

Financial Management in Local Government: The Nigeria Experience

Nwosu M. Eze¹ & Okafor O. Harrison¹

¹ National Institute for Legislative Studies, National Assembly, Abuja, Nigeria

Correspondence: Okafor O. Harrison, National Institute for Legislative Studies, National Assembly, Abuja, Nigeria.

E-mail: agiboy2000@yahoo.com

Received: August 14, 2013

Accepted: September 25, 2013

Online Published: October 8, 2013

doi:10.5430/ijfr.v4n4p146

URL: <http://dx.doi.org/10.5430/ijfr.v4n4p146>

Abstract

As a creature of the constitution, it is the statutory responsibility of local government as the third tier of government to cater for the people at the grass root level which forms the preponderant majority of the teeming population of the whole country. It is a universally acknowledged that no meaningful economic planning and development can be made without finance. Determining the key roles of finance managers and processes of financial management is central to better fiscal outcomes. This paper examined financial management systems in the local governments in Nigeria. It primarily evaluated the roles, powers and challenges of the treasury department of local government in Nigeria. It revealed that lack of adequate technical capacity and constitutional loopholes associated with the creation of the state and local government joint accounts are the key factors affecting efficient financial management in the local government. The paper recommends that financial autonomy and improved technical capacity of treasury department of local government would promote sound financial management in the local government.

Keywords: technical capacity, constitutional loophole and financial management

1. Introduction

The central issue of this paper is mainly on duties of the Treasury Department of a Local Government. As a matter of fact, the duties of the Treasury department cannot be defined in isolation with the functions of local government itself. It is therefore reasonable to highlight briefly how and why Local Governments are created. Generally, there are three tiers of governments in Nigeria. These are the Federal, State and the Local Governments.

In conformity with provision of section 7, subsection (1) of the 1979 constitution, the government of every state of the Federal Republic of Nigeria is empowered to create Local Government under it Local Government Law/Edict which will provide for the establishment, structure, composition, FINANCE and FUNCTIONS of such Councils. Accordingly subsection (3) of the same Section 7 of the constitution also provided that it shall be the duty of a local government to participate in economic planning and development of its area of authority. It is a universally acknowledged fact that no meaningful economic planning and development can be made without finance. While the Federal and the state governments are responsible for development at the National and the State levels respectively, it is the statutory responsibility of local government as the third tier of government to cater for the people at the grass root level which forms the preponderant majority of the teeming population of the whole country.

As an entity that deals with public finance management, development outcomes in their areas of jurisdictions are contingent upon how efficient the fund entrusted to it is largely managed. Therefore, this paper provides a critical review of financial management of local government in Nigeria with a view to identify the underling challenges facing the third tier of government. Following this background, the paper is structured as follow. Section 2 deals with the function of the local government while section 3 provides insights on the sources of revenue to the local government. In section 4, revenue collection and control mechanisms in the local government are explored. Section 5 specifically focused on the actors and institutions of the treasury department. The challenges of financial management in the local government and conclusion are contained in the last section.

2. Functions of a Local Government

As creation of the Law, the statutory functions of local government councils are defined in the fourth schedule of the 1979 constitution which includes collection of revenue to meet commitments for economic planning and development of its area. While the local government council is concerned with policy matters on revenue collection and disbursements, it is the responsibility of the Treasury Department to translate such decisions into concrete action.

It may be loosely be stated therefore, that the main duties of the Treasury Department of a local government are virtually financial duties of the local government.

3. Sources of Revenue

Unlike the Federal and the State Governments, the Local Government has three main sources of revenue. These are (i) External Revenue, (ii) Internally Generated Revenue and (iii) Loans. In accordance with the provisions of Section 7 of the 1979 Constitution sub-sections (4) and (5), both the Federal and the State governments are enjoined by Law to make and pay statutory allocations to the local governments in furtherance of their statutory obligations in their respective areas of authorities. The enactment of this vital provision in the constitution is designed to make the Local Government sufficiently and financially capable to provide for the overwhelming populace at the grassroots.

