

# “Financial resource management in the Nigerian public sector: policy measures to address loopholes”

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# FINANCIAL RESOURCE MANAGEMENT IN THE NIGERIAN PUBLIC SECTOR: POLICY MEASURES TO ADDRESS LOOPHOLES

**Abstract**

Despite concerted efforts made by successive government administrations in Nigeria to eliminate or better still minimize the menace of fraud, embezzlement, misappropriation of funds, inflation of contract prices, payment of salaries to ghost workers etc., it seems as if the challenge is far from being over. It is believed that the implementation of effective and efficient financial control systems may result in better performance, accountability, and better reporting process in the public sector. This study aims to assess the effectiveness of financial control in the public sector of Nigeria using Akoko South-West Local Government Area (ASWLGA) as a case study. The study employed both descriptive and econometric analytical methods to achieve the stated objectives. Specifically, the hypotheses were tested using regression analysis based on the primary data collected. The study revealed that the level of financial control in ASWLGA is adequate and capable of reducing financial misappropriation and that financial control is also cost-effective. However, there is a need for regular review of the financial control system in order to boost the effectiveness of the public sector.

**Keywords**

effectiveness, financial control, management, misappropriation, public sector, reporting

**JEL Classification**

D73, H83

**INTRODUCTION**

Over the years, cases of fraud, embezzlement, misappropriation of funds, inflation of contract prices, payment of salaries to ghost workers, among others, have been a burning issue in the country (Appah & Appiah, 2010; Okpala, 2012). According to the 2019 Transparency International Global Corruption Perception Index survey which was released in January 2020, Nigeria was ranked as the 140<sup>th</sup> (compared to 134<sup>th</sup> in 2010, 130<sup>th</sup> in 2009 and 121<sup>st</sup> in 2008) most corrupt country out of the 180 countries surveyed. Nigeria scored a total of 26 percent of the possible 100 percent (Transparency International, 2020; Akor, 2014). This is because the public sector lacks accountability and efficient financial control. The public sector is exposed to certain threats as a result of ineffective and inadequate financial control measures. These threats include inaccurate financial statements, misplacement of government assets, and application of accounting policies that are not in accord with the relevant law enactment.

It is believed that the implementation of effective financial control systems may result in better performance, accountability, and better reporting process in the public sector. The efficient management of financial resources is sacrosanct to the achievement of institutional goals and objectives (Rosen & Gayer, 2010). This stance was stressed by the study of Prowle (2010) who asserted that the public sector institution transacts with large sums of public

resources. Therefore, proper management and accountability are essential for all stakeholders. In this respect, the findings of this study are of immense benefit to policymakers in terms of improving the level of financial control within the financial sector, as well as the achievement of organizational goals. The findings of this study also help in identifying and addressing the loopholes in the public sector's financial system.

The rest of this article is arranged in the following order. Section 1 deals with the literature review, which consists of the conceptual review, theoretical review, and empirical review. The methodology used in the study is highlighted in Section 2. Section 3 focuses on the data analysis and discussion of the results. Final section presents the summary and policy recommendations.

## 1. LITERATURE REVIEW

### 1.1. Financial control

Financial control can be defined as a process of ensuring that financial assets or resources are acquired legitimately and used efficiently and effectively in order to achieve organizational goals. However, there are numerous problems associated with financial control, which may affect the different organization, these limitations or problems include accounting failures, budgeting, and budgetary control failure, auditing failure, difficulty and rigidity of setting standards, difficulty in implementing control measures, and high costs and difficulty in identifying deviation.

Financial control is generally concerned with the appropriate use of financial assets in line with relevant regulation, accounting standards, and organizational policies (Adams, 2013), which aim preventing mismanagement of financial assets (Adams, 2013). The current financial control framework in the Nigerian public sector is still tailored towards the installed British colonial administration. The majority of these regulations, "which include the 1979 Constitution of the Federal Republic of Nigeria, which covers the operation of the fund, external controls for operating the accounting system in terms of audit and investigations, and, finally, the appropriation procedure," needs to be amended. Others include the "Finance (Control and Management) Act No. 33, 1958, the Audit Act No. 38, 1956 (Anyafu, 2002), the annual and supplementary Appropriation Acts, Financial Regulations and Treasury and Finance Circulars and circular letters" (Daniel, 2002).

