting system is a set of rules, regulations and procedures which are anticipated by appropriate theoretical force into a system. This definition of accounting system is rather instructive. He maintained that accounting system processes data into information which are received as input in the decision making process of the organization. Looking at government and public sector

accounting, public sector which is that sector of the economy established and operated, by the government and its agencies, this distinguished it from private sector and it is organised on behalf of the whole citizens as they are expected to make minimum profit from their operations. Orewa (1978), emphasized that one of the main reasons why local government council exists is to collect various forms of revenue from its citizens or the federal government and then use the collected revenue to provide social services in an efficient manner as possible. The plan of expected cost of various services has to be prepared periodically and be provided on the coming year. The circle of poverty in Nigerian local government Adedeji (1972), referred to as due to inadequate functions and powers, inadequate finances, low caliber and poorly paid staff, corruption and poor performances of the employed staff and members of the local government council. The scope of services classified as being in the public sector will vary slightly from one country to another, and most will include services that are freely available to all citizens, even those who do not contribute to the upkeep and maintenance of those services. This means that services considered within the public sector benefits virtually everyone, even those who do not directly make use of the services. One of the most common examples of services provided as part of the public sector is law enforcement. Police departments are operated by municipalities, countries and in some cases by states, provinces and even national governments. Protection of this type is provided for everyone living within or visiting the jurisdiction, regardless of whether they participate in taxation or other means used by the government entity to finance the function of the police force. This means that even if someone is not a direct victim of a crime, he or she is still indirectly, receiving protection from law enforcement, making it possible to move freely through the area with relatively little fear of becoming a crime victim.

Education is another example of service provided in a public sector. Nations that support a public school system typically do so without requiring students to pay tuition or fees to take advantage of learning opportunities found in a primary education system. In addition, individuals who are not directly involved with the system still benefit from the presence of the schools, since graduates are better equipped to function in the community in terms of securing employment and participating in activities that help to improve the quality of life in that community.

The public sector also includes such important services as the armed services, the creation and maintenance of a public road system, public transit system that serves larger communities, and in some cases healthcare that is provided for citizens who cannot afford the luxury to pay for private coverage. According to Olo (2004), even something as simple as street light within a municipality would be considered as a service provided within the scope of the public sector. Therefore, the idea behind public

sector services are to allow citizens to enjoy a higher standard of living that would be impossible otherwise.

### **Objective of Public Sector Accounting**

The purpose and objectives of public sector organizations are fundamentally different from that of private sector companies in many ways. Not the least of these differences is the provision of services essential to the public welfare which the private sector would either not be able to provide, or could only provide at a cost that cannot be borne by the recipients of the services. Consequently the focus of public sector financial statements should be somewhat different than those of the private sector, even while the accounting methodologies to produce them could and should be nearly identical. Going by the definition of public sector accounting, it is important to differentiate between the process of accounting and the presentation of information (reporting) from the accounting system. Both are important but they are different issues. Adopting the external accounting methodologies, and IPSAS financial statements, can help determine the need for improvements both in the quantity and quality of services that are provided to the citizens of the adopting country and also allow for better understanding of the financial condition of the governments in that country. However, IPSAS should be adopted in the context of the overall priorities of the reform process and not just on the basis of the perceived superiority of one basis of accounting over another. It should be noted that external accounting is not an end in itself, but a tool to improve good governance.

### **Appraisal of Nigerian Financial Control System**

The Nigerian financial system is one of the largest and most diversified in sub-Saharan Africa. But in recent years, the system has undergone significant changes in terms of the policy environment, number of institutions, ownership structure, depth and breadth of markets, as well as in the regulatory framework. However, in spite of the far-reaching reforms of the past ten years, the Nigerian financial system is not yet in a position to fulfill its potential as a propeller of economic growth and development. According to Egbo (2008), the financial system is relatively shallow and the apparent diversified nature of the financial system is deceptive. He posited that although a wide variety of financial institutions and markets exist, commercial banks overwhelmingly dominate the financial sector and traditional bank deposits represent the major forms of financial saving. Non-bank financial intermediation is relatively insignificant.