An emerging trend from the above constitutional requirement is that the states hardly release the funds to the local governments making it difficult for them to carry out their statutory functions. The recent decision of the Federal Government to send the Federal Statutory Allocations and the Deduction from source of the 10% allocation payable by the states to the local governments with a view to making direct payment to the local governments is a welcome decision. However, the creation of state and local government joint account as proscribed by the 1999 constitution of Nigeria suggests that the federal government lacks the power to do so. At best, it may require the amendment of the constitution by two third majority of the parliament. Nevertheless, there are other sources of revenue to the local government as enumerated below.

3.1 Internally Generated Revenue IGR

This can be seen as the fund generated by the government other than the statutory allocation from the state or federal government. Sources of internally generally revenue differ from State to State and local government by local government due to other economic, socio and structural character of the area. These sources are:

3.1.1 Taxes: This tax is payable by all Nigerians in a local government area of 16 years of age and above, that are not assessed to pay the State Personal Income Tax during the year. Poll tax is a fixed amount payable by all taxable adults whose income does not exceed a particular ceiling (N600.00 before 1974 and N800.00 after 1974). Some of these taxes have been abolished in majority of the states in the federation in 1979-80.

3.1.2 Tenement Rate: This is tax on landed property, commercial and residential buildings. The assessment depends on the type of building and the use to which it is put. This is one of the most dependable sources of revenue if the source is adequately and efficiently tapped.

3.1.3 Local License Fees and Fines: This is sub-divided into eight different headings viz:

- (a) Fines e.g. Towing of vehicles and fee accruing there from
- (b) General License e.g. Bicycle License fees and Hackney permit fee
- (c) Food control e.g. Slaughter and Beke license fees
- (d) Security e.g. Goldsmith and Gold sellers license fees
- (e) Social- Marriage registration fees, naming of street, radio and television license fees.
- (f) Health e.g. slaughtering of animals fees, impounding of animals, births and death registration fees etc.
- (g) Economic e.g. Tenders fees and general contractors registration fees
- (h) Engineering works and survey e.g. Sale of unserviceable stores and hire of plants charges.

3.1.4 Earning from Commercial Undertakings: This includes markets and motor parks, proceeds from agricultural products as well as other public investments such as transportation and event centers.

3.1.5 Rent: Rent on residential/commercial buildings.

3.1.6 Interest and Dividends e.g. Administration charges on advances and interest on investments.

3.1.7 Miscellaneous receipts-e.g. Mortuary; hearse and cemetery earnings; identification and oath fees.

3.2 Loans

(i) A local government may raise loans within Nigeria of such sources, in such manners, upon which the conditions for such purposes are fulfillment by appropriate laws as may be prescribed.

(ii) A local government may obtain advance from banks by overdraft upon its credit worthiness for procuring revenue yielding projects.

4. Revenue Collection and Control Mechanisms

The statutory responsibilities of local government on revenue collection and control are virtually the responsibilities of treasury department. For efficient performance of these duties, the local government are guided by the provisions of local government financial memoranda which are subsidiary laws governing financial administration of councils. These duties are classified into three in the financial memoranda. (i) General duties, (ii) Quarterly duties, and (iii) Monthly duties.

4.1 General Duties Include

To ensure that proper book of accounts are maintained.

- (a) To ensure that annual estimates are prepared accordance with the instructions of the financial memoranda.
- (b) To ensure that revenue is being collected promptly and that expenditure is being incurred at a rate commensurate with the provision in the Estimates.
- (c) To conduct frequent test checks on rate accounts during the collection period.
- (d) To ensure that staff whose duties involved handling of funds and stores is adequately bonded.
- (e) To hold annual Board of Survey on revenue earning books and stores.
- (f) To ensure that annual financial statements are made as immediately as financial year ends.

