

## **ACCOUNTING REGULATORY FRAMEWORKS AND PUBLIC INSTITUTIONS' COMPLIANCE IN NIGERIA**

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### **Abstract**

*This paper is an attempt to investigate the rate of compliance of public institutions with the framework stipulations of accounting regulations in Nigeria. Series of accounting Regulatory Provisions guiding preparation and presentation of financial reports in public institutions were examined. Descriptive statistical methods - Simple Percentage Method (SPM) and Chi-square were used on 50 Respondents from Ministry of Finance and the Office of Accountant General of the State of Osun in Nigeria. The paper revealed that there is a positive relationship between regulatory framework and financial reports preparation and presentations in Osun State. The study recommends that Proper trainings on public sector accounting and establishments of performance evaluation of employees should be put in place in order to make public institutions account more effective in the State of Osun.*

**Keywords:** *Accounting, Regulatory Frameworks, Public Institutions, Compliance, Nigeria*

## INTRODUCTION

Generally, government businesses are usually policy-based. Policy formulations and other functions are run with formalities, these formalities become more rigorous and sensitive especially for the collection and use of government funds because there are regulatory processes it must pass through. According to Oshisami (1992), the legal formalities in the area of Public Sectors accounting include laws, rules, regulations, customs and accepted norms of behaviours.

Awoyemi (1989) opined that the structure of government accounting is laid down in the Audit Ordinance of 1956 and the Finance Control and Management Ordinance of 1988. The provisions of these two ordinances have integrated provisions which are instituted in the Nigerian constitution. The constitution provides for the establishment of a Consolidated Revenue Fund into which all revenue or other monies of the federation of Nigeria must be paid except those required by law to be paid into some other public fund of the federation. Johnson (1992) also opined that the framework of the Nigeria accounting system was established by the promulgation of the Finance, Control and Management Act, 1958 to provide for the control and management of the public finances of the federation and for matters connected therewith.

It is important to note that the regulatory framework of public sector accounting is as a result of the nature of government activities. Awoyemi (1989) noted that government activities which is that of erecting and maintaining certain public works and certain institutions, which can never be the interest of individuals to erect and maintain because the profit could never repay the expenses to any individual or small number of individuals, though, it may frequently do much more than repay it to a great society. Therefore, the generally accepted accounting principles, standards and policies are applied in the public sector, but the rate of compliance has always been discountenanced and therefore corruption / mismanagement recurs frequently in public institution hence this study.

The fundamental accounting principles are the building blocks of accounting for public funds and financial controls as a means of checking all forms of fraud activities in public institutions. Oshisami (1992) noted that they are the ground rules of accounting and serve as guidelines for determining and establishing various measurement yardsticks used as tools of measuring effectiveness in any organization.

Public sector accounts preparation has some unique characteristics that distinguish it from the private sector account preparation. Apart from the nature of preparation, the surrounding environmental factors bring out a clear difference between the two sectors. Public sector accounting is a major means to which government transactions can be recorded faithfully and effectively. This can only be achieved by adequate compliance with accounting regulatory

frameworks and laws that are observed in the preparation of the financial reports. This paper examined whether government financial reports are prepared and presented according to accepted and prescribed regulations in the State of Osun, whether the relevant accounting policies aided the preparation and presentation of the reports and whether the adherence to regulatory frameworks yielded expected results as in better performance of government in the public interest.

## **THEORETICAL FRAMEWORK**

Accounting in general sense may be considered as a process in which the transactions and events in an operating entity are recorded for the purposes of accumulating and providing financial information essential to the good conduct of the activities of such an entity. However Oshisami and dean cited in Oshisami (1992) defined public sector accounting as: The process of recording, analyzing classifying, summarizing communicating and interpreting financial information about government in aggregate and in detail, reflecting all transactions involving the receipt, transfer and disposition of government funds and property. The purposes are to demonstrate the propriety of transitions and their conformity with established rules, to give evidence of accountability for the stewardship of government resources and to provide useful information for good control and efficient management of government operations.