### 1.2. Nature of financial control system

Financial control system can be related to the procedure employed by organization management to enforce financial control and accountability. These procedures include recording, verifying, as well as prompt reporting of transaction that relates to revenue, expenditures, assets, and liabilities. Financial control is an assurance process; hence, it includes part of financial decision-making. It covers the whole process of tracking activities emerging from the decision. It also involves part of planning, budgeting, accounting, reporting, and reviews.

Financial control contributes to the progress and expansion of any organization. It is defined as the circulatory system of co-operation between different units of activity. Therefore, the constituents of financial control system are as follows: financial planning, financial controlling, and coordination of financial matters.

#### 1.2.1. Financial planning

The complex nature of organizations demands that management should focus more on financial planning to serve and efficiently employ capital resources in all the activities of the organization. The second step in financial planning is the guides to the business in achieving its primary objectives. In this connection, the following policies are relevant for most organizations in public and private sectors:

- 1) determination of capital and recurrent expenditure;
- 2) evaluation of capital and recurrent expenditure;

- 3) composition of capital structure, source, and uses of such funds.

### **1.2.2. Financial controlling**

Planning must, however, be complemented by control. The result must be measured concurrently against projection. Control is the financial management foundation, which must be exercised by executive personnel of the business organization; this is to achieve the goals established by the planning functions. The control function is composed of five distinct phases, which are comparison of actual performance with predetermined objectives plans and standard, communication of result of appropriate people or group of people, the deviation of analysis to determine underlying causes of variance, consideration of alternative causes of action to correct differences, choice, and implementation of best alternative and follow-up action by executive personnel to ascertain whether the corrective action is effective.

### **1.2.3. Coordination of financial matters**

Since finance touches almost every aspect of an organization, the coordination of various decisions taken within an organization so that they are mutually consistent and also in line with the financial goals and restrictions is a vital function of financial control. Hence, the exercise of this function is possibly obviously noticed in formulating a financial plan, which involves the merging of estimates from each department into the budget for the whole organization.

## **1.3. Theoretical review**

### **1.3.1. The agency theory**

The agency theory suggests that because shareholders delegate their financial decision-making power to managers or administrators, there often arises a “conflict of interest” amongst the administrators and shareholders. Jensen and Meckling (1976) relate agency theory to an arrangement where a person (or more) known as the principal appoints an individual known as the agent to execute certain services on their behalf. This would imply that the principal delegate some decision-making authority to the agent. Accordingly,

it is expected that agents (governments) carry out their responsibilities effectively and efficiently in the overall interest of the principal (citizens). In carrying out their duties, the agent needs to make sure that the financial resources are efficiently and effectively utilized to achieve institutional goals.

In light of the aforementioned, the basic question is how to ensure that agents conduct their public sector duties in a manner that protects the welfare of the citizens. The agency theory is primarily designed to address this dilemma of conflict of interest between the principal and agents (Owusu-Manu, Edwards, Kukah, Parn, El-Gohary, & Hosseini, 2018). Such conflict of interest occurs because the agent did not act in a manner that prioritizes the interest of the principal, or the principal might be ignorant of the activities of the agent or is prevented by resources from acquiring such information (Lobner, 2009; Owusu-Manu et al., 2018). In the principal-agent relationship, the major challenge that the principal faces are information asymmetry. This relates to the problem of inadequate information concerning the activities, interests, or work performance of the agent (C. Chang, H. Chang, & Tien, 2017). This consequently leads to moral hazard and adverse selection. These, in turn, affect the agent’s productivity in terms of agents not possessing the required skill, inexperience, or the likelihood of huge financial loss due to the risk of hoarding information, among others (Owusu-Manu et al., 2018). Information asymmetry fuels dishonest and opportunistic behavior. There is a great opportunity for the agent to siphon, divert or mismanage funds against the interest of the principal (Chong, Huet, Saussier, & Steiner, 2007; Owusu-Manu et al., 2018). Financial control is believed to be one of several tools used in the public sector to solve the agency problem. Other tools include, but not limited to, “financial reporting, budgeting, audit committees, and external audits.” Financial control decreases the level of information asymmetry and thereby reducing agency costs.

