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Abstract
The ills of the Nigerian public sector have been identified at various fora to include lack of financial accountability and poor reporting of government performance. With the enthronement of democracy, citizens’ expectations from the government are drifting from mere provision of public services to efficiency and accountability. One of the major challenges to achieving accountability in Nigeria is the capability of the cash basis of accounting to meet the reporting requirements of policies and programmes of the government. This paper discussed the growing trend in debate about adoption of private sector financial management processes in the public sector as part of the public sector reform programmes. The paper does not claim ultimate superiority of accrual over cash accounting, but shows how it will help to further strengthen the quality of government accounting and reporting.

Keywords: Cash accounting, accrual accounting, accountability,

1. Introduction

The purpose of the public sector can be viewed from two distinct and opposing perspectives: i) public sector exists to ensure equitable management and distribution of economic resources, and ii) public sector exists to provide limited range of goods and services to the populace (Guthrine, 1998; Minogrue, 2000). The former (referred to as the traditional model of public sector management) placed emphasis on compliance with laid down rules, thus the use of cash accounting and budget out-turns in the preparation and reporting of the financial statements (Guthrine, 1998; Owolabi, Ocansey, & Dada, 2013). This view is a contestable ideology as public sector practitioners (Morsen, 2008) and academics (Anessi-Pessina and Steccolimi, 2007) have argued that citizens’ expectations from the public sector is drifting from mere provision of services to good governance and efficiency in the provision of services (value for money). The desire to hold government accountable for results is becoming more prominent, thus, making the demand for quantitative and qualitative financial reports imperative.

In the same vein, accounting is viewed as the most critical system for maximising efficiency and minimising costs of public services (Andrews, 2002; Bruno, 2014; Jones & Browrey, 2013; Owolabi et al., 2013). Consequently, the existence and use of a good financial reporting system was regarded as key to achieving the objective of maximising efficiency in the public sector. The
major challenge, however, is the capability of the present public sector accounting system (cash basis) to meet reporting requirements of citizens. The use of this reporting system (cash basis) has been criticised for not reporting government liabilities and the real state of their finances (Akenbor & Oghoghomeh, 2011). This enabled the government to pass-on present costs to future generations, thereby creating the problem of inter-generational fairness (Vinnari & N’ Asi, 1998). Given this and many other criticisms of the cash accounting system (such as focus on reporting inputs rather than outputs; and does not provide a true picture of government financial activities), proponents of public sector financial management reforms (e.g. Andrews, 2002; Barrett, 2006; Ibanuchuka & James, 2014; Pollitt, 2003; Rao, 2014) have agitated for “an extensive application of business-like practices” (Pollitt, 2003: 166) in the financial management and reporting system of the public sector.

This paper contributes to the growing trend of discussions on adoption of accrual accounting in the public sector as part of the requirements for ensuring good governance in Nigeria. The paper does not claim ultimate superiority of accrual over cash accounting, but highlights how it will help to further strengthen the quality of government accounting and reporting. The paper is organised around three major sections. Section one provides an overview of cash and accrual accounting systems and their applications in the public and private sectors. The second section reviews how accounting has been a major driver for accountability in both public and private sector and the third section made case for adoption in Nigeria and concludes the paper.

2. Literature review

Accountability and financial reporting in Nigeria

The basis for accountability and financial reporting in Nigeria is entrenched in a number of conceptual and institutional (or legal) frameworks (Ijeoma, 2014; Izedonmi & Ibadin, 2013; Owolabi et al., 2013). Conceptual framework is the heart of financial reporting in the public sector; it spells out government accounting principles and conventions, which forms the basis for the preparation of budgets, financial statements and audits (Ijeoma, 2014).

