CHALLENGES AND PROSPECTS OF FINANCIAL MANAGEMENT IN LOCAL GOVERNMENT COUNCILS IN NIGERIA

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ABSTRACT

Globally, government pursued various forms of public Financial Management (FM) reforms to enhance Local Government (LG) performance. A poor FM has contributed to the failure and inefficiency of LG in achieving substantial development, while most LG faces the problems of wide gap between citizens’ needs and the financial resources. It is against this background that the study examined FM in LG with a view to determining its contribution to the economy, efficiency and effectiveness of LG administration. The study employed an exploratory research design with focus on relevant literatures. The study concluded that LG administrators should act in the same manner as their counterparts in the private sectors based on modern FM practices, this will increase efficiency, financial capability, transparency and accountability in goods and services delivery. In addition, a sound internal control system should be put in place to minimise the level of fraud, corruptions and wastages affecting LG. Besides, LG should always prepare accurate and reliable annual budget, while financial planning and control should be seen as an important aspect of an effective FM.

KEYWORDS: Accountability, Transparency Budget, Efficiency, Financial Management, Local Government,
INTRODUCTION

All over the world local government financial management has been the consideration of every responsive government. Local Government primarily is concern with the involvement of people at the grassroots in the provision of social and economic comforts to rural area. It is assumed therefore that; the development of these local areas entails the overall development of the state. The government takes up various techniques and strategy for good governance at the grassroots level. Local government exist through the process of democratisation and full participation of citizens at the grassroots level in decision making. Its establishment is to serve two purposes, firstly, as administrative body for delivering goods and services for the need of the citizens within the locality. Secondly, as a democratic set-up for full representation of community members in decision making at the local government level. Mbieli (2018) stated that no nation can be termed developed when its villages are lagging behind and its cities going ultra-modern. It is the local government that balance the equations between the cities and the villages through developmental programmes in order to accomplish public policies.

Globally, government has sought different forms of public financial management reforms to improve local government performance in areas of accountability, transparency, rules of law adherence and service delivery to the generality of the citizens within the community.

As a key player in the provision of fundamental basic public services delivery, most local governments in developing countries, faces rapid and disorganized urbanization due to impacts of frequent natural disasters induced by climate change (UN-Habitat, 2015). Also, there has been high level of negative perceptions of financial management in local governments. This at time, due to inadequate internal control system to checkmate the excessive fraudulent activities of financial resources by most state governors, has restrained by the political impunity of state governors and this has undermined grassroots developments (Otinche, 2014). Financial administration which is the essence of financial management is the art and science of financial planning, coordinating, organising and evaluating of local government financial resources in order to accomplish the best objectives, goals and performance targets. The objective of financial management in Local Government aligns with the three components highlighted above. Olowe (2011) defined financial management as the management of business finance in order to achieve business or organisation objectives.

In Nigeria, the main challenge to local government administration is funds, this has dwindled over times due to economic depression and financial melt-down while in the recent time, this has been worsened by the event of COVID-19 pandemic that happened all over the world. This financial breakdown has chipped in to the low space of expansion and growth in local government, in areas of socio-economic developments and provision of viable developmental projects. The number of abandon projects in local government due to lack of funds because of mismanagement, misallocation and inefficient uses of funds is tremendous, thereby jeopardising the well-being of the citizens within the locality. This poor financial management approach has contributed to the basic failure and inefficiency of some local government in accomplishing substantial development of their locality, while in recent times, this had led to lack of trust, faith and confidence in local government administration. Besides, the persistent hijack and control of local government statutory allocation and financial resources by most state governors, has also negatively affects the performance of these local governments in carrying out their constitutional responsibilities. The introduction of state joint local government account has reduced the powers of financial autonomy and strength to advanced sustainable development at the grassroots.