### **The Roles of Public Sector Accounting in Nigerian Financial Control System**

In the opinion of Nweke (2005), the roles of public sector accounting in Nigerian financial control system include the following:

**Establishment of Public Governance System:** Public here refers to the mechanism to discipline decision-making by those in charge of state affairs in a way to maximize the interest of the general public under the governing system where people who are the absolute principal of the state entrust the cabinet or executive power as their agent to take charge of state affairs. The public sector accounting system therefore can be seen as a tool to check and correct decision-making by the cabinet or executive power from the fiscal aspect so as to better protect the interest of the people.

**Taxes and Tax Payers within State Governance Structure:** For the following reasons, tax, a prime revenue source to the government should be recognized and assessed as an increase in tax payers' equity.

1. taxes provide fiscal foundation for the government to manage state affairs entrusted to them by the people who are the constituent members of the state and it is inappropriate to recognize tax receipt as "income" which is supposed to be derived from transaction with third parties (external members) and
2. Relation between benefits and burden from tax payers' point of view is unclear, thus, it is difficult to recognize matching income to an injection of resources by the government (as required under the cost matching income principles).

It must be recognized therefore, as expressed by Oluwadipo (2006), that public sector accounting is the information system that records, analyzes, classifies, summarizes and communicates public sector entity's financial and economic events, and their impacts, in terms of the following:

1. The provision of information required by management and senior executives for planning, organizing and control.
2. The preparation and provision of financial statements and fiscal reports under specific accounting and reporting standard for external users.

### **Sources of Revenue to Ondo West Local Government Area of Ondo State**

In order to facilitate the discharge of the functions of the local government area, the financial authorities of the local government as from 1982 following the enactment of the revenue allocation law, federal allocation to the local government of 1977 budget which was pegged at 20% in 1978 by the budget breakout which (name of the governor then) maintained. The state was expected to release some amount to the local government apart from the statutory grant already mentioned include: community tax, license fees permits duly specified by the local government by laws, property rates, interest on investments, collection of market tolls, fines collected from defaulters etc. They also get revenue from state grants as well as from banks in form of loans, property tax bank rate, motor emblem, motor car valuable garage, sanitation fees etc. Ondo West Local Area has commercial and industrial ventures where revenue are also generated.

They also set up small industries that engage mainly on agricultural activities to raise money for running the local government. They build abattoirs and slaughtering houses where they get revenue, again, they organize launching of projects undertaken where donations are also made, hence, revenue to them as well. The commercial undertakings include: printing press, poultry houses etc.

The problems inherent in this study are:

1. Inadequate revenue whereby the source of revenue available to Ondo West Local Government authority most often was not enough for them which invariably affects diverse activities carried out in the local government area.
2. Poor administration of local government funds.
3. The control of public fund adopted by the local government is inappropriate.
4. The adoption of inappropriate and ineffective public sector accounting principles and guideline.
5. The local government accounts are characterized by inadequacies such as improper maintenance and book-keeping accounts and other necessary records, embezzlement of public funds especially by the top officials.

### **Research Questions**

The following questions were raised to guide the study:

1. Are the sources of revenue available to Ondo West Local Government Authority enough for them?
2. Is the control of public fund by the local government appropriate?
3. Is the public sector accounting principles applied by the local government appropriate and effective?