According to Izedonmi and Ibadin (2013), the legal and institutional framework (such as the Constitution of the Federal Republic of Nigeria, 1999, the Finance (Control & Management) Act, 1958, the Fiscal Responsibility Act, 2007, the Audit Ordinance No. 28, 1956 and the International Public Sector Statement of Accounting Standards) formed the background for developing financial regulations, treasury and financial circulars used in measuring the level of accountability in Nigeria. The Constitution contained provisions for managing government funds, external controls for operating the accounting system, and procedures for annual appropriations (Oshisami, 1992; Owolabi et al, 2013). The Finance (Control & Management) Act 1958 regulates the accounting system adopted for preparation of government financial reports (Izedonmi & Ibadin, 2013). In the words of Izedonmi and Ibadin (2013), it is clear that the most important aspect of Finance (Control and Management) Act of 1958 is the fact that it specifically provided for the use cash accounting basis in the preparation of government accounts. The Audit Ordinance Act, 1956 as amended by Audit Act 1988 provided for the
audit and accountability for the public funds by the government in Nigeria. The Act sets out the duties of the Auditor-General for the federation and timing for audit and presentation of audited financial statements to the public (Izedonmi & Ibadin, 2013).

A considerable body of literature has developed on accountability in Nigeria, particularly in examining the nature of government accounting and financial reporting (Izedonmi & Ibadin, 2013; Ngwu, 1999; Omolehinwa & Naiyeju, 2011; Oshisanmi, 1992; Shehu, 2010). Also, general and specific comments from national regulatory bodies such as Public Accounts Committee (PAC) and international bodies like United Kingdom’s Department for International Development, World Bank and Transparency International, suggest that there are major weaknesses in the systems for accounting and financial reporting in Nigeria (Aruwa, 2002). According to him, some of the major issues identified by these international bodies include: a perceived gap in the content of government financial report and information need of users; lack of external accountability; poor linkages between government budgeting and financial reports; and the need to reform budgeting processes in view of the recurring large amount budget variances reported. Okpala (2013: 115), in his study on effectiveness of the Public Accounts Committee (PAC) in conducting their oversight functions on government accounts found out that:

“...the PAC has not effectively exercised its statutory oversight function due to late submission of audited reports by the Auditor General of the Federation, availability of weak regulatory framework for reporting and poor committee members’ qualifications and experience in conducting their functions”.

The increased demand for access to government’s financial information from both within and outside the country, global financial crises and enthronement of democracy has put governments under constant pressure to deliver efficiency gains with less resource (Jones & Luder, 2011). Individuals and institutions outside the government (such as taxpayers, citizens, investors, international development partners, etc) have become virtually interested in the financial activities of governments and have subjected their financial reporting function to the greatest amount of criticism in recent years (Adegoroye, 2008). Adegoroye stated further that various persons, who have written on the subject of financial reporting in Nigeria have defined the system adopted as antiquated, fragmented, incomplete, unreliable and lacking timeliness of reporting. Also, various authors and researchers (Adegoroye, 2008; Aruwa, 2002; Ibanichuka and James, 2014; Izedonmi and Ibadin, 2013; Ngwu, 1999; Oshisami 1992) had criticised the mandatory legal requirement by the Finance (Management & Control) Act for the sole use of cash accounting in government financial reporting.

3. Conceptual Background – Cash and Accrual Accounting

The concept of cash accounting is based on the principle of “intergenerational equity” (Vinnari & N’Asi, 1998: 98), which is the main criteria for governments’ fiscal allocation. This principle upholds the view that taxpayers of a certain accounting period should finance current year expenditure, therefore requires a balance of expenditure and revenue reporting. Public budgeting is based on this
principle of balance and is a practice of most governments, where revenues are equated with expenditure (Ahn, Jacobs, Lim & Moon, 2014; Shehu, 2010). The cash accounting basis has been in use in the public sector all over the world for over two hundred years. Its wider acceptance has been based on the argument that the main objective of public sector accounting is protection of public fund (Pallot, 2001). Government budgets are also cash based, so it becomes very easy to verify compliance with the budget through direct comparison of budgeted amount and actual expenditure (Barret, 2006). Chan (2003) opined that cash-based accounting has the virtues of simplicity and is applicable where, as in many government organisations, there are few skilled accountants employed and where financial management is seen as of lesser importance than legal compliance.