However, Adams (2001) defined public sector accounting as a process of recording communicating, summarizing analyzing and interpreting government financial statement in aggregate and in details reflecting all levels of transactions involving the receipt, custody and disbursement of government funds. The American Accounting Association (2010) on the report of the committee on concepts of accounting applicable to the public sector states that the primary objectives of accounting in the public sector organization are to provide the information necessary for faithful, effective, efficient and economical management of an operation and of the resources entrusted to it. This objective relates to management control and to provision of information to enable managers to report the discharge of their responsibilities in the use of the resources under their custody. And also, to permit all public officials to report to the public on the result of government operations and the use of public funds.

In 1979 the National Council on Government Accounting (USA), in its research report, government accounting and financial reporting and principle, gave the abridged summary of objectives as follows; *Financial information useful for making economic, political and social decisions and demonstrating accountability and stewardship; and information useful for evaluating managerial and organization performance.*

## **GOVERNMENT ACCOUNTING REGULATORY FRAMEWORKS IN NIGERIA**

The proper presentation of financial reports in the public sector is regulated by the various legal frameworks established by the government to manage and control public funds in the country. These public sector accounting regulatory frameworks include the following; The constitution of the Federal Republic of Nigeria, Financial (Control and Management) Act of 1958, Audit Act of 1956 and Financial regulations.

**(i) Constitution of Nigeria:** The constitution of the federal republic of Nigeria is the primary and supreme legal instrument which sets the general framework for the overall financial management as well as accounting and financial reporting in government. The constitution covers the following key areas in government accounting. The operation of funds, the external controls for operating the accounting system in terms of audit and investigation; and the appropriation procedure

**(ii) Finance (Control and Management ) Act 1958:** This Act, so far is consistent with the constitution, governs the management and operations of all government funds. Perhaps the most important aspect of the Act is that it regulates the accounting format and presentation of government accounts. It also dictates the principles of valuation of government investment and which securities should form part of government's portfolio. Section 6 of the Act specifically mandates the use of cash basis of accounting for the consolidate revenue fund in that it states that (money appropriated) and not expended shall lapse and accrue to the consolidate revenue fund at the expiration of the year in respect of which they are appropriated.

**(iii) The Financial Regulations (FR):** This is an accounting and control document which serves several purposes. It is primarily a code of regulation. But among its other secondary but equally important purposes are that it serves as a body of guiding principles and embodies a number of methods or uniformity in the recording of certain financial transactions, events and positions. The financial regulations as guiding principles specify actions to be taken without going into the detail of such actions. According to Oshisami (1992) financial regulations specify in rather general terms the requirements of standardization in the design of accounting system and the framework within which deviations are or would be allowed. In particular, the following clauses regulate accounting practice:

**FR 1303** gives the Accountant-general the responsibility for ensuring that adequate systems exist in all ministries and departments and for coordinating these systems amongst the ministries on one hand and between the ministries and the treasury on the other hand.

**FR 1304** aims at ensuring that all new systems or materials variations of existing systems are assessed by him before installation to foreclose technical details in design and or inconsistency with other existing systems.

**FR 1212, 1306 and 1307** taken together mandated the preparation of an accounting code to embrace the general provisions of the financial regulations and in addition, the particular requirement of the ministry, department or unit.

**(iv) Treasury Manuals:** Treasury manuals are accounting operational guide and a companion in the financial regulations. The treasury manual was expected, amongst other things to: Provide a full description of the framework of the environment within which the accounting and financial management functions operate and to enunciate the accounting, financial control and financial management policies of government among others.

**(v) The Audit Act 1956:** This Act together with some sections of the Nigerian constitution covers the area of audit and accountability in respect of the federal government.

**(vi) Public Sector Accounting Practices:** The Nigeria public sector adopts different accounting practices which includes; Budgetary accounting, Cash accounting, Accrual accounting, Commitment accounting and Fund accounting,

**(vii) Treasury and Finance Circulars:** These are administrative instruments issued to guide the day-to-day financial operations in the public sector. The main usefulness of these instruments are its use in amending existing provisions the financial regulations and previously issued treasury and financial circulars.