4.2 Quarterly Duties

- (a) To test check the stock of the receipt books against receipt book register with a view to preventing fraudulent practices.
- (b) To hold a surprise board of survey on cash.
- (c) To examine summaries of suspense. Advances with a view to ensuring that no such accounts are opened without proper authority and that existing ones are being properly maintained. In particular to ensure that advances are being regularly retired.
- (d) To hold a survey of the bonds of all employees to ensure that (i) newly employed staff enters into bonds, (ii) the amounts of various bonds are adequate, and the guarantors of bonds are alive and have sufficient means to honour their obligations if the need arises.
- (e) To hold board of survey on stores.
- (f) To submit accounts for external audit.

4.3 Monthly Duties

- (a) To examine the revenue and expenditure abstracts at the end of every month.
- (b) To direct and ensure that all payment vouchers issued during the month are entered in the cash book.
- (c) To ensure that all receipts issued are entered in the cash book.
- (d) To examine cheque books and ensure that all cheques issued are entered in the cash book.
- (e) To rule off, and check that the amount of cash on hand agrees with the cash book balance.
- (f) To check the Bank Reconciliation Statement for the previous month.
- (g) To check and ensure that amounts of cash and bank balances are recorded in the cashbook at the end of previous month were carried forward correctly to the trial balance for the month.
- (h) To examine and cast the trial balance for the previous month.

5. The Treasurer and Treasury Department

5.1 Meaning and Functions

As in the federal and state governments which maintain various ministries, there are various departments in a local government. The treasury department is one of such departments which act as the ministry of finance for the council.

The department is the golden animal that lays the golden egg applied for economic planning and development of the areas in local government structure.

The Treasurer as the Financial Director of the Local Government has the responsibility of ensuring proper working of the treasury and the financial requirement of the council. The treasurer also ensures that proper system of departmental and store accounts are successfully maintained. More so, the treasurer and his subordinate staff are personally responsible for errors in accounting and/or incorrect and unauthorized expenditure. Specifically, other normal duties of the treasury are delegated duties of the Local government which include:

- (I) Preparation of Annual Budget for consideration of the finance/general purposes committee and subsequent approval by approving authority.
- (II) Collection of external and internal revenue, issuing receipts in acknowledgement thereof and making payment of such moneys into the bank accounts of the local government promptly.
- (III) Disbursement of funds. It is the responsibility of the treasury to make all payments out of local government funds and ensure that such payments are legitimate and properly authorized after ensuring that adequate provisions are in the approved estimate to accommodate the liability.
- (IV) Keeping of prescribed accounts books.
- (V) Monthly reconciliation of accounts. It is the responsibility of the treasury to reconcile the cash book with the bank monthly statements of account to ensure correctness and thus prevent avoidable loss of fund.
- (VI) Keeping custody of all documents and items of property of the local government.
- (VII) Processing all Applications for Supplementary (Expenditure) estimate (AISE) and reallocation of funds.
- (VIII) Keeping and supplying revenue earning receipt books for collection of revenue.
- (IX) Maintaining and keeping of files for all revenue collectors to prevent fraudulent practice.
- (X) Keeping revenue collection progress chart to know the progress of collection of revenue under the various heads and subheads of revenue estimates.
- (XI) Checking the accounts of the revenue collectors as often as possible and report to the council any instance where a collector fails to collect or pay promptly to the treasury any sum due. This is with a view to preventing fraud and the attendant loss of revenue.
- (XII) To see that all advances are retired in accordance with the conditions under they were authorized.
- (XIII) Given advice to the local government on the cash flow situation showing probable receipts and payments as compared with the estimated provisions in the estimates.
- (XIV) Presentation of annual financial statement of accounts at the end of every financial year and submit his books of account for auditing and taking prompt action on audit queries.
- (XV) Initiating measures to boost collection revenue by:
 - (a) Revising upwards the various rates, fees and fines in urban areas sophisticated system of tenant rating can be introduced.
 - (b) Adequate machinery for collection on both personnel and materials.
- (XVI) Keeping books relating to collection of revenue and disbursement of account up to date in strict compliance with provisions of the financial memoranda of the local government.