In some instances, joint account is used to force local government to engage in joint project(s) with little or no bearing to the citizens within the local government or projects that is outside the immediate needs of that locality. Wada and Aminu (2014) opined that state and local government joint account allocation committee coupled with much supervision of various ministries and agencies have made the financial autonomy of local government a mirage. Sani, Dominic and Amos (2022) in the same line of argument, stayed that Joint State and Local Government Account is a financial wilderness to local governments. The state governments dictate according to their preferences to local governments.

Currently, most local governments faced the problems of broad gap between citizens’ needs in their locality and the financial resources required for meeting such needs or demands. This gap arose at times due to population increases; misallocation of functions and revenues; the high cost of standard of service needed in areas, such as education, health, environment, water infrastructure and others; leakages in internally generated revenues through pilferages, corruption and lack of will by the revenue officers; and inefficient machineries to produce and deliver satisfactory public goods and services.

As a key player in the provision of fundamental basic public services delivery, most local governments in developing countries, faces rapid and disorganized urbanization due to impacts of frequent natural disasters induced by climate change (UN-Habitat, 2015). Also, there has been high level of negative perceptions of financial management in local governments. This at time, due to inadequate internal control system to checkmate the excessive fraudulent activities of
revenue collections and insertion of ghost workers' names in the local government payroll system, this has resulted in loss and leakages of funds which is tailored towards mismanagement and corruption pertaining to local government administrations. This has resulted into local government failure in its responsibility of meeting citizens’ demands in the provision of public goods and services.

Local Government needs to plan to ensure that enough financial resources are available at all time in order to meet the needs of the Local Government expenditure in achieving the set goals and objectives. Good financial management improves an effective management and functioning of local government administration. Financial management are advantageous to the local government when financial resources are properly planned and implemented in the best interest of the citizens. Finance is very significant to any organization whether private or public sector as all expenditures in various department either capital or recurrent rest on the availability of required financial resources. Finance is an applied domain of management and it differs from accounting. Accounting is concerned with measuring, recording and reporting of economic activities at the local government level, using double entry principles and control in keeping organisational financial data. Accounting data are historical in nature but could be a better pointer to the future. Accounting is all about timeliness, relevancy and quality of financial information while finance uses accounting information to make economic and social development decision that will achieve the desired objectives and goals.

Financial management has become a thing of interest to academicians, financial managers and policy makers at the local government level, termed grassroots governance. To the academicians, the focus is how the practice of financial management can enhance financial resources planning and control at the local government level. To the financial managers and policy makers, since most decision at the local government relates to financial resources, better understanding of the theory of financial management along with its conceptual and analytical knowledge in decision making is required. Financial management in modern day approach has risen beyond revenue collection and payment of expenditure but includes the stringent financial decision making in areas such as investment, capital budgeting, project management and sound financial control. Therefore, a sound financial management practices in local government will aid long term economic, social, and infrastructural sustainability of local government in Nigeria. The objective of this study is to assess financial management in local government with a view to determining its contribution to the economy, efficiency and effectiveness of local government administration. The theoretical implication of the study is to assess financial management as a whole and literature as financial management in local government and public sector in general is still an emerging issue with less related research.

Literature Review

Conceptual review

Local government is that portion of the government of a nation that deals with matters at the grassroots, administered by local representatives. It is the government at the bottom of a government institution pyramid with National/Central/Federal government at the top, this is the chief custodian of administration and supreme formulator of the broad national public policy. This is followed by the intermediate government called State/Region/Province, responsible for providing effective coordinating link between the central and local government, while the system at the bottom is the third-tier system called the local government, created by the central and state enactment. Nigeria is a sovereign, democratic, secular and federal republic. Federalism implies operation of three different political systems organized in hierarchical arrangement of central, state and local government (Mbieli, 2018).

Local government is the lowest in the government hierarchy within the notion of federalism. Federal is the sovereign nations, state a quasi-sovereign, local government the intra-sovereign (Khalil & Salihu, 2011). In Nigeria, after 1976 local government reforms, local government was recognized as third tier of government as enshrined in 1979, 1989, 1999, and 2011 (amended) constitution of Federal Republic of Nigeria. Section 7(1) of Nigeria 1999 constitution specified and guarantee the system of democratically elected local government councils while section 8 provides for the establishment, structure, composition and finance in each state under the laws. Also, functions of local government are accentuated in the fourth schedule of the 1999 constitution. In Nigeria, there are 774 local government as enlisted in the fourth schedule of the 1999 constitution, although there are various Local Council Development Area (LCDA) established in some states according to individual state law.

