



Financial Reporting and Audit Performance of Local Government Areas in Rivers State

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ABSTRACT

This research was carried out on the Financial Reporting and Performance of selected Local Government Areas in Rivers State. The study examined the various financial reporting tools used in measuring the performance of the local governments. The population of study was ten randomly selected local governments in Rivers State. The quasi experimental research design was adopted for this study. Both primary and secondary data were used. These were generated via questionnaires and personal interviews. The multiple and simple regression methods were used to analyze data. The research findings indicated that financial reporting in the form of auditing reports have effects on the performance of local governments (measured in the form of Internally Generated Revenue (IGR) and Provision of social amenities). The implications of the findings are that performance of the local governments cannot be measured without financial reports. The study recommends that proper financial records of the local governments be kept by qualified designated officials for the purpose of measuring performance.

Keywords: Financial Reporting, IGR, Social Amenities, Local Governments, Rivers State.

1. INTRODUCTION

Public sector is the mainstay of Nigeria economy. Public office holders are entrusted with the management of nation economy/resources of the country. They are required by law to render account of the resources entrusted in their care to the general public. This can only be achieved by the preparation and presentation of reports that show how these resources are used.

Okwoli (2008) observes that good financial reporting is the bedrock of efficient economic management not only in the public sector but also in the economy as a whole. Johnson (2006) in his own argument postulates that public officers carry out their duties in the absence of the general public and for them to continually win the support and confidence of the people, they are bound to render account of their stewardship.

Financial statement is a basic tool for assessing the stewardship of the executive in all tiers of government. Saeed (2002), in preparing financial reports, an attempt should be made to paint true pictures of government activities for the period reported upon succinctly and without hiding the needed information on the revenue and expenditure. The objectives financial reporting in the local government have been identified among other things to be the reporting of financial disposition from internal generated revenue and allocation from the federal and state governments. Again, the disbursement of the fund to various local government arms and project execution, services and maintenance. The duty of the accountant is to publish the financial transaction of the local government putting this above mentioned parameter into consideration.

For any local government to be considered performing, the internal control will be very effective. The internal control of any organization or parastatals is audit unit. This unit checks the activity of the acquisition, disposition of fund, awards of contract and certification of contracts executed.

To enhance the efficiency and effectiveness of local government administration, it has become imperative to investigate and identify the problems that may inhibit good financial reporting and performance. Over the years there have been series of complaints that local government funds are not judiciously utilized for the provision of education, health care, social amenities, infrastructural development, and even security. The local governments barely pay salaries not even as at and when due. What happens to the usual huge sums of allocations given to them is what financial reporting is set to unravel.

The staff of the local government seems to be so disappointed that questions are being constantly asked; what are the local government chairmen doing with funds and allocations given to them. Therefore, this study examined the fore-going questions. This is the gap or missing link in literature that this study is set to fill or address. Therefore, it should be noted that the reporting media through which financial reporting is exercised in the local government areas in the Rivers State are receipts and payment account, income and expenditure account and fund accounting. This study relates these reporting media to the performance of selected local government areas which has the proxy of Internally Generated Fund (IGR), Education, Health, and Social Amenities (EH &SA) and infrastructural development(ID) as follows:

1.2 Purpose of the Study

The major objective of this study is to look at the consequences of financial reporting on the performance of Local government areas in Rivers State. Other specific objectives are:

- i) To find out the effects of audit report on the internally generated revenue (IGR).
- ii) To determine the effects of Audit Report on Education, Health, and Social Amenities.

1.3 Research Questions

Consequent upon the specific objectives of this study, research questions were posed thus:

- i) To what extent is the effect of Audit Report on the Internally Generated Revenue of the Local Governments in Rivers State?
- ii) Do Audit Reports have any effect on Social amenities of the local government areas in Rivers State?

1.4 Hypotheses

Consequent upon the research questions; some hypotheses were formulated in the null form as below:

Ho1 There is no significant effect of Audit Report on the internally generated revenue (IGR) in selected local government areas of Rivers State.

Ho2 There is no significant correlation between Audit Report and Education, Health, and Social Amenities (EHS) in the selected local government areas of Rivers State

2.0 LITERATURE REVIEW

Theoretical background

The theoretical underpinning for this work includes agency and commander theories.

2.1 Agency Theory

Agency relationship occurs when one party, the principle employs or engages another called the agent to perform a task on behalf of the principal. In the real context of agency relationship according to the ACCA approved study text (2015), accountability means that the agent (here government officials) is answerable under the contract to their principal and must account for the resources of principal (here the people who elected them into power), and all the money government officials have gained working on behalf of their principal.