5.2 The Local Government Books of Account

In the local government finance management, there are three key books of account. These include the main cash books, the adjusted records and the ledger.

5.2.1 The Main Cash Books: A book or record in which bank cash transactions are recorded. These include receipts from customers and payments to supplier as well as bank charges, interest received etc. Is a type of day book, recording transactions in date order; the balance will be included in the trial balance. The cash book is regularly reconciled with the bank statement as an internal control check. Cash transactions not made through the bank are generally recorded in a petty-cash book

5.2.2 The Adjustment Records/ Entries: These are entries made at a balance-sheet date under an accrual accounting system to ensure that income and expenditure of the concerned are included in the correct period. Examples of adjustments include those made for depreciation, prepayments, accruals etc.

5.2.3 The Ledger including the following accounts are applicable:

- (i) The general revenue balance accounts.
- (ii) The advance account.
- (iii) The deposit account.
- (iv) The suspense account.
- (v) The cash and bank combined account.
- (vi) The investment account
- (vii) The fixed deposit account.
- (viii) The saving banks account.
- (ix) The renewal fund deposit account.
- (x) The renewals investment account.
- (xi) The reserve fund accounts
- (xii) The reserve fund investments accounts

5.2.4 Subsidiary Accounts

- (j) The Department Votes Revenue Accounts (DVRA)
- (k) The Department Votes Expenditure Accounts (DVEA)
- (l) Individual Advance Account
- (m) Individual Deposit Account
- (n) Individual Suspense account
- (o) The Investment Register

5.3 Machinery for Revenue Collection/ Budget Process in the Local Government

Since the treasury department is in charge of the funds of the local government, the responsibilities of the department rest solely on the treasurer as the Chief Financial Officer and his subordinate officers. The success or otherwise of the local government depends largely on the efficiency and effectiveness of its treasury department. Therefore, there are academic and professional qualities required from the Treasury department. These include Interest and unalloyed loyalty, accountability, diligence, transparency and honesty, God-fearing and ability to control.

Nevertheless, the ability of local government to effectively carry out its financial obligation requires some of these basic fundamentals.

5.3.1 Good Leadership

A good treasurer must be endowed with qualities of a good leader enumerated above.

5.3.2 Adequate Treasury Personnel

For effective duties, the treasury must be adequately staffed. The efficiency of the treasury department depends on quality and quantity of its subordinate officers who deal directly with the people at the grassroots.

5.3.3 Provision of Adequate Vehicles

For effective collection of revenue, adequate vehicles must be provided to the treasury department. Inadequate men and materials are some of the constraints militating against efficiency and effectiveness of most local government treasury department.

5.3.4 Legalization of Collection and Adoption of Bye-Laws

For effective and efficient collection of local government revenues by-laws relating to various heads of revenue must be made and adopted as the case may. An efficient and effective financial officer will ensure that all bye-laws pertaining to smooth administration of duties in the treasury are adequate. This requires the cooperation of law enforcement agencies.

5.4 Budget Elements and Preparation Process in the Local Government

The local government budget in Nigeria is made up of revenue and expenditure estimates.

5.4.1 Revenue Estimates: the treasury department has the majority responsibility to prepare and forecast figures of various heads and subheads of the revenue basing his estimated figures on the actual collection in the preceding years.

5.4.2 Expenditure Estimates: with effect from September of the year immediately preceding the year of estimates, the treasury department has the responsibility to issue call-circulars to the various spending departments of the local governments requesting their advance proposals for the draft estimates. Those proposals will be collated into the draft budget for consideration of the finance/general purposes committee pending subsequent approval of by the approving authority. Hitherto the estimates were subject to prior consideration of budget committee of the state government. But with the new autonomy, the final approval of the annual budget now rests with the local government. In normal circumstance the budgetary meeting should be held before the end of December of the year immediately preceding the year of estimate so as to get a final budget ready for the year which as at now begins on 1st January.

