Impact of Accounting System on Public Expenditure Control in Nigeria

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Abstract

The study aims to examine the impact of accounting system on public expenditure control in Nigeria. Public expenditure is spending made by the government of a country on collective needs such as provision of infrastructure, pension, and other developmental needs of the country. The Public expenditure here refers to Government expenditures, and government expenditures in Nigeria like most other countries include capital and recurrent expenditures. The main objective of this study is to find out how government accounting system helps to control and regulate public expenditure in Nigeria and also to find out the extent to which the treasury department serves as a custodian of all other public expenditure. The primary source of data collection that was used is gathering data from respondents. Due to the findings, it was discovered that actual expenditure does not always conform to budgeted expenditure and it was found that no limit is exercised over public expenditure by the control. The study concludes that accountant tries as much as possible to keep expenditure which has been decided and planned within the limit set by management and the limits of available funds. Major recommendations I have pointed out includes but not limited to the suggestion that the country should introduce more of the electronic means in curbing and reducing the human factor and tendencies for fraud and error like the Integrated Payroll and Personnel information system (IPPIS), Treasury Single Accounts and others and make them very effective. It was also recommended that professional accountants should be employed to head the accounts department thus, he will help improve on the system of accounting control over public expenditure already in operation. Government and other public institution should instil good accounting and internal control system to check embezzlement of project funds. Adequate government budget can regulate public expenditure, and an efficient and effective accounting system can ensure transparency and accountability during public expenditure execution.

Keywords: Accounting system, public expenditure, Control, Economy

1. INTRODUCTION

Public expenditure is the spending made by the government of a country on the collective needs and wants of her citizenries such as spending on; the provision of infrastructures, pension provision etc. Until the 19th century, Public expenditure was limited as Laissez faire philosophies which believed that money left in private could bring better returns. In the 20th Century John Maynard Keynes argued the role of Public Expenditure in determining levels of income and distribution in the economy. Since then government expenditures has shown an increasing trend. In the 17th and the 18th Century Public Expenditure was considered as wastage of money. Thinkers are of the view that Government should stay with their traditional functions of spending on defence and maintaining law and other.Public Expenditure, therefore is expenditure incurred by government in order to build infrastructure, pay salaries and do other things which will benefit her citizens. In the past, public expenditure was an area of study relatively unexplored despite the significant increase that have been recorded over time, this field has still not gained a prominent position in our national economy nor has the focal point been a well-balanced one. Easily, economist who was actually concerned with the economics of public spending was more engaged with the taxation aspects rather than with the expenditure of public monies.The circumstance surrounding the law spread of development in this field of human Endeavour could perhaps be ascribed to many factors such as lack of readily accessible information about the composition and incident of expenditure and also the structure of institution which surround public expenditure decisions.However, of recent, there has been rapid increase in public expenditure in West African countries, particularly in Nigeria due to the fact that the functions of the various levels of government have equally increased both intensively and extensively. In modern times the application of public expenditure by the government as a variable tool for development is a clear manifestation of its overriding importance.

Though public expenditure in a developing nation like Nigeria cannot overemphasized, a properly planned and executed public expenditure promotes social and economic overheads facilitates balanced regional growth, rapid development of agricultural and industrial sector and an efficient exploitation and spectacular development of mineral resource of any nation thus it can be safely concluded that the role of public expenditure as a pivot of economic development in any nation is both tremendous and fascinating. The control of public expenditure is important to an individual in particular and the public generally as these controls contributes to theattainment of the objectives of the public expenditure. It is also necessary to control the expenditure of public funds to ensure that members of the public will benefit from such expenditure by ensuring that funds are applied directly to those projects they are meant for. It is necessary because, it involves determining the best approach and techniques in achieving the effects of expenditure control on the effective management of public sector in Nigeria in order to achieve the desired control of public sector in Nigeria.A good accounting system will be very helpful in achieving all the yearnings stated above and serve as a watchdog or effective check and balance to ensure public expenditure is controlled.