2.2 Commander Theory

According to Goldberg (1965), the command theory is the relationship between ownership of resources and control of resources. It is the underpinning theory to analyze the effect of a cross sector move of accounting principles and systems to the public sector. This is exemplified in this study. Ownership and control are separate concepts, but this theory assumes that he who owns resources can as well control such resources. Ownership is a legal condition. Goldberg (1965), in his definition states that “control over resources is a command, which has to do with the exercise of supervisory function by a designated

person". In the government cycle there various levels of commanders that control its affairs. At the top is the minister who invokes the command theory. He controls the resources allocated to a particular government organization (Ministry), or for definite activities. He is responsible and accountable for the resources of his organization or ministry.

Financial Reporting in Local Government

Financial report is described as a means by which accounting information is communicated to the stakeholders and other users. It should disclose the net result of a period of the local government's operations and reveal changes in net resources if any. This report should be a way of enforcing discipline in government or organizations by making it a medium of accountability of stewardship and measuring performance and results of operations for a given period of time. It should in its presentation encourage prudence (Davis, 2007).

Furthermore, many stringent legal requirements are imposed upon government accounting. This confines the presentation of financial information to a particular mode, aside from the type of record to be maintained. The legal mechanisms define the framework of the system of accounts and the layout in which to present the accounts of the government (Ekueme, 2006).

2.3 Audit Report

This is used to measure performance of the local government in that, it shows the true and fair view of revenue generation and projects embarked upon. This is in terms of feasibility studies, amount spent vis-à-vis estimates, adherence to due process, contract award procedures, job execution in line with specifications, close out reports, payments, etc

- i) Internally Generated Revenue – The audit report reveals the amount of revenue generated from internal sources such as, rents, rates, fines, levies, licenses, etc using documented evidence such as receipts issued, cash books, journals, etc
- ii) Education, Health care, and Social Amenities – Audit report reveal amount expended on this vis-à-vis estimated sum.
- iii) Infrastructural Development – Audit report measures infrastructural development as part of performance in that it reveals the amount spent on such projects in comparison with estimated sum, and quality of work execution in line with standard (specifications).

The audit unit is the control and engine room for financial administration and certification.

Income and Expenditure account: this is used to measure performance by comparing the amount received as income - especially from statutory allocations with what is spent on projects vis-à-vis estimate and quality.

- i) Internally Generated Revenue – Income and Expenditure account show records of what is generated internally from various sources available to the local government.
- ii) Education, Health care, and Social Amenities – Income and Expenditure account is used to measure performance by comparing the amount spent in providing Education, Health care, and Social Amenities to the populace with what is at the disposal of the local government.

Fund Accounting: this is used to measure the under listed performances in the following ways.

- i) Internally Generated Revenue – it shows records comparing revenue of the local government with the actual funds provided / generated.
- ii) Education, Health care, and Social Amenities – it measures performance by confirming if the Education, Health care, and Social Amenities provided by the local government is in line with the purpose of the fund provided, and if it also justifies the amount.

2.4 Legal Framework of Financial Reporting

Government accounting is guided by rules, regulations and accepted norms. In designing these rules, regulations and norms, efforts were made to keep them within "Generally Acceptable Accounting practices (GAAP)", where there are conflicts, the law supersedes the GAAP. Thus government accounting system is tailored towards meeting set rules, regulations, standards and laws. It is for this

reason government accounting system is sometimes referred to as compliance accounting system. The under listed gave backing to local government financial reporting system in Nigeria.

- (a) The constitution of Nigeria
- (b) Financial legislation of relevant legislative bodies
- (c) Appropriation act
- (d) Financial memorandum
- (e) Financial Circulars and guidelines.

We shall look at these in details

(a) Constitution: The constitution is the principal and lawful apparatus which specifies the general framework for government accounting and financial reporting in Nigeria. Financial administration of the country first came into the constitution in 1957. With the constitution amendment order of 1957, section 154 was amended to deal with the operations of the consolidated revenue fund, and appropriation procedure, that is, authorization of expenditure, and external control of the accounting system with regards to audit and investigation. These same principles were replicated with some changes both in the 1979 and 1989 constitutions. Some changes that should be noted in the 1989 constitution are the independence of the local government accounting system from that of the state in terms of the creation of the office of the Auditor – General for local government as stated in section 123 and 124 of the constitution, and budget appropriation

(b) Financial Legislation: Some financial matters are regulated by legislative acts of the federation other than that provided in the constitution. Some of these laws are: 1958 finance (control and management) act as amended, and the Audit act of 1956 as amended.

- The 1958 Finance (Control and Management) Act. This Act directs the administration and procedures of all funds of the government. It mandated the use of basis accounting in government accounting, which aims to minimize risk. Also, it states the accounting principles and forms for the preparation of government accounts.
- The Audit Act of 1956: The audit act as amended states the duties of the Auditor General, which includes among others, the preparation and remission of special reports to appropriation bodies, such as, the public account committee.