Local government as an establishment at the grassroots, entrenched democracy and accomplish a broader concepts of peoples’ social and economic welfare for the provision of public goods and services. According to Sikander (2015), local government institution permitted effective participation and involvement of citizens at the grassroots in decision making, political affair and democratic process. It does not involve in decision making in areas such as international trade, national defence, financial institution and foreign policies. Local government is answerable for the management of local affairs by the local people within a given locality of village, town, district, city or specified jurisdiction.

The word local government is stemmed from two words, local and government. Local relates to interaction of common group of people confined in the same area like village, district, cantonment, county or municipality. While the word government, means the autonomous nature self-taxation, self-direction, and legal entity (Mbieli, 2018). Government is the machinery put in place to regulate human conduct and behaviours in a particular locality through the means of laws legislated and enforceable (Adebayo, Dada & Olarewaju, 2014). Therefore, local government is the government of local communities within a particular geographical location, practicing self-government and managing their affairs with derived
powers, roles and functions from a constituted document or statutory laws. Looking from the political or democratic angle, it is a tier of government closest to the citizens, it has the constitutional responsibilities to guarantee political, social and economic developments of its geographical areas and the citizens.

Financial management is the management of finance in order to achieve the objectives of management. It involves all functions concerned with revenue generation and use of such financial resources for the accomplishment of the local government objectives. Akinsulire (2019) stated that financial management involves the use of accounting knowledge, economics models, mathematical rules, systems analysis and behavioural science for assisting management in its management functions of financial planning, control and management. Financial management pulls on related subjects such as financial accounting, management accounting, economics, law, quantitative techniques and behavioural science.

According to Pandey (2005), financial management is the managerial activity concerned with planning and controlling of the firms or organization financial resources. Finance is the life blood of any organization, that requires to be managed for the success of an organisation. Banerjee (2009) also opined that financial management involves systematic efforts of management committed to the management of finance, needed for all organisational activities. This implicates sources of fund and engagement of such in various areas of organization for the accomplishment of organisation objectives. Hassan (2011) stated that financial management tends to be beneficial only when actions are properly planned and executed. It is a whole system to the extent that when a unit of it is impaired, the whole structure becomes inadequate. Financial management in local government entails revenue generation, fund allocation, resources administration and treasury management.

Steps to Financial Management in Local Government

In order to accomplish mindful and sound financial management at the local government level, the financial advisor at the local government needs to:

1. Specify the financial purposes of the local government
2. Sketch the plans of action and select the policies for accomplishing these objectives
3. Carryout financial plans, input these in the local government overall programs.
4. Compare the actual with plans, assess any form of variances from the plans.
5. Establish rationales of variances.
6. Review process/plan and redesign/revise the goals where essential.


The accounting practices and some standards handles different financial management issues in respect of transparency, accountability, consistency, integrity, economy and value for money decision. In respect of financial reporting, financial management guarantee that report are not only timely and reliable but also a useful document for decision making by the diverse interest groups or stakeholders. The legal framework for financial management in Nigeria involves the followings:

1. Constitution of the Federal Republic of Nigeria. This provides the general framework for local government financial administration and controls of public funds. It outlines the various types of government funds, revenues and expenditures patterns. It provides the basis for reporting financial transactions in government in terms of budgeting, accounting and auditing.
2. The Finance (Control and Management) Act of 1958 as amended and now referred to as CAP F 26 LFN 2004. This outlines the management and general operation of public funds. It controls the accounting systems, recapitulate the various books of account to be maintained and the method and procedure to be followed in the preparation of government final account and financial statements.
3. The Annual Appropriation Acts. This is an annual budget process of the revenues and expenditures to be embarked upon within a particular calendar year as approved by the appropriate legislative arms of the local government.
5. The Fiscal Responsibility Act 2007. Financial control in government was re-affirmed through the passing into law in 2007, the Fiscal Responsibility Acts 2007. The Act aimed at establishing the best practices in public financial management, thereby, mesmerizing transparency, accountability and good governance in public sector. The purposes of FRA Acts is to stimulate transparency in budget preparation, execution and reporting; strengthen accountability and sound financial management in government; ensure high standards in financial disclosure; ensure prudent management of financial resources; and ensure access to comprehensive information on government financial activities by the citizens.
6. The Treasury and Finance Circulars. These are various forms of directives and guidelines issued by the ministry of finance to guides the conduct of public sector financial management.
7. The Financial Memoranda. This is a third-tier legal framework which serves as an instrument of accounting and financial control. It outlines rules on action acceptable and those deemed unacceptable in local government. It is a
body of governing rules and record keeping. It covers areas and approaches to financial reporting, sources of funds, expenditure allocation patterns; and funds management.

8. International Public Sector Accounting Standards Board (IPSASB).
9. Local Government Administrative Laws/Operational Guidelines
11. The Audit Ordinance Act (1956) This outlines the process and guidelines on the audit of local government financial statements.

Challenges of Financial Management in Nigeria Local Governments

In Nigeria, local governments face different challenges according to their peculiarities and status. Some of the common are:

1. Constitutional challenges – creation of state and local government joint account according to section 162 (6) of 1999 constitution.
2. Lack of technical and managerial abilities for providing qualitative public goods and services delivery.
3. Lack of funds for meeting the over increasing expenditures.
5. Shortage of operational vehicles for revenue collections and other administrative activities.
6. Political and traditional intervention on revenue drives, leading to loss of revenues.
7. Authoritarian power of state governor on control of local government revenues and financial resources.
8. Corruption and political fluctuation.
10. Lack of financial autonomy

Financial Management Decision in Local Government

There is need to match expenditure with revenue, this is one principle of financial management. Money plays a critical role in the management of an organization inclusive of local government. Finance (money in broader sense) is the lifeblood of any organization. In local government, financial management decision function can be broken down into three significant areas of investment decision, financing decision and efficiency/value for money decision (efficiency divided). This is called the triangle of financial decision in public sector.

Investment Decision – this involves the reasonable utilization of financial resources on existing viable opportunity, with a view of earning good returns to the provider of fund or resources (Hassan, 2010). In local government, investment decision result from the utilization of (a) internally generated revenue and statutory allocation to finance projects (b) probably fund raised through loans or bonds from the money and capital market to finance projects and infrastructural developments. Investment decision on viable projects is arrived at after due project evaluation. This evaluation is not only established on financial usefulness but also on the economic, social and sustainable benefits to the citizens. Investment decision making is the heart of managerial function by the executive committee of the local government. In public sector, the most prominent investment evaluation techniques is the Cost Benefit Analysis (CBA). CBA determined the viability of public sector projects in terms of multitude of benefits derivable from the project with the associated cost and along with externalities assessment. It is designed to assess economic viability of projects from the view point of the citizens and the society. It enhanced project assessment in public sector with reasonable investment planning, communal guideline and development policy being considered.

Financing Decision. Local government financing decision priority is on the traditional taxing power to generate revenue and the collection of statutory allocation. Local government in Nigeria has three sources of revenue, these are external, internally generated revenue and loan. The Nigeria 1999 constitution section 162 (10) defines revenue as any income or returns accruing to or derived by the government from any source and includes: any receipt however described arising from the operation of any law; any receipt however described from or in respect of any property held by the government; and any returns by way of interest on loans and dividends in respect of shares or interest held by government in any company or statutory body. The role of government finance is to link the cost of government’s activity against a defined output.

