THE IMPACT OF PUBLIC SECTOR ACCOUNTING ON THE NIGERIA FINANCIAL CONTROL SYSTEM

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Abstract

The focus of this paper is on the impact of public sector accounting on the Nigeria Financial Control System. One of the purposes of public sector accounting is to create a standard expectation of ethics and accountabilities for a nations financial information. The paper examined the various definitions of public sector accounting, those who are directly or indirectly affected, its purposes and effects on the society. The paper also examined the peculiarities of public sector accounting, the general objectives and its roles –in Nigerian financial control systems. The paper concluded that the public sector accounting system can be seen as a tool to check and correct decision making by the executives or its agents.

Introduction

Public sector is that sector of the economy established and operated by government and its agencies distinguishable from the private sector and are organized on behalf of the whole citizens, while Public sector accounting is the process government agencies and municipalities use to record financial transactions. According to Mathias, (2004) similar to private sector accounting in theory, the focus of public sector accounting is somewhat different. Most government agencies and municipalities need to track funds generated from tax revenues and expenditures related to projects or appropriations. In addition, nations may need to follow a set of standard of accounting principles different from private sector accounting rules. The creation of an international accounting standard helps nations to follow similar rules in order to present information in a similar manner.

Government accounting typically uses a set of rules that tracks 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. Elected officials or legislatures must create appropriations or spending authorizations 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 resource.

Similar to private sector accounting, public sector accounting principles often seek to lay a framework for accounting practices. Afolabi (2004) stressed that 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. 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. Most times, developing nations cannot or do not have the resources capable to create and instill a framework for their public sector accounting practices. Adopting an international set of account rules will help them overcome this problem and typically helps them start on the path of better infrastructural development on his own part, Ibhahulu (2012) believed that another purpose of public sector accounting is to create a standard expectation of ethics and accountability for a nation's financial information. Standard public accounting principles will also make it easier for a nation to undergo an audit. It is also harder for countries to hide inappropriate financial transactions when using public sector accounting principles.

The Concept of Public Sector Systems.

The term public sector is used to identify the area of any nation's economy which has its focus on providing basic services to its citizens through a set of governmental organization. In a further discussion by Ani (1994) he sees the public sector as that sector of the economy established and operated by the government and its agencies which distinguishes her from the private sector. The public sector is organized on behalf of the whole citizens. However, the operators are expected to make minimum profit to enable a good or reasonable role over. On his own part Ogunle (2004) believed that the scope of services classified as being in the public sector vary slightly from one country to another. In most cases it include all services that are freely available to all citizens, including all 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 service. One of the most common examples of services provided as part of the public sector is law enforcement. Police departments are operated by municipalities, counties and parishes, and in some cases by states, 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. Other areas of public sector include; education, military, public healthcare, public road, public transport system, street lights etc. This idea according to Olo (2004) is to allow all citizens to enjoy a higher standard of living inspite of their cadre.

The Concept of Public Sector Accounting System.

Accounting is usually referred to as the language of business. Accounting in business terms could be defined as the development and use of a system for recording and analyzing the financial transactions and financial status of a business or other organization. It is used by the business world to describe the transaction entered into by all kinds of government parastatals. In other words, accounting is a fundamental measurement and communicable process used to report on the activity of a profit seeking business organizations and not for non-profitable organizations. This was why Rogers (1989) defined accounting as the process of identifying, measuring, communicating economic information to permit firm judgment and decision. This information according to him is primarily financial and generally stated in monetary terms. Speaking further on accounting process Omolehinwa (1990) sees it as a set of rules regulations, and procedures which are anticipated by appropriate theoretical force into a system confirmed that accounting system processes data into information which are received as input in the decision making process of the organization.

Public Sector Accounting is the Information system that records, analyzes, summarizes and communicates public sector entities financial and economic events, and their impacts, in terms of both:

- The provision of information required by management and senior executives for planning, organizing and control and,
- The preparation and provision of financial statements and fiscal reports under specific accounting and reporting standards for external users (Ifezue, 2006).

The Concept of Internal Control.

Writing on Internal Control, Meigs and Meigs (1970) believed that strong internal Controls are needed not only for purchases and sales transactions, but for all other types of transactions as well. They stressed that it is particularly important to maintain strong internal controls over transactions involving cash receipts and cash payments. The concept of internal controls is so important that it affects all the assets of a business, all liabilities, the revenue and expenses, and every aspect of operations. The purpose of internal controls is to aid in the efficient operation of a business.