(c) The Appropriation Acts: This is the approval of annual estimates (Budget). When this is done by the council, the estimates (Budget) becomes the basis of government, receipt of money (revenue), and incurring of expenses (expenditure).

(d) Financial Memoranda: Financial memoranda as a document which provides detailed guidelines and instructions on the financial and accounting procedures to be followed in the administration of financial affairs of local governments (Adewumi, 1994).

(e) Financial Guidelines/Circulars

These come in the form of regulations setting predetermined standards for uniformity of actions amongst the various common financial objectives of government. They are as well used to amend or add to existing financial regulations. It may be issued by service commissions, establishment offices, of the Accountant General or Auditor General etc.

2.5 Basis of Government Financial Reporting

The legal basis of local government accounting and financial reporting are dimensionalized into three major bases of accounting which to a great extent are the rules and regulations guiding government accounting. These are: Cash Basis Accounting (Audit Report), Income and Expenditure account, and Fund Accounting

Cash Basis Accounting: One of the characteristics of government accounting is the use of cash as a basis for recording financial activities and measuring performance. Transactions are recorded when cash is received or paid. Estimates are made on the basis of cash audit report and Income and Expenditure. All surplus appropriations are supposed to revert to their corresponding resources at the ending of every accounting era.

2.6 Classification of Government Accounts

There are two classes of government accounts. These are: Budgetary and Non-budgetary accounts. In local government accounts, **budgetary accounts** refer to those accounts that appear in the estimate of the local government. These include income and expenditure, which are subject to annual appropriation and approval of the legislature in the local government. Budgetary accounts are called “Above the line accounts”

Non-budgetary accounts, called “Below the line accounts”. They represent those accounts which are not part of the estimate, but arise in the ordinary course of government financial activities (Audit Report). The accounts are total accounts maintained only by the treasury, and may be regarded as the current asset of government or claims against it. Examples are cash accounts, bank balances, advances (purchases, personal travelling etc), money held by government for other agencies, and loans (overdraft) etc.

The difference between these two types of accounts is that the Budgetary (Above the line) accounts are used for preparing statements of result of operations (surplus and deficit statements) while Non-budgetary (Below the line) accounts are used for preparing the statement of assets and liabilities.

2.7 The Concept of Local Government

According to Ekueme (2006), Local government is seen as consisting of local institutions within the smallest geographical area representing local authority within a country of government arrangement.

Local government is the third tier of government in Nigeria whose purpose is aimed at involving the people at the local level in the overall development process. As a tier of government, local government uses government accounting system in its financial reporting and performance.

Some of the functions of the local government are listed in schedule No.4 of the Federal Republic of Nigeria constitution of 1979 include the following:

- i) Take part in the development and planning of the economy of the local government area.
- ii) Establish and maintain cemeteries, and homes for destitute and orphans.
- iii) Establishment, repair, and regulation of markets, motor garages, and civic centers.
- iv) Collection of local rates and rents, fines and licenses
- v) Registration of births, deaths and marriages
- vi) Participate in providing of education and health care services at the primary level.

3.0 RESEARCH METHODOLOGY

The research method used for this study is primarily personal interviews, responses to questionnaires, study of the local governments’ accounts / statistical data. From the population sample, 10 local government areas of Rivers State were selected at random.

- | | |
|----------------|--------------------------|
| 1) Etche | 6) Omuma |
| 2) Eleme | 7) Oyigbo |
| 3) Ahoada East | 8) Ikwerre |
| 4) Gokana | 9) Ogba / Egbema / Ndoni |
| 5) Emohia | 10) Port Harcourt |

Out of the ten local government areas, ten (10) officers were selected in each local government which is one hundred (100) sample sizes. Items in the questionnaire were tailored to test the research questions and hypotheses. Data were analyzed using both descriptive and inferential statistics. Data were presented in the table form and analyzed using frequency and percentages. The statistical package, for social sciences (SPSS version 21), was used in this study. Example, multiple regressions

3.1 Model Specifications

The dependent variables here are the Internally Generated Revenue (IGR) and Education, Health, Social Amenities, while the independent variables are: Audit Report. The linear regressions are used to analyze the data, and the models are specified as follows:

Model 1:

$$Y = a_1 + b_1 X_1 + C_1 X_1 + d_1 X_3$$

Model 1 = IGR = F(AR)

$$IGR = a_1 + b_1(AR) + U1.....(1)$$

Models 2:

$$Y = a_1 + b_1 X_1 + C_1 X_1 + d_1 X_3$$

Y = E H& S A = F(AR)

$$E H\& S A = a_2 + b_2 (AR) + U2.....(2)$$

Where; a1 = constant; b1 = regression for (A R) coefficient; c1 = regression for (I ∞ E) coefficient and d1 = regression for (F A) coefficient