Though, cash accounting is adjudged as a good accounting basis for government accounting purpose; it has been criticised for its susceptibility to manipulations, ability to provide misleading view of state of affairs of government, and inconsistency in the treatment of transactions (Ibanichuka & James, 2014; Irvine, 2011; Izedonmi & Ibadin, 2013; Ngwu, 1999). Barret (2006) summarised the major pitfalls of the cash accounting system as:

• The full costs of a programme and departments are not recorded.
• There are no records of government non-cash assets and liabilities.
• Non-reporting on performance efficiency, cost control, assets and liabilities.
• Performance measure is based on budget compliance only.

As the federal government of Nigeria has embarked on reform processes, which aimed at improving efficiency and effectiveness of the public sector, the entire accountability system must be considered in order to achieve total results. Many countries are carrying out reforms to modernise their accounting systems by introducing accrual accounting (Chan, 2003). According to Irvine (2011), the countries that have adopted accrual accounting have generally been at the forefront of public management reforms. Kiabel (2011) described accrual accounting as a system of financial reporting that records and recognises revenue in the accounts, when they are earned and not when money is received. Similarly, expenses are recorded and recognised in the books, when they are incurred and not when money is paid. Ishola (2009) listed a range of benefits that accrue to the use of accrual accounting in government as:

• Improved accountability and increased efficiency.
• Enhanced transparency of government operations.
• Improved system of resource allocation.
• Reporting of more information on the full costs of operations.

The supremacy of accrual accounting over cash accounting has been a subject of discourse since the late 1980s. The discussions have inspired lots of articles, for and against the use of accrual accounting in the public sector. While some authors have argued that the fundamental purpose of governmental accounting is protection of public money, and that business sector accounting practices were not devised for that purpose, which justifies the use of cash accounting basis (Ahn et al., 2014; Chan, 2003; Vinnari & N’Asi, 1998); others are of the opinion that the adoption of accrual accounting
for government financial reporting will enhance cost effectiveness, transparency and accountability, provide improved system for resource allocation, and better costing of programmes and services provided by government (Ishola, 2009; Ibanichuka & James, 2014; Ouda, 2014; Owolabi et al., 2013; Seenivasan, 2014). Adoption of accrual accounting requires the preparation of public sector financial statements on an accounting model that is based on efficient and effective reporting and was inspired by International Public Sector Accounting Standards or International Accounting Standards (Bellanca & Vandemoot, 2014). Ballanca and Vandemoot stated further that countries that have adopted the accounting model provided more accurate information to the citizens than countries using cash accounting.

4. Accounting and financial management driven changes in public sector in Nigeria

According to Adegoroye (2008), Public sector reforms in Nigeria dates back to 1945 (Tudor Davis Commission in 1945), followed by numerous reforms over so many years. Adegoroye stated further that the reforms were initiated against the backdrop of departing from the traditional method of running government administration and the urgent need for a renewed public sector. Perhaps, the reform programmes stems from efforts geared towards removing financial management, governance and administrative weaknesses that are inherent in the public sector. A very important document for integrating all the reform programmes of the Nigerian government into an organic entity within the overall goal of promoting good governance and accelerated national development in Nigeria was the formulation of the National Economic Empowerment and Development Strategy (NEEDS) of 2003 (Shehu, 2010). According to him, all public service reform initiatives and programmes of the Nigerian government are to ensure that the objectives of NEEDS are achieved. Within the framework for implementation of the NEEDS is the institutionalisation of some of the reform programmes such as enactment of the Fiscal Responsibility Act 2007 (budget reform driven and managed by the Budget Office), Public Procurement Act 2007 (driven and managed by Due Process Office), introduction of e-payment system for all government expenditures (accounting reform driven and managed by Accountant General of the Federation), introduction of integrated management system by the Auditor General of the Federation, etc (Adegoroye, 2008).

