

## Periscoping Public Sector Financial Management Performance in Nigeria: Rivers State in Perspective

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### **Abstract**

*This paper assesses public sector financial management of Rivers State for 2018 and 2019 financial year using the Institute of Chartered Accountants of Nigeria Accountability Index parameters (ICAN-AI). Qualitative research design was adopted to gain deep insight into the tenets of public financial management in Rivers State in particular and Nigeria in general. This paper which is theoretical in nature basically draws its arguments from secondary data and other related publications. Statistical data were also used where appropriate as empirical evidence gleaned from ICAN-Accountability Index. Besides, public financial management (PFM) frameworks were adopted. The findings indicate that public accountability and access to public financial information is very low in Rivers State. The study concludes that effective accountability and public financial management could influence good governance and public service delivery in Rivers State; hence it was recommended that Rivers State Government should induce reforms that could make the State to be more accountable and transparent in the formulation and implementation of its budget as well as grant quick access to relevant public financial information.*

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**Keywords:** *Accountability, Transparency, Probity, Public Financial Management (PFM)*

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### **1.1 Introduction**

The need to tackle one of the fundamental issues we face as a nation – that of accountability and fiscal transparency is the key motivation for this study. In Rivers State and by extension Nigeria as a nation, accountability, transparency and financial discipline have become an aberration and a major issue especially by those holding positions of responsibility in the public sector. Effective and efficient public financial management is one of the critical elements of public governance quality. Accountability involves responsibility which implies that public office holders are duty bound to offer explanation(s) for their actions and inactions to the citizens in respect of budget implementation and other policies implemented (Moore & Rakner, 2002; Adeyeye, Otusanya & Aromowole, 2016). Thus accountability involves two parties - the one that confers the responsibility (the citizens) and the one who accepts to discharge the assigned responsibility (the public office holder(s) (Ibrahim & Okwoli, 2012). The marks of accountable government are fiscal transparency, open and free access to public information, credibility and high degree of probity (Monguno, 2008).

Accountability in the management of public finance is a sensitive and important aspect of the activities of government at every segment of government be it federal, states and local governments or government ministries, extra-ministerial departments and other government agencies. In Nigeria, lack of accountability and transparency in the management of public resources has stunted growth and development in every sector of the economy. The country is very far from where it ought to be as a nation as Nigerians continually experience high rates of joblessness, poverty, inequality, deplorable infrastructure, insecurity, epileptic power supply, shortages of energy, among other social ills. When governments and their agencies are not accountable and fiscally transparent but are corrupt and fraudulent, the result is likely to have some influences on taxpayers and the general public (Adeyeye, 2013; Ibrahim & Ahmad, 2017; Nzotta, 2007).

As one of key elements of public governance quality, effective and efficient public financial management (PFM) and fiscal transparency are imperative for the growth and sustainability of democratic governance that induce the public and private sectors as well as civil society to focus on results, seek clear objectives, develop effective strategies, monitor and report on performance (United Nations Development Programme (UNDP, 2008). The desirability of public accountability has prompted most countries of the world to establish public accountability institutions and by extension the office of the auditor general as we have it in Nigeria.(Oladipupo & Izedonmi, 2011). However, the effectiveness and efficiency of these established accountability institutions in the discharge of their duties are another kettle of fish all together.

Improving the effectiveness of a public financial management (PFM) system in Rivers State and Nigeria in general may generate widespread and long-lasting benefits, and may in turn help to reinforce wider societal shifts towards inclusive institutions, and thus towards stronger states, reduced poverty, greater gender equality, balanced growth and sustainable development.. The maintenance of fiscal discipline is an important aspect of PFM system. Therefore, public financial management ensures that total levels of tax collection and public spending are consistent with targets for as to avoid fiscal deficit and unsustainable levels of public borrowing. It also ensures that public resources are allocated to agreed strategic priorities, thereby achieving allocative and operational efficiency.

The essence of this paper is to tackle one of the key issues facing our nation – lack of public accountability and fiscal transparency. The Public financial management concept here covers accountability, fiscal transparency, credibility, prudence and probity. The objective of the paper therefore is to assess and focus the attention of the various governments in Nigeria especially the Rivers State Government on the gaps in respect of accountability, fiscal transparency, prudence and credibility in public financial management (PFM). This is in the hope that when these gaps are addressed and the trust-deficit resolved, corruption, fraudulent practices and other financial crimes would be reduced to the barest minimum particularly in Rivers State and by extension in Nigeria.

## **1.2 Statement of problem**

Over the years, concerns have been expressed about the level of public financial management in Nigeria. Public accountability and fiscal transparency have become an aberration among the three