2. LITERATURE REVIEW

2. 1 Conceptual Framework

2.1.1 Concept of Accounting System

An Accounting system is a system that is employed in an organisation to organise financial information, it can either be manual or computerised, and the main reason why you should be using an accounting system is to keep track of expense, income and other activities. According to Akpan, (2009) accounting is the practice and body of knowledge concerned primarily with methods for recording transactions, keeping financial records, performing internal audits, reporting and analysing financial information to the management, and advising on taxation matters. It is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity (American Institute of Certified Public Accountants 2009). Accounting provides information on the resources available to a firm, the means employed to finance those resources, and the results achieved through their use. Accounting can be divided into several fields including financial accounting, management accounting, auditing, and tax accounting. Financial accounting focuses on the reporting of an organization's financial information, including the preparation of financial statements, to external users of the information, such as investors, regulators and suppliers; and management accounting focuses on the measurement, analysis and reporting of information for internal use by management (American Institute of Certified Public Accountants, 2009).

The recording of financial transactions, so that summaries of the financials may be presented in financial reports, is known as bookkeeping, of which double entry bookkeeping is the most common system. Accounting is facilitated by accounting organizations such as standard-setters, accounting firms and professional bodies. Financial statements are usually audited by accounting firms, and are prepared in accordance with generally accepted accounting principles (GAAP). GAAP is set by various standard-setting organizations such as the Financial Accounting Standards Board (FASB) in the United States and the Financial Reporting Council in the United Kingdom. As of 2012, "all major economies" have plans to converge towards or adopt the International Financial Reporting Standards (IFRS) (Australian Accounting Research Foundation (2010). Baird (2013) defined accounting as the systematic and comprehensive recording of financial transactions pertaining to a business. In my views accounting system is the whole system of organizing transaction covering all aspect of accounting policies, procedures, it generally relates to an organized set of manual and computerized accounting methods, procedures and controls established to gather, record, classify, analyse, summarize, interpret and present accurate and timely financial data for management decisions.

2.1.2 Concept of Government Accounting

The primary purpose of a private sector organization is to make profit. As a result of this, the focus of accounting in private sector is to enable the business to determine the profit of the business over a given period. However, because government ministries are not run for the purpose of profit making, many factors influence government accounting such as the role of government in the different fields like health and education and the methods set by government to achieve its set objectives (Jones, and Bendiebury, 2013:89). The focus of accounting in government is the determination of how much money was received and the sources of such receipts, how much money was spent and for what purposes and what remains after meeting the financial obligations. This then means that government accounting is more concerned with information gathering that will enable government to prepare Receipts and Payments accounts as it is the case with Clubs and Societies rather than the profit and loss account of a private sector business (Kam, 2013). This point is reinforced by the fact that the Accountant-General of the Federation is referred to as the “Chief Accounting Officer for the receipts and payments of the government of the federation. As a result of more interest in receipts and payments account, the government accounting practice that evolved over the years focused on cash receipts and disbursements on the basis of budgetary headings to reveal the balances available at a given time under various heads and sub-heads of votes. This therefore means that the basis of accounting in government is normally the cash basis (or modified cash) rather than the accrual basis of the private sector.

Meigs and Meigs, (2011) stated that under the cash basis, the government revenue is recorded and accounted for when cash is received and expenditure is incurred when cash is paid irrespective of the accounting period in which the benefit is received or the service rendered. This therefore means that the amount incurred by the government to purchase official car will be treated the same way as salaries paid to the workers in that both will be written off as part of expenditure for the period the costs were incurred. Since the payments made for the acquisition of fixed assets by the government are written off in the year of acquisition irrespective of the useful life of the fixed assets, it follows that fixed assets like buildings and motor vehicles which will normally be seen on the balance sheet of a private sector business will beabsent in the case of government. This explains why, for example, the Accountant-General's Statement which is a statement of assets and liabilities of government does not indicate anything on the fixed assets of the government (Matthews, and Perrera, 2011). Since fixed assets are not capitalized, it follows that there is no room for depreciation in government accounting system that uses cash basis of accounting. It should also be pointed out that since revenue is recognized only when cash is received, debtors as it is known in the private sector will be absent from government financial statements (but will, of course, be recorded). In the private sector, accrued expenses are recognized as current liabilities and taken into consideration in determining the total debt of the organization. Government departments do not recognize current liabilities thereby giving a wrong impression of total government debt (if the liabilities are significant).