## **1.4. Empirical review**

Several studies have been carried out on the effectiveness of the public sector’s financial control. Some of them are discussed here. Maimako (2005) discussed the importance of the institution’s

financial control in stimulating appropriate financial reporting standards in the public sector. The study used primary data that were obtained by administering questionnaires, interviews, and actual observations. The findings show that lack of compliance with budget provision is quite common, violations of financial principles and procedures are similarly prevalent. Etuk (2011) evaluated the effectiveness of the internal control system in the Nigerian banking sector. The study revealed that the banking sector has a functional financial control system. However, it was noted that the system is inefficient due to the existence of a high level of bad loans and laxity on the collateralization of margin loans granted by the banks.

Mohammed (2013) evaluated the efficacy of financial management and control techniques in the Borno State Ministry of Finance, Nigeria. The study explored the strategies and actions used for effective coordination of the public. The study discovered that there was no proper record keeping, the once kept were not up-to-date, lack of an orderly presentation of the financial control system, also the financial control used do not embrace prudence and accountability in its finances.

Furthermore, Aramide and Bashir (2015) investigated the effectiveness of internal financial control among local governments in Nigeria. It was revealed that sound financial control is essential for ensuring financial accountability. It means that there should be increased effort to ensure the appropriate and operative internal financial control. This will go a long way in guaranteeing financial accountability. Onatuyeh and Aniefor (2013) examined the usefulness of internal audit as a tool for effective and efficient public sector management and accountability in Edo state, Nigeria. Using primary data, the results indicate that effective internal auditing guarantees good stewardship reporting. The study further revealed that insufficiently skilled or underqualified workforce hinder good. This would mean that for effective public sector management, it is important that qualified personnel are employed to manage the finances of the institution.

Okon and Akpan (2011) examined the measures and enhancement of principals' administration effectiveness in Akwa Ibom State, Nigeria, found

out that lack of budget preparation and implementation hinders their effectiveness. The study further indicated that there was a lack of proper internal audit control for the school finances. The study, therefore, suggests that in order to enhance their effectiveness, there must be a working budget that guides the finances of the schools. Appropriate budget implementation plan and measure should sound internal audit must be put in place to ensure that their finances are properly managed.

The study aims to ascertain the level of the effectiveness of financial control in the Nigerian public sector in Akoko South-West Local Government area (ASWLGA). In this study, an effort was made to ascertain if the level of financial control operations in the public sector is adequate to reduce, if not eliminate financial misappropriation; determine if the financial control system in the public sector is cost-effective, and to identify if there arises a need for a total review of the financial control in the public sector.

## 2. METHODOLOGY

A survey research design was used in this study. This research design is selected because it is an efficient way of gathering data that will help in addressing the research question. The study population includes the staff in the department of finance, treasury, accounting, expenditure control, internal audit, information, and administration in ASWLGA. This is as a result of their direct involvement in the operation of financial control in the local government. The study population for this research is one thousand and eighteen (1,018) employees, which is the local government workforce strength. The sample size for this study is one hundred (100) employees, which encompass respondents in the aforementioned departments. The simple random technique was used for this study, as the sample size will be picked from the study population and randomly picked with the help of tables of random numbers. Questionnaires were administered by the researcher on a face-to-face level to retrieve them back as they are filled. All data retrieved from the field was analyzed using the descriptive and econometric analytical method. In other to achieve the stated objectives, the hypothesis was tested using regression analysis.