Successful public sector reform is a mixture of opportunity, strategy, and tactics (Andrews, Pritchett & Woolcock, 2012). They noted that reforms in the public sector are strongly interlinked, therefore should not be approached in isolation. Cross-national comparisons of public sector reform processes have some underlined components of the relevant policies used in their implementation globally (Jones & Browrey, 2013). For example, Organisation for Economic Cooperation and Development (OECD) countries aimed at improving the public sector’s performance and redefining its role in the economy through emphasis on greater focus on outputs and results and strengthened accountability and control (Ijeoma, 2014). In the opinion of Ijeoma (2014), doubts about the credibility of government to operate sound financial practices in Nigeria, have made professionals and regulatory institutions to recommend reforms that will improve transparency in the financial reporting system.
5. Accrual accounting in the public sector - the international experience

The shift from cash accounting to accrual accounting in the public sector was viewed as part of the public sector reform process in the United Kingdom (U.K) and other countries that adopted the model (Bellanca & Vandemoot, 2014; Seenivasan, 2014). The U.K. government moved to accrual accounting from April 2001 under the Resource Accounting and Budgeting (RAB) reform programme (Likierman, 2002; Bellanca & Vandemoot, 2014; Seenivasan, 2014). The RAB programme was a commitment by the central government to change budgeting system from cash to accrual basis. The commitment which started in 1993 was approved and published in a government white paper in July 1995 (Likierman, 2002). According to Likierman (2002: 77), “the biggest change in government accounting in the last 150 years is the use of accrual accounting by the United Kingdom (U.K.) government in 2001”. However, he pointed out that this was not the first time that accrual accounting was tried in U.K. public sector. He stated that it was first tried by the British Army in the 1919, but was abandoned due to the problems encountered in running both cash and accrual systems concurrently. The results of a review of the accrual accounting practice in the public by Bellanca & Vandemoot, (2014) in Europe show that the U.K. has a high index of compliance with IPSAS (over 70%) and is providing more efficient and reliable information to citizens.

In New Zealand accrual accounting was introduced in 1990 as one of the measures designed to tackle socio-economic problems facing the country. Richardson (1997) stated that the introduction of the accrual accounting system was part of the programme for implementing the 1989 Public Finance Act, which established departmental reporting requirements in accordance with Generally Accepted Accounting Principles (GAAP). This implicitly requires the adoption of full accrual accounting. Pallot (2001) observed that the implementation of accrual accounting in New Zealand recorded success stories with greater supports from the government and accountancy bodies in the country. He stated further that its effects on efficiency, accountability and priority setting appeared positive and that there was no wish anywhere in New Zealand to return to cash accounting system. Also, the New Zealand’s experience has been commended by the World Bank and other international organisations as a successful demonstration of a change in government accounting and budgeting that is possible.

In Australia, the introduction of accrual accounting for government budgeting and accounting in 1990 was aimed at making the public sector more efficient and improve transparency (Guthrie, 1998). Barret (2006) in his study of accrual accounting in Australia observed improvements in the public sector performance that was linked to the change in accounting system. Barret claimed that the adoption of an accrual based regime in the Australia public sector had positive impact through enhanced efficiency, effectiveness, accountability and allowed for better costing of programmes and services provided by government.

Other countries that have moved from cash accounting to accrual accounting include Chile, United State and Canada. According to the survey conducted by Bellanca and Vandemoot (2014), out of the nine member countries of the European Union, Italy is the only country that uses cash basis in
the public sector. Portugal, Finland and Netherland use some form of modified cash accounting, while the remaining five countries used full accrual accounting. The survey also revealed that more than two-third of thirty developed country members of the OECD countries had adopted some form of accrual accounting in the public sector.

6. Making a case for adoption of accrual in Nigeria

Observers of the Public Sector in Nigeria have told stories of governments with governance structures that have degenerated completely into ineffective and inefficient services (Adegoroye, 2008). According to Adegoroye, the ills in the public sector of Nigeria includes lack of financial accountability and the use of a reporting system that does not provide an overall picture of government activities. This view was emphasised by Okpala (2013) where he opined that Nigeria lost several hundred billions of Naira over the last few decades due to flagrant abuse of procedures and lack of transparency in the public sector. Attempts at propounding solutions by countries with similar problems include consideration for adopting financial reporting models of the private sector (Andrews, 2002; Ibanichukwu & James, 2014).