The system of internal control includes all the measures taken by an organization for the purpose of :

- Protecting its resources against waste, fraud, and inefficiency;
- Ensuring accuracy and reliability in accounting and operating data;
- Securing compliance with company policies; and
- Evaluating the level of performance in all divisions of the company (Meigs and Meigs, 1979).

Internal accounting controls are measures that relate to protection of assets and to the reliability of accounting and financial reports. Meigs and Meigs (1979) concluded that in appraising the merits of various internal control procedures, the question of their cost cannot be ignored. They maintained that too elaborate a system of internal control may entail greater operating costs than are justified by the protection gained. For this reason, they advised that the system of internal control must be tailored to meet the requirements of the individual business. They strongly agreed that in most organizations, proper subdivision of duties and careful design of accounting procedures will provide a basis for adequate internal control and at the same time will contribute to economical operation of the business.

On his own part Akeju (2011) listed the following as importance of Accounting:-

- It enables errors that occur during the book-keeping stage to be detected, and corrected and also ensure that various reconciliatory statements (control accounts, bank reconciliation statements etc) are prepared.
- It helps to access the financial performance and position of an organization
- It helps the users of financial reports to evaluate the growth and profitability of the organization.
- It helps to project the future of the business and also assist in drawing financial plan for the business.

- It helps the business to make decisions as to whether to liquidate the business or to join it with another existing business or allow another existing and stronger business to take it over.
- It helps to measure the return on investment and compare this with what happens in similar and different businesses within and outside the industry.

Peculiarities of Public Sector Accounting .

The peculiarities of public sector accounting include the following as stated by Onyeke, (2003).

Superiority in Procuring Resources: One peculiarity of the public sector accounting system is in governments superiority in procuring resources. In the world of neoclassical economics, all the economic entities are supposed to behave rationally and on an equal footing on the market to maximize profits and its effects. In reality, however, hierarchical structure exists between a government and other entities in the distribution of resources. A government has the authority to impose and collect taxes and the right to issue – through the central bank – bills and coins. This enables the forcible procurement of resources by a government and involuntary submission of resources by other entities. Among the public sector entities, a central government, holding both the taxation and money issuance authority, faces almost no external restrictions in procuring economic resources. Olakunrin, (2008) said, even when its debts accumulated reaches an enormous amount, the government is left with means to smoothly fulfill its debt obligations. Financial authorities can raise actual taxes, for instance. Or, the government can have the central bank underwrite government bonds so as to increase money in circulation, thereby generating inflation and effectively reducing the burden of repaying its debts whose amount is nominally fixed. (This is the same as to offsetting government debts with revenue from the inflation tax). Other public sector entities such as local governments and quasi-governmental special corporations have peculiarities in that they are hardly exposed to external restrictions except for soft budget constraint imposed by the central government in the form of subsidies.

Supply of Goods and Services Through Formation Of Budget

Like those in the private sector, economic entities in the public sector take in economic resources (input) to produce goods and services (output). In the world of public sector accounting, however, public sector economic entities hold peculiarities not only in the above mentioned superiority in resources procurement on the input side but also on the output side. Edoga, (2007), specifically stressed that, goods and services produced and supplied by public sector economic entities are not subjected to the market mechanism in which prices are determined by the balance of supply and demand. In other words, optimal distribution of resources and optimal supply of goods and services through the market mechanism cannot be automatically achieved in the public sector. Therefore, government is counted on to provide public and semi-public goods and services – which are in excludable and noncompetitive in nature – in optimal quantity to its governed society by intervening the market mechanism by means of subsidies and taxation or by directly providing such goods and services to the society. In this context, distribution of economic resources and transfer.

Accounting Principles based on Peculiarities of Public Sector Accounting.

- **Cash Basis Versus Accrual Basis;** The pursuance of profits is not the purpose of public sector economic entities. Thus, in public sector accounting, the "calculation of profits and losses" on the "accrual basis" accounting is unnecessary and the "cash basis" accounting, which primarily focuses on cash flows, has been used. This was why Onyeke and Nebo (2005) stressed that the prime advantage of the cash basis accounting is that it can capture not only the flow of revenue, expenditures but also the flows of capital expenditures for infrastructure, construction and transfer expenditures such as social security allowances. Such system has been able to provide more useful information for public policy decision-making.

  The cash basis accounting, has its own disadvantages. Cash, a key measurement in the cash basis accounting, represents just one item of assets and liabilities. Lacking information on other stock such as fixed assets and long-term debts, the cash basis accounting does not provide hints as to the potential impact and burdens that the ongoing fiscal management might bring in the future.