**(viii) Civil Service Reforms:** The 1988 civil services reform has brought about major changes in the administrative and financial machinery of government at federal state and local government levels. The provisions that affect the financial operation/management in this reform include the following; Each ministry has been accorded considerable autonomy in administrative and financial matters by assuming self-accounting status. Each ministry now handles its payment through its central pay office, established internal audit unit and compiles its annual account. The ministry/commissioners are made the chief executive and the accounting officer of their various ministries. Section 1 (2) of the reforms specifies that all reference to the permanent secretary as accounting offices in the financial regulations and other laws shall be construed as reference to the minister / commissioner among other.

**(ix) Public Accounts Committee Decree of 1987 and Public Accounts Implementation Decree of 1990:** Public account committee was established by decree No8 of 1987 to examine the audited accounts and the auditor-general reports on them while public account implementation tribunal was established among other things, to apply appropriate sanctions against any erring public officers found negligent on the recommendation of the public accounts

committee. The duties and functions of PAC item from the responsibility of the auditor-general to the legislature on the basis of the accounts certified by the auditor-general and the reports submitted by the auditor-general. The committee has power to summon witness to appear before it and any who fails to respond to the committee's call may face serious offence attracting appropriate punishment.

As a result of the lack of statutory power of the PAC to implement its decisions and the adverse effect this law was having on the seriousness which public officer attached to public accountability, federal government promulgated decree 34 of 1990.

Financial regulation and financial circulars are another powerful regulatory tools being used in the public sector. Financial regulation could be regarded as the accounting manual of the government as it states all the dos and don'ts with respect to public sector accounting it contained manual of the governing the management of public funds. The rule deals with system concerning the receipts and disbursement of funds and the procedures to ensure good accountability and assurance against frauds and other financial malpractices. Some sections of the financial regulations are listed below for ease of references.

- F.R 101 Responsibilities of the accountant-general officers
- F.R 201 Accounting officer's cashbook
- F.R 301 Revenue general.
- F.R 401 expenditure authorities
- F.R 501 expenditure classification and control
- F.R 601 payment procedures
- F.R 701 adjustment vouchers
- F.R 801 banks and cheques as well as reconciliation
- F.R 901 custody of public money
- F.R 1001 receipts and license books
- F.R 1101 impress system
- F.R 1201 self-accounting units
- F.R 1301 accounting procedure and equipment
- F.R 1401 board of survey-store, cash and stamps
- F.R 1501 loss of and shortages in government funds
- F.R 1601 deposits
- F.R 1701 advances
- F.R 2001 internal audit function
- F.R 2201 Miscellaneous
- F.R 2301-3701 stores and store accounting

## METHODOLOGY

The research adopted a deductive approach by moving from specific to general making use of structured questionnaire to collect relevant data. Osun State has 55 agencies out of which five (5) were selected for survey, using simple random sampling technique. These five agencies are Finance, Agriculture, Health, Education and Works & House Ministries. A total of 50 personnel were equally randomly selected and served with the questionnaire out of which forty (40) were returned, making 80% of return. In the whole multi-stage random sampling technique was used. However, the analysis of data collected was based on the forty copies of questionnaire returned.

## ANALYSIS

### Descriptive Analysis

Table 1: Does your ministry prepare financial reports?

Ministry	No of respondent	Options		% of yes	% of no
		Yes	No		
Finance	10	10	-	20	-
Agric	5	8	-	20	-
Health	5	5	-	20	-
Education	10	8	2	16	0.284
Works & house	10	7	3	14	0.06
Total	40	35	5	87.5	12.5

Table 2: Types of reports prepared

S/No	Option	No. of respondents	Percentages (%)
1	Departmental vote book	8	20
2	Transcript	4	10
3	Income and expenditure account	10	25
4	Balance sheet	6	15
5	Receipt and	12	30
	Total	40	100%

Table 3: Compliance to regulatory framework

Ministry	No of respondent	Options		% of yes	% of no
		Yes	No		
Finance	10	10	-	20%	-
Education	10	5	5	10	10
Agric	5	4	1	16	4
Health	5	4	1	16	4
Works & housing	10	6	4	12	8
Total	50	29	11	72.5	27.5