5.5 Revenue Collection and Expenditure Control

It is important to prepare a fine and robust budget, but it is more important to ensure that revenue resources are adequately tapped to meet up and possibly exceed the targets. The treasury as the watchdog of the finances should also ensure that necessary controls are made with a view to making judicious spending.

5.5.1 Keeping of Account Books

Keeping of all relevant Account books in conformity with the provisions of financial memoranda is a major responsibility of the treasury department. These include daily and monthly transactions. Strict adherence to rules facilitates preparation of annual accounts.

5.5.2 Monthly Reconciliation of Accounts

This is another important responsibility of the treasury department and it is a sure safeguard against fraud. Monthly statements of accounts should be called for from the local government bankers as soon as a month ends for reconciliation.

5.5.3 Keeping of Revenue Collection Chart

This ensures in-flow of revenue as progress or otherwise of any revenue subhead can easily be detected with a view to taking necessary action to remedy the situation.

5.5.4 Keeping of Revenue Collection Files

The treasury maintains file for every revenue collector with a view to:

- (a) Monitoring his/her progress of revenue collection.
- (b) Ensuring that he/she accounts promptly for all revenue collected.
- (c) Guarding against fraudulent practices and preventing avoidable loss of revenue.

5.5.5 Preparation of Final Accounts

Just as it is responsible for the budgetary actions of it local government, it is equally incumbent upon the treasury department to prepare Annual Financial Statements (AFS) as immediately as a financial year ends.

5.5.6 Preparation of Audit Report

After final accounts have been made, the treasury will ensure that copies are sent to the Director of Audit of the State Department. The receipt of the final accounts of the local government by the audit department connotes that the accounts are ready for auditing when all account books are released by the treasury department for examination. Thereafter, the treasury department will ensure that all audit queries are redressed promptly.

6. Challenges of Financial Management in the Nigeria Local Government

Critical examination of the financial management systems in the Nigeria's local government indicates that there are a number of challenges affecting local government administration in Nigeria. This ranges from institutional constraints to lack of adequate capacity to manage local government administration in Nigeria. As argued by Ekweremadu (2012), poor financial management in the local government in Nigeria derives from the creation of the state and local government joint account as founded by section 162 sub-section 6 of the 1999 constitution. Ehigiamusoe and Jumare

(2013) also noted that section 162 empowers the state to spend and allocate at its will to the local government. This dangerous trend has remained one of the main challenges of delivering public goods to the citizenry. Local government councils in Nigeria also lack technical and managerial capacities required to deliver public goods. This has been the reason for the growing concern for a careful review of some of these clauses in the Nigerian constitution.

7. Conclusion

As stated earlier, all financial duties of a local government are the lawful responsibilities of its treasury department. The success or otherwise of local government depends on the efficiency of its treasury department. As money is the livewire of any organization so also the treasury department is the pivot on which the structure of a local government depends for sustenance. If the constitution is able to create autonomy of the local government, the local government will be better as an effective third tier of government which will ultimately improve welfare. Consequently, this paper therefore recommends that the local government must wage war against major constraint militating against it. This implies that the government should focus on granting financial autonomy to the local government, entrench responsible leadership, adequate personnel and the provision of adequate materials such as sound operational vehicles which are essential for revenue collection.

References

- Aborode, Remi. (2012). *A Practical Approach to Advanced Financial Accounting* (3rd ed.).
- Ehigiamusoe, K., & Jumare, F. (2013). The Challenges of the state and local government joint Account: Implications for rural development. *Nigerian Journal of Legislative Affairs*, 4(3).
- Ekweremada, Ike. (2012). A key note Address on Emerging Democracies in Nigeria.
- Kimmel, Weygandt, & Kieso, A. (2010). *Financial Accounting Tools for Business Decisions Making* (3rd ed.).
- Okwuosa, I. (2005). *Advanced Financial Accounting Manual*.
- Oye, Akinsulire. (2011). *Financial Management* (7th ed.).