4.0 RESULTS AND DISCUSSION

4.1 Analysis of Research Question

Research Question 1: *To what extent is the effect of Audit Report on the Internally Generated Revenue of the Local Governments in Rivers State?*

Table 1: Extent of Audit Report on the Internally Generated Revenue of the Local Governments in Rivers State

Audit Report	Frequency	Percentage (%)
Great extent	35	35
Considerable extent	26	26
Moderate extent	20	20
Slight extent	14	14
Not at all	5	5
Total	100	100

Table 1 above shows the responses of respondents on the effect of Audit Report on the Internally Generated Revenue of the Local Governments in Rivers State. Thirty five (35%) percent of the respondents choose great extent, 26% choose considerable extent, 20% choose moderate extent, 14% choose slight extent, while few of the respondents choose not at all.

Research Question 2: *Does Audit Report have any effect on Education, Health, and Social amenities of the local government areas in Rivers State?*

Table 2: Effect of Audit Report on Education, Health, and Social amenities of the local government areas in Rivers State

Audit Report	Frequency	Percentage (%)
Great extent	33	33
Considerable extent	22	22
Moderate extent	25	25
Slight extent	11	11
Not at all	9	9
Total	100	100

Table 2 analyzed the effect of Audit Report on education, health, and social amenities of the local government areas in Rivers State. The responses from the respondents indicated that 33% of them choose great extent, 22% and 25% of the respondents also choose considerable and moderate extent. This means that the respondents believe that Audit Report have more effect on education, health, and social amenities

of the local government areas in Rivers State. The few respondents that have different views were just 11% of the respondents that choose slight extent and 9% of the respondents that choose not at all.

4.2 Test of Hypotheses

H01: There is no significant effect between Audit Report and internally generated revenue (IGR) in selected local government areas of Rivers State.

Table 3: Single regression associated with ANOVA analysis on the effect of Audit Report on the internally generated revenue (IGR) in selected local government areas of Rivers State.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712 ^a	.506	.501	5.39096

a. Predictors: (Constant), RECEIPTANDPAYMENT

The table revealed that the multiple correlation coefficients (R) is 0.712, $R^2 = 0.506$ and adjusted $R^2 = 0.501$. This implies that Audit Report predicts 50% of the variation in internally generated revenue (IGR) in selected local government areas of Rivers State.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2921.993	1	2921.993	100.542	.000 ^b
	Residual	2848.117	98	29.062		
	Total	5770.110	99			

a. Dependent Variable: IGR

b. Predictors: (Constant), RECEIPT AND PAYMENT

The table showed that calculated F-cal of 100.542 was significant at 0.000 level which is lower than 0.05, the chosen level of probability. Hence Audit Report significantly affects the internally generated revenue (IGR).

H02: There is no significant link between Audit Report and Education, Health, and Social Amenities (EHS) in the selected local government areas of Rivers State.

Table 4: Single regression associated with ANOVA analysis on the relationship between Audit Report and Education, Health, and Social Amenities (EHS) in the selected local government areas of Rivers State.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.505 ^a	.255	.247	5.25494

a. Predictors: (Constant), RECEIPTANDPAYMENT

The table revealed that the multiple correlation coefficients (R) is 0.505, $R^2 = 0.255$ and adjusted $R^2 = 0.241$. This implies that Audit Report predicts 24% of the variation in Education, Health, and Social Amenities (EHS) in selected local government areas of Rivers State.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	924.231	1	924.231	33.469	.000 ^b
	Residual	2706.209	98	27.614		
	Total	3630.440	99			

a. Dependent Variable: EHS

b. Predictors: (Constant), RECEIPT AND PAYMENT

The table showed that calculated F-cal of 33.469 was significant at 0.000 level which is lower than 0.05, the chosen level of probability. Hence Audit Report significantly influences Education, Health, and Social Amenities (EHS).

5.0 CONCLUSION

Based on other reports from literature and finding from this study, there is significant relationship between financial reporting and audit performance of local government areas in Rivers State.

The dependent variable is internal generated revenue and Education, Health, and Social Amenities (EHS). The result pointed out the there is significant effect between Audit Report and internally generated revenue (IGR) in selected local government areas of Rivers State.

5.1 RECOMMENDATIONS

From the depth of literature and findings, it is recommended that

1. Auditing of all receipts, and payments from revenues generated internally by the local government be properly cross examined to avoid fraud.
2. Thorough auditing of financial records in respect of projects that have been executed such as Education, Health, and social amenities.
3. All income and expenditure of the local government with regards to revenues generated internally should be properly recorded and accounted for.
4. Funds generated internally should be properly receipted in the relevant accounting books and accounts of its disbursement properly rendered.

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