- **Pitfall (Potential Disasters) Of "Corporate-Style Accrual Basis Accounting".** There is a pitfall in introducing a "corporate-style accrual basis accounting" system. A corporate accounting uses "profits" on an income statement (revenue minus expenses) as flow-based information measuring a company's performance during one accounting term. But the government and other public –sector entities, by their nature, do not aim to pursue "profits." And government activities provide goods and services in accordance with budget allocation and without getting paid by the recipients of the goods and services. For instance, capital expenditures such as social security allowances are not "profit and loss transactions" in accounting terms. Instead, they are treated either as "capital transactions" which directly reduce capital or "exchange transactions." Meanwhile, most government activities fall into these categories. Therefore, in public sector accounting, simply introducing corporate-style accrual basis accounting and figuring out profits based on profit and loss transactions do not serve as a meaningful measurement to assess the performance of government activities. Rather, as flow-based information to show performance in one accounting term, it is necessary to focus not only on profit and loss transactions but also on capital transactions (including exchange transactions related to capital formation) that covers capital and transfer expenditures, or changes in assets and liabilities, thereby linking the flow-based information and stock-based information on a balance sheet to clarify the government's accountability for its fiscal management (Ibhahulu, 2012).

Formation Of Public Account Financial Statements.

Based on the above argument, public account financial statements should be composed of:

- A public account balance sheet,
- A statement of administrative costs (statement of net current expenditures)
- A statement of supporting revenue and changes in taxpayers' equity and
- A statement of cash revenue and expenditures.

Of the four inter-related statements, (1) a public account balance sheet is equivalent to a balance sheet in corporate accounting and (2) a statement of administrative costs to an income statement and (4) a statement of cash revenue and expenditures to a cash flow statement. In addition to those three, a statement of supporting revenue and changes in taxpayers' equity – which is a capital statement with an expanded focus to cover changes in stock (assets and liabilities) – is required. This statement provides foundation for examining the advisability of capital expenditures and social security systems with potentially significant future influence. Up to now, the Nigerian government has only provided a statement of cash revenue and expenditure to account for its fiscal management. But systematic compilation of the above mentioned comprehensive set of financial statements allow for overcoming problems of the cash-basis accounting while taking in advantages of the accrual-basis accounting (Ibhahulu, 2012).

Appraisal of Nigeria Financial Control System.
The Nigerian financial system is one of the largest and most diversified in sub-Saharan Africa. 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. The financial system is relatively shallow and the apparent diversified nature of the financial system is deceptive. 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. Nigerians regulatory and supervisory framework is composed of the Central Bank of Nigeria (CBN), the Ministry of Finance, the Nigerian Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), and the National Board for Community Banks (NBCB). There is also a Financial Services Regulation Coordinating Committee (FSRCC), charged with coordinating the activities of these regulatory institutions, established in 1958, the CBN is the apex regulatory authority for the Nigerian financial system. It is also in charge of the formulation and implementation of monetary policy (Muyiwa, 2002).

According to; Egbo, (2008), Central Bank of Nigeria main responsibilities includes:

- Promoting monetary stability and a sound financial system.
- Acting as banker and financial advisor to the Government, and

- Acting as banker and lender of last resort to commercial and merchant banks.

The Ministry of Finance (MOF) cooperates with the CBN on monetary matters. Since 1997, the ministry of finance has chaired the Financial Services Regulation Coordinating Committee (FSRCC). The Nigeria Deposit Insurance Corporation (NDIC) complements the regulatory and supervisory functions of the CBN.

NDIC was established in 1988 to provide deposit insurance in other to boost confidence in the banking system. Licensed banks are mandated to pay 15/16 of 1 (one) percent of their total deposit liabilities annually as deposit insurance premium to the NDIC. Depositor claims are insured to a maximum of N50,000 in case of bank failure. Following the recent distress in the banking sector, NDIC was given wide powers over the resolution of insolvent banks. Established in 1979, the Securities and Exchange Commission (SEC) is the regulatory authority for the capital market.

Major Objectives of Securities and Exchange Commission

- Promotion of an orderly and active capital market to ensure adequate protection of the investing public.
- The SEC maintains proper standards of conduct and professionalism in the security business and surveillance over the market to enhance efficiency.

Further to the 1990 Companies and Allied Matters Decree, the SEC was empowered to approve and regulate mergers and acquisitions and authorize the establishment of unit trusts. In addition, the Investment and Securities Decree of 1999 has invested the SEC with the additional responsibility of directly promoting and developing the capital market in Nigeria. Established in 1997, National Insurance Commission (NAICOM) NAICOM is charged with the regulation and supervision of the insurance industry. Its purview according to Egbo (2007), include;

- Establishment of standards for the conduct of insurance business;
- Ensuring that insurance companies maintain adequate capitalization and reserves;
- Ensuring good management of insurance companies; and
- Protection of insurance policy holders.