### 3. RESULTS AND DISCUSSION

The analysis of results is presented here. Studying the effectiveness of financial control in the public sector of Nigeria (a case study of ASWLGA of Ondo State) is the core objective of this study. The demographic features of the respondents indicate that of the total sample of respondents interviewed in ASWLGA, 51.6 percent were males, and 48.4 percent of respondents were females. The result also indicates that the majority (40 percent) of the respondents are aged between 36-50 years, followed by 32.6 percent aged below 28 years and 22.1 percent aged 29-35 years. Only 5.3 percent of the respondents are aged 51 years and above. The majority (92.6 percent) of the respondents are Christian, while the remaining 7.4 percent are Muslim. The further that more than one-third (35.8 percent) of the respondents have a minimum qualification of BSc degree, followed by 31.6 percent with a minimum qualification of OND, 24.2 percent with HND, and 5.3 percent with MSc degree. Only 1.1 percent of the total respondents have Ph.D. degree. With regard to working experience, the results revealed that one-third of the respondents have between 6 and 10 years of working experience, followed by 32.6 percent with working experience between 11 and 15 years. The results further show that 21.1 percent of the respondents have working experience ranging between 1 and 5 years, while the remaining 12.7 percent have working experience of 16 years and above.

#### 3.1. Likert scale analyses

The second part of the questionnaire is the Likert questions, and the responses are presented in Table 1. The responses which consist of ten statements, were collected using Likert scale techniques and graded by the students on 1-5 scale, where 1 = "strongly agree", 2 = "agree", 3 = "neutral", 4 = "disagree", 5 = "strongly disagree".

The respondents were asked if the level of financial control in the local government was adequate. The majority (61.1 percent) of the respondents are affirmative in their response that financial control in the local government was adequate. However, 32.7 percent are of the contrary view as they disagreed, while 6.3 percent are undecided. The results presented in Table 1 revealed that more than half (53.6 percent) of the respondents agree that the present level of financial control in the local government is capable of reducing financial misappropriation. On the other hand, 37.9 percent believe that the level of financial control is not enough to reduce financial misappropriation in the local government.

The researcher also wanted to prove whether the financial control system of the local government is cost-effective. The results presented in Table 1 show that more than half (57.9 percent) agreed that the financial control system of local government is cost-effective, while 26.3 per-

**Table 1.** Likert scale analysis on the effectiveness of financial control in the public sector of Nigeria

Questions	Strongly agree	Agree	Undecided	Disagree	Strongly disagree	Total
Adequate level of financial control in local government	20	41.1	6.3	23.2	9.5	100
Present level of financial control capable of reducing financial misappropriation	18.9	34.7	8.5	30.5	7.4	100
Financial control system of local government is cost-effective	25.3	32.6	15.8	15.8	10.5	100
Internal audit performs its control as regards financial control	33.7	37.9	11.6	11.6	5.3	100
Internal audit of the local government is independent of management	20	41.1	12.6	21.1	5.3	100
Local government gives high priority to financial control	20	33.7	15.8	22.1	8.4	100
External auditors rely on the financial control of local government	18.9	46.3	13.7	17.9	3.2	100
Local government financial control is documented	41.1	38.9	6.3	7.4	6.3	100
Compliance with financial provisions	27.4	40	15.8	14.7	2.1	100
Regular financial control review	27.4	36.8	11.6	21.1	3.2	100
Necessity of reviewing the local government financial control system	44.2	34.7	5.3	10.5	5.3	100

cent disagreed. The remaining 15.8 percent were undecided. The response of the respondents on whether the internal audit unit performs their control with respect to financial control in local government showed that internal audit does perform their control as 71.6 percent of the total respondents affirmed the statement, while 16.9 percent disagreed. The result supports the findings of Aramide and Bashir (2015) who opined that sound financial control is essential for ensuring financial accountability. Although, there is a need for local government to engage the services of qualified and skilled internal auditors, as suggested by Onatuyeh and Aniefor (2013). The result further revealed that the internal audit unit of the local government is independent of management influence. It is because the majority (61.1 percent) agreed that the local government is not influenced by management, while 26.4 percent disagreed. The remaining 12.6 percent were undecided.