### **Methods**

This study adopted the survey design so as to ensure originality and reliability. The management and staff of Ondo West Local Government of Ondo State constituted the population from which the sample used for the study were drawn. A total of 46 staff and management of Ondo West Local Government were purposively selected by using the “Tharo Yamanis formula in determining the sample size. In order to minimize sampling error, this study applied sample random techniques in selecting and interacting with staff of the local government and this proved effective and efficient as the respondents interviewed responded positively. Three research questions were used for data collection. They are Source of Revenue Questionnaire (SRQ); Control of Public Fund (CRF) and Public Sector Accounting Principle (PSAP) questionnaire. Multiple choice, and open ended questions were used in the questionnaire. They were used to assist the respondents in expressing their views which in turn helped the study to obtain the needed information. With regards to procedure, the three instruments were administered to the staff and management of Ondo West Local Government and

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collected on the spot. A total of 46 questionnaires were distributed and a total number of 36 were returned. So the analysis of data was based on the returned questionnaire. Data from the study were analysed using simple percentages and hypothesis were analysed by the use of chi-square formula.

$$X^2 = \frac{\sum (O-E)^2}{E}$$

Where  $X^2$  = chi – square

O = Observed frequency

E = Expected frequency

**Findings**

**Question 1: Are the Sources of Revenue Available to Ondo West Local Government Authority Enough for them?**

**Table 1.1**

Options	Number of Respondents	Percentage %
Yes	25	69
No	11	31
<b>Total</b>	<b>36</b>	<b>100</b>

Source: Field Survey, 2015

The result in table 1 revealed that 69% of the respondents are of the opinion that the sources of revenue available to Ondo West Local Government authority is enough for them while 31% of the total respondents said the sources of revenue available is not enough for them.

**Question 2: Is the Control of Public Funds Adopted by Ondo West Local Government Appropriate?**

**Table 2.1**

Options	Number of Respondents	Percentage %
Yes	14	39
No	22	61
<b>Total</b>	<b>36</b>	<b>100</b>

Source: Field Survey, 2015

The result in table 2.1 shows that 39% of the respondents are of the opinion that the control of public fund adopted by the local government is appropriate, while 61% of the respondents said the control of public fund adopted by the local government is inappropriate.

**Question 3: Is the Public Sector Accounting Principles Applied by Ondo West Local Government Authority Appropriate and Effective?**

**Table 3.1**

Options	Number of Respondents	Percentage %
Yes	14	39
No	22	61
<b>Total</b>	<b>36</b>	<b>100</b>

Source: Field Survey, 2015

The result in table 3.1 revealed that 39% of the total respondents are of the opinion that the public sector accounting principles applied by Ondo West Local Government authority is appropriate and effective while 61% of the total respondents said the public sector accounting principle applied by the said local government is inappropriate and ineffective.

**Computation of Test Statistics**

**Hypothesis One**

**H<sub>0</sub>:** The source of revenue available to Ondo West Local Government authority is not enough for them.

**H<sub>1</sub>:** The source of revenue available to Ondo West Local Government authority is enough for them.

**Table 1.2**

Options	O <sub>i</sub>	E <sub>i</sub>
Yes	25	18
No	11	18
<b>Total</b>	<b>36</b>	<b>36</b>

Where O<sub>i</sub> = Observed frequency

e<sub>i</sub> = expected frequency

$$e_i = 36/2 = 18$$

$$\chi^2 = \sum (O_i - e_i)^2 / e_i$$

$$= \frac{(25-18)^2 + (11-18)^2}{18}$$

$$= \frac{(-7)^2 + (-7)^2}{18}$$

$$= \frac{49 + 49}{18}$$

$$= \frac{98}{18} = 5.44$$

Comparing the test statistic with critical value, that is 5.44 > 3.45 @ 0.05 significance



**Decision Rule**

Since the calculated value  $\chi^2$  is greater than the critical value,  $H_0$  is rejected while  $H_1$  is accepted, it is therefore concluded that the source of revenue available to Ondo West Local Government authority is enough for them.