Objectives 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 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 from those of the private sector, even while the accounting methodologies to produce them could, and advisably should, be nearly identical (Ihhahulu, 2012).

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. Adoption of accrual accounting methodologies, and IPSAS financial statements, can help determine the need for improvements in the quantity and the quality of services that are provided to the citizens of the adopting country, and also allow better understanding of the financial and fiscal 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. Accrual accounting is not an end in itself – it is a tool to improve good governance. Most often, transition to accrual accounting addresses first the operational needs of the government, and then the financial and fiscal reporting needs. Accrual accounting is use in measuring the costs, effectiveness, and efficiency of service programs is the first area where the reforms will help realize both cost savings and improved governmental accountability. Once the framework is in place and used consistently by public sector management, then the quality of the accrual-based information will allow better fiscal and financial reporting. However, in many countries the opposite case is true, where external reporting requirements dictate immediate improvement in financial and fiscal reporting, and the managerial use of accrual accounting is left to be sort out at some indistinct future date.

Use of accrual accounting for management purposes and for financial statement purposes are not mutually exclusive activities, but can be implemented in parallel fashion, and should use the same accounting transactions to enter data into the accounting system for both purposes. But the resources needed for implementing both transitions simultaneously are great. The amount of coordination and management effort needed to implement both simultaneously is often beyond the capacity of reform implementers, and cannot be supplied by external consultants alone. No matter which use of accounting is introduced first, if that transition has been done well it will simplify the adoption of accrual accounting or the other use. It is important to find the domestic resources, if they exist, that can be brought into the transition process with the expectation that they will continue to provide needed expertise, experience, and support through many years of transition.

The Roles of Public Sector Accounting In Nigerian Financial Control System
The roles of public sector accounting in Nigerian financial control system include the following as opined by Nweke, (2005).

Establishment of Public Government System.
The purpose of the public sector accounting system is determined in accordance with the needs of its users. There are various views but the absolute purpose of the public sector accounting system is to establish a system for good public governance. Public governance is a 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 – the absolute principal of the state – entrusts the Cabinet or executive power as their agent to take charge of state affairs. The public sector accounting system can be seen as a tool to check and correct decision-making by the agent – the Cabinet or executive power – from the fiscal side to better protect the people's interests.

- **Taxes and Taxpayers Within State Governance Structure.**

The conceptual framework of public sector accounting is also determined in line with the purpose of public sector accounting. Tax, a prime revenue source to the government, should be recognized and assessed as an increase in taxpayers' equity. This is because:

- taxes provide fiscal foundation for the government to manage state affairs entrusted by the people (almost equal to taxpayers and voters) who are the constituent members of the state (internal members) and it is inappropriate to recognize tax receipts as "income" which is supposed to be derived from transactions with third parties (external members), and
- Relation between benefits and burden from taxpayers' 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 principle). This definition of public sector accounting by Oluwadipo, (2006); goes a long way in explaining its roles:

Conclusion

Public sector is that sector of the economy established and operated by government and its agencies distinguished from the private sector. Public sector accounting is the process government agencies and municipalities use to record financial transactions. Goods and services produced and supplied by public sector economic entity are not subjected to the market mechanism in which prices are determined by the balance of supply and demand. The purpose of public sector accounting system is determined in accordance with the needs of its users.

Public Sector Accounting is the information system that records, analyzes, classifies, summarizes and communicates public sector entity financial and economic events, and their impacts, in terms of both:

- The provision of information required by management and senior executives for planning, organizing and control; and
- The preparation and provision of financial statements and fiscal reports under specific accounting and reporting standards for external user.

Recommendations

In view of the various discussion on the public sector accounting. The following are the recommendations;

- An international set of accounting system is recommended for a developing nations like Nigeria to enable her adopt rules and regulations that will enhance her internal accounting system.
- In public sector economy, too elaborate internal control may lead to greater operating cost, it is therefore advised that the system of internal control be tailored to meet the requirements of the target population.
- The pursuance of profits should not be the purpose of public sector economic entities as is the case in some public sector in Nigeria, for instance, Power Holding Corporation of Nigeria, the Nigeria Public, the Federal Road Safety Corporation of Nigeria etc.
- Public Sector account system must be securely monitored.

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