Table 4: Types of regulatory frameworks

S/No	Option	No. of respondents	Percentages (%)
1	Constitution	6	15
2	Financial control act	18	45
3	Financial regulations	12	30

Descriptive analysis shows that ten (10) of the respondents said regulatory framework ensure accountability; twelve (12) respondents (30%) said regulatory framework helps in planning and budgeting process; while four (4) respondents representing ten percent (10%) said public sector accounting regulatory framework ensures prediction of future accounting outcome. Therefore, it can be said that public sector accounting framework is very beneficial to government transactions.

Adam (2001:5) benefit of regulatory frameworks, more especially on the relevant-laws relating PSAF include the Economic and Financial Crime Commission (EFCC) Act – No. 502 2002 as amended 2004 to combat economic and financial crimes in Nigeria and The Independent Corrupt Practices and other Related Offences (ICPC) Act, of year 2000 as amended 2002. The public procurement (BPP) As the regulatory authorities responsible for the monitoring and carry out oversight function of public procurement harmonizing the existing government policies by regulating, setting standard and developing the legal framework and building professional capacity for public procurement of goods, works consultancy and non-consultancy services as well as the procurement approval limits for the business of public procurement tenders boards and accounting officers for all ministries department agencies

## Hypothesis Testing

**Hypothesis 1:** There is no relationship between regulatory framework and the preparation and presentation of financial reports in the public sector.

Table 5: Frequency Distribution in Table 1

Options	Fo	Fe	Fo – Fe	(Fo – Fe) <sub>2</sub> /Fe
Yes	35	20	15	12.25
No	5	20	-15	11.25
Total	40	40	0	22.5

Under 0.05 in the Chi – square table ( $\chi^2$ ) = 3.841

## Decision

Since the calculated value of 7.2.5 is greater than the table value of 3.811, Ho is rejected and Hi is accepted. Hence, there is relationship between regulatory frameworks and the preparation of financial report in the public sector.



**Hypothesis 2:** There is no relationship between regulatory frameworks and financial information useful accountability and stewardship.

Table 6: Frequency Distribution in Table 2

Options	No. of Response	Percentage (%)	Fo	Fe	Fe – Fo	$(Fe - Fo)_2 / Fe$
Yes	28	70	28	20	8	3.2
No	12	30	12	20	-8	3.2
Total	40	100%	40	40	0	6.4

Table 7: Frequency Distribution in Table 3

Options	Fo	Fe	Fo – Fe	$(Fo - Fe)_2 / Fe$
Yes	10	20	-10	5
No	30	20	10	5
Total	40	40	0	10.00

### Decision

Since the calculated value of 10.00 is greater than the table value 3.841, we reject the null hypothesis and accept the alternative hypothesis. Therefore, there is a relationship between regulatory frameworks and financial information useful for evaluating managerial performance.

### CONCLUSIVE REMARKS

- (i) The ministries in Osun state prepare different types of financial reports such a departmental vote books, transcripts, receipts and payment accounts income and expenditure account and balance sheet.
- (ii) The ministries use different accounting bases in the preparation and presentation of financial reports
- (iii) There is a relationship between regulatory framework and financial information useful for evaluating managerial performance.

### RECOMMENDATIONS

The following recommendations were provided by the researcher to ensure improvement in the public sectors, especially on accounting practices.

- (i) Accounting officers should be sent for training and retraining to enable them understand the modern techniques of public sector accounting practice, the government should establish modern regulatory frameworks beyond the 1958 Act and
- (ii) Accounting policies and changes in estimate should be part and parcel of public service training however, the indigence of most states can always hamper the implementation of

the recommended steps. Apart from this, adoption periods should be extended for proper implementation in the public sectors.

## RESEARCH LIMITATIONS

The robustness of this research would have been enhanced if the number of ministries brought into the sample had been enlarged. The meager number of 5 has thus threatened the generalization of the research results. Further research is encouraged that will incorporate greater number of ministries in the survey.

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