One other point to discuss on the topic is the role of fund accounting in government. McGregor, (2009) stated that in the case of a private sector business, the whole of the business is treated as an accounting entity. This implies that accounting measures and reporting are carried out in the name of one single entity. As a result, unless an asset is set aside for a specific purpose (such as replacement of a fixed asset) the organization's resources are available as a pool which can be used in any area of its operation to achieve the main goal of profit making. Thus, the pool of resources can be used to acquire fixed assets, pay wages or pay debt. However, in the case of the government that has diversity of goals and functions to carry out, the resources are not available as a pool to be spent on just any area of government operation at the discretion of the officials. There are often restrictions on how available resources may be utilized on individual areas of government operation. The mechanism for carrying out the restriction is the fund accounting (Nweze, 2015). Under this arrangement, separate funds are provided for carrying out different specific functions of government. A fund is the total amount of money set aside for a specific purpose. Each fund is then accounted for separately, so that the fund is the accounting entity on which accounting reports are based. Thus fund accounting can be defined as a method of accounting, which treats a fund as the accounting entity on which accounting reports are based rather than the organization as a whole (Nwoha, 2010:31). Oti, (2012:88) stated that the purpose of fund accounting is to ensure that the government organization uses the resources provided for each fund only for the purposes designated for the fund. Thus, the fund of motor vehicle advances can only be used to advance vehicle loans to the civil servants and money for other funds cannot be used by them as vehicle loans. In the private sector, the technique of flexible budgeting has been developed to set standard for cost in the light of output achieved.The absence of output measure in the delivery of public goods means that such technique cannot be used in a typical government department.

2.1.3 Concept of Public Financial Management

Public financial management is concerned with the planning, organizing, procurement and utilization of government financial resources as well as the formulation of appropriate policies in order to achieve the aspirations of members of that society. Udoayang, Akpan, and Asuquo, (2009:115) sees public financial management as the link between the community's aspirations with resources, and the present with future. It lies at the very heart of the operations and fiscal policy of government. The stages of public financial management include:

2.1.3.1 Policy formulation

Policy formulation is one of the most important stages in public financial management structure. According to Akpan, (2009), the transformation of the society's aspirations into feasible policies with well-recognized financial implications is at the heart of financial management. Issues not addressed during policy formulation tend to grow in magnitude during implementation and may frequently contribute to major reversals. Financial management should be designed to achieve certainmicro and macro- economic policies. It entails a clearly defined structured and articulated system that moves to promote cost-consciousness in the use of resources. The government needs to have an estimate of revenue and expenditure to achieve the policy objective of government.

2.1.3.2 Budget formulation

The budget formulation is the step that involves the allocation of resources before the submission to the legislature for review and final approval. According to American Institute of Certified Public Accountants (2009:108), in Nigeria the budget formulation involves the articulation of the fiscal, monetary, political, economic, social and welfare objectives of the government by the President; based on these, (i) the department issues policies and guidelines which form the basis of circulars to Ministries/Departments requesting for inputs and their needs for the ensuring fiscal periods; (ii) accounting officers of responsibility units are required to obtain and collate the needs of their units; and (iii) accounting officers of ministries, in this case the Permanent Secretaries, are required to collate these proposals which would be defended by unit heads before the supervising minister.

2.1.3.3 Budget structures

According to Australian Accounting Research Foundation (2010), budget structure addresses the question of how the budget is or should be composed. In Nigeria, budgets have revenues and expenditure sides. According to Baird (2013), many governments have yet to put in place cash management systems, which would pave way for coordinated domestic management. The practice of limiting outlays to collected revenues has exacerbated this problem. He, further argued that there is a massive underfunding of programs and projects provided for in the budget.