Internally Generated Revenue (IGR)

These are the internally generated funds by the local government established on their economic, social and structural endowments of the local government. Some of these revenues are:

1. Tenement Rate (Property tax) – This is a tax assessable on landed property of either commercial or residential buildings. It is a major source of revenues to local government. The assessment is based on the types of building and structure.
2. Local license fees and fines – These are licenses approved for diverse commercial activities at the grassroots such as general licenses (bicycle licenses and hackney permit fees); food control (slaughter and bakery licenses fees); social (entertainment, marriage, street naming, radio and television licenses fees); economic (tender fees and contract registration fees); hire of plants and sale of unserviceable equipment and goods.
3. Earning from commercial undertakings – This entangles revenues from motor parks, markets, investments, agricultural produces and other commercial activities.
4. Rent – These are proceeds from government properties such as landed property, building either for commercial or residential, parks and events centre.
5. Interest / Dividend – These are incomes from any structure of financial investments such as fixed deposits, debenture and shares.
6. Miscellaneous Receipts – These are proceeds from any other forms of sources not classified under any such heading above, such as hearse and cemetery, letter of identification, drug revolving fees, health services and miscellaneous activities.

In addition, other sources of revenues available to the local government with higher authorities approval for compliance and utilisation are the use of short term funds such as bank overdraft, money market instruments, invoice discounting, trade credits and factoring; the use of medium term sources such as venture capital, hire purchase, term loans and mortgage of property; while the third group is the use of long-term sources such as bonds, debentures and investing in shares through the capital market.

Theoretical Review

Efficiency Theory: The efficiency theory of local government administration is justified on the utility of taxes for social and economic development, and enhancement of individual tax compliance behaviour to an increase in the revenue collection at local government level. A good financial management leads to fiscal efficiency and fiscal discipline. This acts as the basis for good governance at the local government level. Efficiency is the ratio of input to output, the theory asserts that local government should be more efficient than other tiers of government in terms of service and public goods delivery at the grassroots. It also indicates the ratio of actual output to effective capacity. This is where the actual services corresponded with the effective capacity at local government level in order to show the level of efficiency accomplished, when corresponded with other tiers of government. An efficient and effective financial management at the local government will reduce input and increase output of services.

In Nigeria, the 1999 Constitution and Fiscal Responsibility Act (2007) as highlighted in the second schedule part 2 section 4 (1a and b) and the fourth schedule section 7 (1 and 2) articulated the modalities for fiscal efficiency. According to Ezeani (2012) cited in Izueke, Anyadike and Nzekwe (2013), efficiency theory is justified as the basis for local government existence, to deliver the required services to citizens at the grassroots. As an agent of services delivery and provision of public goods at the grassroots, it is an an artery to provide these services and public goods more efficiently than the other tiers of government. The capacity to achieve good performance and efficiency service, good financial management is paramount in managing the resources of the local government. The efficient use of government funds is to increase government capacity, enhances lives and wellbeing of the citizens and strengthen the foundation of country’s economy by contributing to the sustainable development. This has profound influence on the citizens and local government communities at present and the future. It is in line with the intent of public sector to satisfy citizens’ interest by delivering goods and services beneficial to the communities and the citizens.

Empirical Review

Uryszek (2013) studied financial management of local governments in Poland with selected problems. The study showed that public finance sector is decentralised whereas the financial autonomy at local government is low coupled with low revenue that are unable to covered expenditures. This resulted into huge local government debts. A system of equalizing grants was adopted to minimise the horizontal fiscal imbalances. In Nigeria, Eze and Harrison (2013) studied financial management in local government. The study revealed that lack of technical manpower and constitutional loopholes for the creation of state and local joint accounts impedes efficient financial management in local government. The study recommends full financial autonomy and improved technical personnel at the treasury/finance department of the local government. While Adebayo, Dada and Olarewaju (2014) in their studied on effective financial management of local government funds using Ido-Osi local government areas, disclosed that local government needs an urgent improvement on their financial control mechanism, thereby ensure rationalisation of expenditures patterns in order to achieve optimum performance at local government level.