To ascertain whether high priority is given to financial control by local government. The results presented in Table 1 show that more than half of the total respondents (53.7 percent) affirm that high priority is given to financial control by local government, while 30.5 percent disagreed. The remaining 15.8 percent were undecided. The results presented in Table 1 reveals that more than half (65.3 percent) of the respondents agree that external auditors rely on the financial control of local government; 21.1 percent disagreed, while the remaining 13.7 percent were undecided. The respondents were asked if the local government financial control is documented. It was revealed from the result that more than two-third (80.0 percent) of the respondents affirm that financial control of the local government is documented. This is contrary to the findings of Mohammed (2013) in the case of Borno State Ministry of Finance. This might be due to geographical differences. However, this raises a pertinent question on whether issues of corruption or financial misappropriation is influenced by geographical location, which is beyond the scope of this study. The remaining 13.7 percent and 6.3 percent disagree and are undecided, respectively. A good and operative financial control involves keeping the appropriate accounting records in a manner that protects the organization and that such an organization is not

needlessly vulnerable to risks of fraud or financial mismanagement.

The researcher further desired to establish whether local government complies with financial provisions such as the Financial Control and Management Act, The Audit Act, Appropriation Act, Financial Regulation and Treasury, among others. From the research findings presented in Table 1, two-third (67.4 percent) of the total respondents agree that local government complies with the financial provision. On the other hand, 16.8 percent disagreed, while 16.8 were undecided. Lastly, to ascertain if the local government regularly reviews the local government financial control. The results presented in Table 1 show that more than half (64.2 percent) of the respondents agree that the local government conduct regular review of financial control, while 24.3 percent disagreed. Although, it was still suggested that there should be a review of the financial control system being used by the local government. It is because 78.9 percent of the respondents agree that it is necessary for the local government to review financial control system. On the other hand, 15.8 percent disagreed, while 5.3 were undecided.

### 3.2. Regression analysis

The level of financial control was ascertained to see if it is capable of reducing, if not eliminating financial misappropriation. This is followed by the examination of whether the financial control system in the public sector is cost-effective and, lastly, to ascertain if there is a need to review the financial control in the public sector. Questions 1 and 2 are used to answer the first hypothesis, which is stated as follows:

*H0: The level of financial control in the public sector is not adequate to reduce, if not eliminate, financial misappropriation. Based on the research findings majority (61.1 percent and 53.6 percent) of the respondents agree that financial control in the public sector is adequate and capable of reducing financial misappropriation in the local government public sector (see Table 1). The null hypothesis is, therefore, rejected in favor of the alternative hypothesis. The hypothesis is further tested via regression analysis presented in Table 2.*

**Table 2.** Regression analysis

Source: Estimation.

## Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.471 <sup>a</sup>	0.222	0.214	1.138

## ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	34.412	1	34.412	26.564	0.000
Residual	120.473	93	1.295		
Total	154.884	94			

## Regression

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. error	Beta		
(Constant)	1.510	.263		5.737	0.000
Financial control	0.466	0.090	0.471	5.154	0.000

Note: a – Dependent variable: reducing financial misappropriation.

The  $R^2$  of 0.222 indicates that only 22 percent of the total variation in reduction of financial misappropriation is explained by variation in financial control. The test statistic is the  $F$ -value of 25.56. Using an  $\alpha$  of 0.05, we have  $F_{0.05;1,326} = 3.84$ . Also, the  $p$ -value for 26.56 is 0.000, so the test statistic is significant at that level, which means that the null hypothesis that the level of financial control in the public sector is not adequate to reduce, if not eliminate, financial misappropriation is rejected. It was therefore concluded that reduction in financial misappropriation is not likely due to chance but can be correctly predicted by financial control.

The coefficient (0.466) is positive and statistically significant at the 5 percent level of significance (Table 2). This implies that financial misappropriation can be significantly reduced by financial control measures. The  $t$ -statistic is also significant, thereby supporting the fact that financial control significantly reduces financial misappropriation. According to Wakiriba, Ngahu, and Wagoki (2014), the absence of effective financial control due to weakness of the internal audit unit in performing their duties led to misappropriation of funds in the Mirangine Sub County in Kenya. Financial control usually involves a clear distinction of duties, supervision, and commitment of

**Table 3.** Regression analysis

Source: Estimation.