2.1.3.4 Payments system

This involves the operational procedures for receiving monies for the public and for making payments to them. In Nigeria, governments make payments using a variety of procedures. These include book adjustments, issue of cheques, and payment authorities and electronic payment systems.

2.1.3.5 Government accounting and financial reporting

Government accounting and financial reporting is a very important component of the public sector financial management process in Nigeria. As Burton, (2011:201) noted that government accounting entails the recording, communicating, summarizing, analysing and interpreting financial statement in aggregate and in details. In the same vein, Chambers, (2006:142) argues that government accounts have the dual purpose of meeting internal management requirements while providing the public with a window on government operations. Government financial reports should be prepared with the objective in mind of providing full disclosure on a timely basis of all material facts relating to government financial position and operations(Ezejelue, (2012:207). Financial reports on their own do not mean accountability but they arean indispensable part of accountability.

2.1.3.6 Audit

One of the fundamental aspects of public sector financial management in Nigeria is the issue of audit of government financial reports. Audit is the process carried out by suitably qualified Auditors during the accounting records and the financial statements of enterprises are subjected to examination by the independent Auditors with the main purpose of expressing an opinion in accordance with the terms of appointment (Glautier and Underdown, (2009:177). The high level of corruption in the public sector of Nigeria is basically as a result of the failure of auditing. As Gorelik, (2011) puts it "many audit agencies are legally prevented from reviewing policies. Most of them cannot follow the trail of money, as they do not have the right to look into books of contractors, and autonomous agencies". One fundamental failure of audit is the absence of value for money in the Nigerian public sector.

2.1.3.7 Legislative control: The legislature (House of Representative and Senate) in Nigeria is expected to perform this very important task of controlling and regulating the revenue and expenditure estimates in any fiscal year. It is the responsibility of the members of the National Assembly to ensure that the budget estimates are properly scrutinized to ensure accuracy, effectiveness and efficiency of government revenue and expenditure.

2.2 Empirical Framework

Baird (2013) carried out a study on the impact of accounting in controlling fraud in the public sector. His objectives were; to determine the extent of fraud in the public sector in Nigeria and to examine the effect of accounting in control and prevention of fraud in the public sector. He used sample survey for this study and found out that; the accounting process involves a detailed correction and reporting of the expenditures and revenues involved in a business or company operation. Accounting tracks the financial details of the firm including the funds taken in and money spent by the company and the staff. Akpan, (2009) studied the impact of an accountant in the control of public expenditure. His objectives were; to ascertain the roles of an accountant in the control of government expenditure, to identify the challenges militating against accountants' role in the control of public expenditure. He used regression for his analysis and found out that; the role of accountants in budgeting relates more in the area of forecasting and control. Professional budgeting and accounting require the service of a trained accountant, but the processes include different essential services.

2.3 Theoretical Framework

2.3.1 Business Entity Assumptions (BEA)

This theory contends that business can be separated from its owners and the environment in which it operates is necessary in order to set a boundary to the accounts. Only the transactions directly affecting the entity are recorded in financial statement. Udoayang, Akpan, and Asuquo, (2009:207) also observed that the separate legal personality is assumed as business has a right to acquire assets and incurs liabilities as distinct from its owners. The business has right to sue and be sued like any other person. Both agreed that it can sometimes be somewhat arbitrary, particularly for small and medium enterprises where the affairs of the owners and the businesses are often inextricably interwoven. This process would however give rise to distortion in real income determination, especially where information are not readily available about private expenses of the owners as distinct from the firms. Early advice and proper accounting records will however eliminate the pending danger of not separating private expenses from business expenses. However, he did not recognize was the inability of the court to imprison the entity as individual can be sentenced and imprisoned, except those who acting in that capacity.