In addition, Izueke, Anyadike and Nzekwe (2013) studied the management of local government finance in Nigeria with the challenges and prospects. The study revealed that management of local government finance are characterize with problems such as lack of long-term financial planning, inappropriate budgetary process and implementation, corruption and inefficiency in service delivery. The study further recommends that there should be removal of all forms of cogs in the wheel of local government administration in order to enhance efficiency in management, good financial planning and sound budgetary process and implementation.

Ohaka, Dagogo and Banyie (2016) studied international public sector accounting standards and local government financial management in Nigeria. The study reported that adoption of IPSAS has added value to transparency and accountability in local government financial management. It was recommended that full adoption of IPSAS in Local government will improve good governance and sound financial management practices. In the same vain, Ironkwe and Muenee (2016) studied treasury management and local government development in Nigeria. The study revealed a positive correlation between treasury management and local government development. It recommends that local government should ensure
sound treasury management in order to safeguard financial resources required instituting development. Management should also ensure more revenue are generated while a sound internal control system should be formed to monitor and prevent fraud and misappropriation. Due process in the award of contract and budget implementation should be strictly adhered to.

In addition, in the study carried out by Abdullahi and Ahmad (2018) on good governance and local government administration in Nigeria. The study revealed that local government performance was quite gloomy due to poor financial management, lack of autonomy and inadequate local leadership. The study concluded that institutionalization of good governance in local government is the best strategy for local government sustainable development along with improvement in revenue collection and judicious utilization of financial resources.

Research Methodology

The study utilized exploratory research design using appropriate books, journals and other literatures in the field of public sector accounting, local government administration, finance, Nigeria constitution and other enacted legislations. These were reviewed, conclusion drawn with appropriate recommendations for purpose of expanding the boundaries of knowledge.

CONCLUSION

The hopeful of acceptable financial management in local government geneses with local government administrators. Local government administrators or management should function in the same manner as their counterparts in the private sectors act. The private sectors management put more priority on corporate growth, business viability and maximization of shareholders wealth, in the same vain, local government management should guarantee efficient and effective management of financial resources of local government for endurable growth and development; and maximization of citizens’ needs and expectations. The introduction of modern financial management practices in local governments will increase efficiency in the management of financial resources and financial capability, improve debt management and capital investment decision, enhance budget and budgetary control, and also enhance quality of transparency and accountability in service delivery. A good financial management is vital to government to accomplish value for money from all public expenditures, decrease government budget deficit and enhance budget structure and reporting, and enhanced good quality of public services.

The success of financial management at local government level hinges on the vibrant, efficiency and effectiveness of the treasury department. The finance and budget department are the pivot departments for all financial administrations. Therefore, the success or failure of local government lies on the way and manner the financial management is being administers and strengthened. Effective financial management will improve instantaneous development at the local government level and guarantee efficient allocation of insufficient resources. In addition, a sound internal audit unit and control will add value to a good and sound financial management in revenues collections and expenditures disbursement. A good budget and budgetary control mechanism must be embedded for a sound and effective financial management. In addition, effective financial management will minimize the level of fraud and corruptions affecting local government system and will contribute to development at the grassroots.

Recommendations

1. Financial planning and control should be seen as an important factor for effective financial management.
2. Financial adviser (Council treasurer) should ensure adequate revenues are accomplished for meeting the anticipated expenditure of the local government.
3. The local government should formulate accurate and reliable budget with good budget monitoring and plan, for effective implementation and enhancement of good financial management.
4. Good and sound internal control instrument should be put in place to minimise fraud and wastages in financial resources and also to enhance performance in the provision of public goods and services.
5. Local government should have full financial and administrative autonomy by stopping of state joint local government allocation account in order to forestall financial resources and administrative independence.
6. Due process instrument should be adopted in the procurement and award of contract at local government level.
7. The accounting system should be improved upon to assist management to plan operations, keep track of resources, enhance decision making and ensure proper accountability.
8. The finance of local government should be tightened with appropriate measures in minimizing loss of council’s fund.

REFERENCES