The importance of using published government financial statements as a vehicle for public accountability has been steadily increasing. This is necessary in order for the government to move from passive reporting on changes in cash allocations to one that can be helpful for analysing performance. The change is necessary in order to complement efforts at combating the social ills facing the public sector in Nigeria. According to Aruwa (2002), a comparison of Nigerian government accounting system and the United Nations’ model for government accounting, highlighted areas of weaknesses in the financial reports prepared on cash basis to include: gaps in the information content; lack of external accountability; poor linkages between government budgeting and financial reports; and the persistent reporting of large variances. These weaknesses will hamper government accountability efforts (as entrenched in the various reform programmes) except concrete steps are taken to consolidate the reforms with a reporting system that focus on outputs. This view was shared by Ibanichukwu and James (2014) in their study of cash accounting in the public sector. They observed that cash accounting has a positive effect on budget implementation and fair presentation of the financial position of government. This finding is a true reflection of poor budget performance and lack of accountability in the financial reporting of Nigerian government under the cash basis. They therefore, recommended that the accrual basis of accounting be adopted by all government ministries and extra-ministerial departments in Nigeria.

The cash accounting system seems to constrain the provision of critical information needed for development, programme planning and appraisal of performance in physical and financial terms (Jones & Browrey, 2013). But with the accrual accounting system, the focus of performance reporting is on outputs (Robinson, 1998). According to him, information on an accrual basis is much more meaningful to citizens and policy makers than information organised on other bases. In the words of the former Finance Minister of New Zealand, Richardson (1997), the major reason for accrual
accounting in the public sector is similar to the reason for the introduction of Planning, Programme and Budgeting System (PPBS); the same budget framework adopted by the Nigerian government in its Medium Term Expenditure Framework (MTEF) since 2006. The use of accrual accounting can help to achieve better management practices that will drive delivery of the gains of public sector programmes more efficiently. In the words of Richardson, PPBS and the accrual basis of accounting need to be firmly implemented for the financial reports to provide financial data useful for economic analysis.

The primary purpose of accrual accounting in the public sector is to make the cost of running a government transparent, improve decision-making processes, and hold government officials responsible for outcomes and outputs (Barret, 2006). Other benefits of accruals accounting in the public sector as summarised by Evans (1995) include:

- better measurement of costs and revenues, including comparisons between years.
- greater focus on outputs rather than inputs.
- more efficient and effective use of resources, e.g. through charges for fixed assets.
- full cost of providing a service can be compared with outside suppliers.
- a better indication of the sustainability of government policy.
- improved accountability.
- better financial management system.
- greater comparability of management performance results.

The introduction of private-sector-style financial statement (accrual accounting) in the public sector has support from international bodies, particularly the International Federation of Accounting Countries (IFAC), which has been releasing International Public Sector Accounting Standards (IPSAS) since May 2000. The standards are set based on the premise that public and private sectors have common transactions; thus, it is preferable to have one set of generally accepted accounting principle. Also, since businesses prepare consolidated financial statements using the accrual basis, it is expected that governments do the same. In the same vein, Ijeoma (2014) conducted a study on the relationship between IPSAS and reliability, credibility and integrity of financial reporting in government. The researcher observed that implementation of IPSAS in Nigeria will improve the quality of accountability and financial reporting, facilitate efficient internal control and result based financial management, and enhance service delivery more efficiently and effectively.

7. Conclusion

Cash accounting system used by most of the governments for accountability and financial reporting has been proven to be inadequate for providing important information to citizens for planning, decision making and analysis (Bellanca & Vandernoot, 2014; Bruno, 2014; Ibanichuka & James, 2014; Jones & Browrey, 2013; Owolabi & Dada, 2014; Seenivasan, 2014). The system which only records the cash coming in and out, fails to report other important information necessary for taking decisions and assessing performance. However, the wave of reform to replace such system by accrual
accounting is gaining support and acceptance from many countries and accounting bodies. It is important for Nigeria to consider the adoption of accrual accounting in order to consolidate the achievements of the NEEDS, MTEF and other reform programmes currently being implemented.
References