## Model summary

Model	R	R-square	Adjusted R-square	Std. error of the estimate
1	0.373 <sup>a</sup>	0.139	0.130	1.198

## ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	21.507	1	21.507	14.996	0.000
Residual	133.377	93	1.434		
Total	154.884	94			

## Regression

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. error	Beta		
(Constant)	1.801	0.269		6.702	0.000
Financial control	0.365	0.094	0.373	3.873	0.000

Note: a – Dependent variable: cost-effectiveness.



management, which helps in reducing financial misappropriation.

The second objective is to ascertain whether the present level of financial control is cost-effective or not. Based on the research findings presented in Table 1, more than half (57.7 percent) agree that the level of financial control in local government is cost-effective. The null hypothesis is, therefore, rejected in favor of the alternative hypothesis. Also, using regression analysis to see the impact of financial control on cost-effectiveness, the research findings are presented in Table 3.

The  $R^2$  of 0.139 implies that about 14 percent of the total variation in cost-effectiveness in the public sector is explained by financial control, while the remaining 86 percent can be attributed to other factors that can promote cost-effectiveness but not included in the model. The  $p$ -value for 14.996 is 0.000, so the test statistic is significant at that level, which

means that the null hypothesis is rejected, and that there is no cost-effectiveness in the public sector. One, therefore, concludes that cost-effectiveness in the public sector is not likely due to chance but can be correctly predicted by financial control. The coefficient (0.365) is positive and statistically significant at the 5 percent level of significance. This suggests that financial control can significantly influence cost-effectiveness. The  $t$ -statistic is also significant, thereby supporting the fact that financial control significantly influences cost-effectiveness.

The last objective is to ascertain if there is a need to review financial control in the local government public sector. Questions 10 and 11 (Table 1) is used to answer the hypothesis. Based on the research findings presented in Table 1, the majority of the respondents emphasized the necessity of a regular review of the financial control system in the local government. This will boost the effectiveness of the system and reduce financial misappropriation.

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## CONCLUSION

The effective and efficient utilization of financial resources is germane for all institutions, both at the private and public sectors in order to achieve the goals and objectives from the activity for which the funds have been made available. However, sometimes such funds are misused by the agents in charge, which brought about the need for effective financial control in order to reduce financial misappropriation. Lack of effective and adequate financial control makes the public sector vulnerable risks, which includes mismanagement of government funds. Hence, this study seeks to ascertain the effectiveness of financial control in the public sector of Nigeria, using ASWLGA as a case study.

Based on the research findings, the majority (61.1 percent and 53.6 percent) of the respondents agree that financial control in the public institution is adequate and capable of reducing financial misappropriation. The result also revealed that financial control could significantly influence financial misappropriation. Furthermore, in order to ascertain whether financial control is cost-effective, the research finding revealed that more than half (57.7 percent) agree that the level of financial control is cost-effective. The regression analysis further supports this stance that financial control can significantly influence in managing cost in the public institutions. Lastly, the research finding revealed a need for a regular review of the financial control system.

The study also concludes that the level of financial control in Akoko South-West local government is adequate and capable of reducing financial misappropriation and that financial control is also cost-effective. In light of the above findings, the researcher will make the following recommendations.

There is a need for a regular review of the financial control system. It will help the public sector to judicious use of financial resources and, as a result of this, their primary objective of providing economic and social amenities for the people under their jurisdiction will be achieved. Furthermore, regular review of the financial control system will help in keeping the control system up to date and in line with the internationally accepted standard.

In addition to regular review of the financial control system, the financial control system should be under continuous supervision to make sure that prescribed policies and procedures are carried out correctly. Where there is an indication of the non-compliance, effective corrective measure could be taken immediately.

The system should also be designed to incorporate new trends and public sector accounting standards such as “International Public Sector Accounting Standard (IPSAS),” which will ensure more accountability and effective financial control.

Special efforts should be taken by the government to employ qualified, competent, and experienced professional accountants in order for them to carry out the work of ensuring the effectiveness of financial control.

The public sector should train their staff on how to implement financial control effectively way. This can be done on-the-job, this means that staff should be trained within the organization, and can also be done off-the-job, i.e., staff should be given the opportunity to go for conferences and seminars in order to increase their knowledge on financial control and also to expose them to the new trend in accounting and finance.

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