2.3.2 Going Concern Assumption (GCA)

This means that in drawing up financial statements; the entity will continue to exist in its present form into the indefinite future (perpetuity) (Onah,2010:204). It is further stressed that the organization will continue to exist for life as far as the firm can meet its immediate and long term financial obligations. GCA, however ensure that assets should also be valued based on their economic useful life, cost, degree of usage and residual value for purpose of real income determination. The controversy to going concern assumption is that a firm could be compelled to go into liquidation if it cannot meet its short term and long term financial obligations as they fall due

3. METHODOLOGY

The research design is ecploratory in nature and the entire data used for this research was collected or obtained from both primary and secondary sources. Nonetheless the criteria for data collection depended strictly on its relevance to the study. The major instruments used for primary data collection are; Interview and observation. The secondary data were gotten during the review of related literature. Most of text books, magazines and journals used for this were gotten from libraries. The internet served also as a source of secondary data. Many articles which provided more insight on the research topic were sourced online.

4. RESULTS AND DISCUSSION

In the course of this research effort, he researcher made a number of discoveries. Public revenues and expenditures constitute an integral constituent of government budget, the duty to prepare government budget is that of the financial analyst, who are mostly accounting professionals who make effective and efficient financial forecasts. Also, effective and efficient forecasting during budget preparation ensures that a realizable budget is prepared. Furthermore, the execution of public projects by government entails incurring public expenditures and an adequate and effective accounting system ensures accountability and transparency by the executor of public expenditure (project). The accountability and transparency occasioned by adequate and effective accounting system attenuate possible embezzlement of funds meant for such project by the executor. Also an adequate and effective accounting system will thwart accountability and transparency by the executor of public expenditure (project), this will consequently give rise to embezzlement of funds meant for the project by the executor, while standard costing involves setting future cost level for a transaction prior to the time of the transaction. It also involves cost variance analysis and the adequate application of standard costing when setting out fund for public expenditure will minimize the incidence of adverse public expenditure cost variance that is insufficiency in the amount set aside for executing public project. Consequently, engagement of professional and qualified accountants is pertinent for effective application of standard costing when standard costing is effectively applied the productivity of the expenditure will be adequately enhanced. viii. Finally, it was also discovered that standard costing s an effective accounting technique for cost control which can be applied in public expenditure.

5. CONCLUSION AND RECOMMENDATIONS

With particular reference to the results obtained in the course of this research, it can be concluded without any iota of doubt about the following. An adequate government budgeting can regulate public expenditures and improve the productivity of public expenditures. An effective and efficient accounting system in public institutions can ensure transparency and accountability in the execution of public expenditures and consequently avoid possible

Embezzlement and misappropriation of funds meant for public expenditure execution. The application of standard costing in the management of public institutions will enable the regulation of public expenditure and its productivity. Accounting system has tremendous impact in the control of public expenditures. Based on the findings of this study, the followings are the recommendations preferred by the researcher to ensure that the findings which are positive are sustained and those that are negative are addressed adequately.

i. Government and other public enterprises should seek the services of professional accountant when preparing their annual budget. The service of the accountant will be very useful in the area of forecasting or estimating the amount to be set aside or budgeted for public expenditure based on the anticipated public revenue, this will go a long way to avoid budget deficit.

ii. Public institutions should instil strong accounting system and effective internal control system in their general operations, but most especially in the award of contracts which entail incurring public expenditure. This will consequently ensure transparency and accountability by the executor of the contract, this will certainly eliminate possible embezzlement and misappropriate of funds meant for the contract.

iii. Government and other public institutions that award contracts for the execution of public projects should always set up a monitoring group that will supervise the activities of the executor, especially in relation to the executor's use of the funds meant for the execution of the projects.

iv. Government and other public institutions that award contracts that take long period for completion for example a project that takes four years. The government or public institution should demand an annual contract account from the executor of the project, in addition they should demand quarterly and monthly updates on the appropriation of the funds entrusted to the project executor.

v. Government and public institutions to track how the executor makes use of the project funds. v. Accounting bodies such as Institute of Chartered Accountant of Nigeria (ICAN) should organize workshops and seminars aimed at sensitizing those entities that incur public expenditure on the need for them to appreciate the enormous roles accounting plays in the regulation and control of public expenditures.

vi. Government should also introduce more of the current emerging e-platformslike Integrated Payroll and personnel information System (IPPIS), Treasury Single Account (TSA) and ensure they are working effectively.

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