**Hypothesis Two**

**H<sub>0</sub>:** The control of public fund adopted by Ondo West Local Government authority is inappropriate.

**H<sub>1</sub>:** The control of public fund adopted by Ondo West Local Government is appropriate

**Table 2.2**

Options	O <sub>i</sub>	E <sub>i</sub>
Yes	14	18
No	22	18
<b>Total</b>	<b>36</b>	<b>36</b>

$$\begin{aligned} \chi^2 &= \sum \frac{(O_i - e_i)^2}{e_i} \\ &= \frac{(14-18)^2 + (22-18)^2}{18} \\ &= \frac{(-4)^2 + (4)^2}{18} \\ &= \frac{16 + 16}{18} \\ &= \frac{32}{18} = 1.78 \end{aligned}$$

Comparing the test statistics with critical, that is  $1.78 < 3.45 @ 0.05$  significance.

**Decision Rule**

Since the calculated value of  $\chi^2$  is less than the critical value,  $H_0$  is accepted, while  $H_1$  is rejected. It is therefore concluded that the control of public fund applied by Ondo West Local Government is inappropriate.

**Hypothesis Three**

**H<sub>0</sub>:** The public sector accounting principles applied by Ondo West Local Government authority is inappropriate and ineffective.

**H<sub>1</sub>:** The public sector accounting principles applied by Ondo West Local Government authority is appropriate and effective.

$$\begin{aligned} \chi^2 &= \sum \frac{(O_i - e_i)^2}{e_i} \\ &= \frac{(14-18)^2 + (22-18)^2}{18} \\ &= \frac{(-4)^2 + (4)^2}{18} \\ &= \frac{16 + 16}{18} \end{aligned}$$

$$32/18 = 1.78$$

Comparing the test statistic with critical value  $1.78 < 3.45$ .

### **Decision Rule**

Since the calculated value of  $\chi^2$  is less than the critical value,  $H_0$  is accepted, while  $H_1$  is rejected. It is therefore concluded that the public sector accounting principles applied by Ondo West Local Government authority is inappropriate and ineffective.

### **Summary of Findings**

This study was channeled towards the discovery of the various lapses and problems associated with the financial control system and accountability of Ondo West Local Government of Ondo State. The study also appraised the impact of public sector accounting in Nigeria financial control system. This objective was achieved through the research questions formulated from the statement of the problem as this enabled the study to design and collect responses from the distributed questionnaires. The analysis of the returned questionnaires brought out the following findings which are enumerated below:

- There is enough evidence to show that the public sector accounting principles applied by Ondo West Local Government authority is inappropriate and ineffective.
- The control of public fund adopted by Ondo West Local Government authority is inappropriate.
- The source of revenue available to Ondo West Local Government authority is enough for them.
- The generated revenue of Ondo West Local Government authority is not put into good use.
- The accounts of Ondo West Local Government are characterized by inadequacies, such as embezzlement of funds by transferring public fund into private use and improper keeping of accounting records.
- The irregularity as regards public fund in the local government affects the diverse activities of the local government.

### **Conclusion and Recommendations**

This study has provided an empirical evidence to prove the findings summarized above. The following recommendations are hereby made as these will go a long way in helping the local government in terms of improvement and development if properly adopted.

- An account committee should be set up to control and regulate the accounting system of the local government to ensure there is a proper record of the generated revenue by the account officers since most chairmen in conjunction with their supervisors collaborate and enrich themselves with the local government fund thereby leaving the council treasury bankrupt especially toward the expiration of their tenure in the office.
- The local government should take efficient and effective planning control measures and prudent management of their resources and also to increase the salaries of all staff and members of the local government so as to motivate their efforts towards the discharge of the duties assigned to them in other to achieve the stated objectives of the local government.
- The local government authority should endeavour to look into its administrative activities regularly and then prosecute any officer found embezzling public funds and also make the head of the account office answerable for any such misappropriation.
- The local government authority should set up a disciplinary committee to punish defaulters especially the chairmen and the head of accounts department after which they should be handed over to “Economic and Financial Crime Commission” EFCC for proper examination and prosecution as this will put fear into the minds of the in-coming chairman or the head of accounts department of the local government.

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