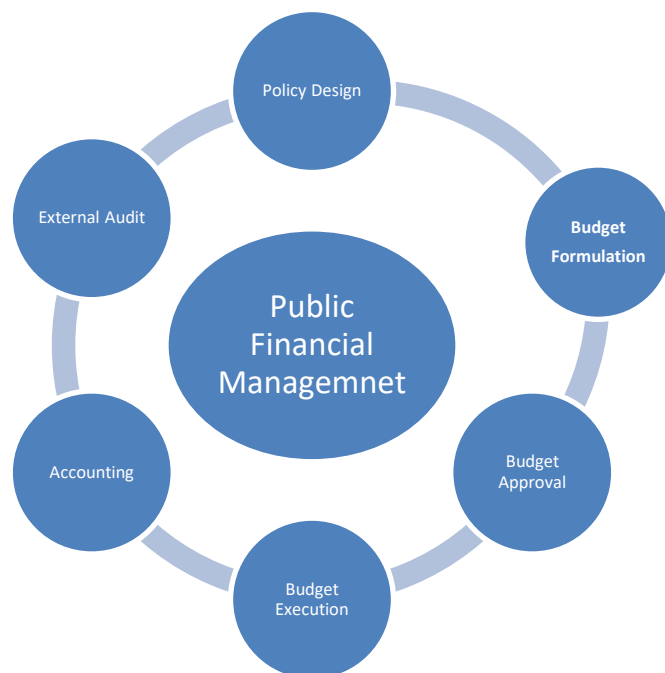
tiers of government and their agencies in Nigeria. The general public expects credible and transparent accountability reports from those entrusted with public resources to evaluate performance and ensure judicious utilization of public resources with the end result of promoting accountability and fiscal transparency. To achieve this, various legal frameworks such as Section 85 (2) and section 88(2) of the 1999 Constitution of the Federal Republic of Nigeria respectively provided for the audit of public accounts by the Auditor General for the Federation and the oversight function of the National Assembly as to expose inefficiencies and misappropriation of public resources. Section 162-168 of the Constitution also focuses on how revenue and expenditure are to be defrayed. With these entire legal frameworks for the promotion of public accountability and fiscal transparency, there are still growing concerns for accountability and transparency at all levels of governments. Modugu, Eraghe and Izedonmi (2012) point out that expectation from government is on the decline due to lack of accountability amidst representative democracy. Inflation is on the increase in January 2023 rising to 21.82% compared to December 2022 headline inflation rate of 21.34%. Unemployment has also not abated, rising to 23.1% in the fourth quarter of 2018. This is in the face of mounting Federal and State Governments debts and budget deficits. Few studies have investigated the influence of government accountability in Rivers State. It appears that none of these previous studies has taken into consideration the public financial management assessment of the State using accountability index and public financial management (PFM) pillars of assessment. Thus there is a gap in literature. Hence, this study focuses on the PFM assessment of the Rivers State government from 2018 to 2019. This study aims at proffering possible solutions to the problem of low accountability index in Rivers State.

## **2. Literature Review**

### **2.1 Conceptual Review**

#### **2.1.1 Public Financial Management**

Public financial management refers to the set of laws, rules, systems and processes used by sovereign nations to mobilize revenue, allocate public funds, and undertake public spending, account for funds and audit results. It encompasses a broader set of functions than financial management and is commonly conceived as a cycle of six phases, beginning with policy design and ending with external audit and evaluation (Lawson, 2015). Figure 1 below shows the PFM framework consisting of six (6) pillars.



**Figure 1:** Public Financial Management Cycle

Public financial management reforms deliver results when three conditions coincide: when there is a strong political commitment to their implementation; when reform designs and implementation models are well tailored to the institutional and capacity context; and when strong coordination arrangements – led by government officials – are in place to monitor and guide reforms (Lawson, 2012).

A large number of participants are involved in the “PFM cycle” to ensure it operates effectively and transparently, whilst preserving accountability.

PFM PILLARS	ACTORS
Policy Design	Political Parties, Civic Society, Academia, Research bodies ( The Executive, Ministry of Finance)
Budget Formulation	Political Parties (The Executive and Ministry of Finance)
Budget Approval	The Legislature
Budget Execution	The Executive , Internal Audit, Procurement Boards)
Accounting	Accountant General’s Office
External Audit	The Legislature and the Civic Society

Table 1: Six (6) Pillars of Public Financial Management

A strong PFM system is an important aspect of the institutional framework for an effective delivery of public service. Many PFM reforms involve the introduction of Integrated Financial Management Information System (IFMIS), often at substantial cost in financial outlays and administrative efforts (Petersen, 2006).

## 2.2 Theoretical Review

This paper is hinged on fiscal exchange theory developed from the economic deterrence and the social psychology models (Mckerchar & Evans, 2009). The theory is based on the notion that there exist a social and a relational contract between the government and the (taxpayers) citizens (Torgler, 2003; Fjeldstad, Schulz-Herzenberg & Sjursen, 2012). It appears that from the theory that citizens will be more willing to cooperate with the government as regards tax and other civic obligations when they are satisfied with the quality of public goods and services they receive in exchange and where the government is accountable and transparent. The key theoretical propositions of fiscal exchange is that of tax bargaining between taxpayers and the government which is fundamental to building accountability, fiscal transparency and obligations between the state and the citizenry. The theory presupposes that the rationale for public governance is the provision of quality services to the citizens in accountable and transparent manner which we in-turn motivate citizens to fulfill their civic responsibilities to the state.

## 2.3 Empirical Review

Adejuwon (2014) investigated the impediments to public accountability and performance in Nigeria. The paper adopted qualitative method in gathering data from various sources. It traced the absence of accountability in the Nigerian public sector to the incursion of the military into the Nigerian political sphere. The article contends that unless sound governance is in place with public accountability carefully observed, effective public sector performance cannot be achieved.

The theoretical literature predicts that high-quality PFM systems will have a positive impact on various dimensions of performance; whereas evidence from empirical studies is more limited though generally positive. Overall, evidence shows good governance has an important role in health service delivery. Increased public funding of health programmes is likely to be more effective in countries with better governance, but what this means in practice is highly context-specific ( Goryakin, *et al*; (2020).

Oloruntoba and Gbemigun (2019) carried out a study on “Accountability and Public Sector Performance in the Third World Country: A Case Study of Nigeria”. The collected data was analyzed using chi-square statistical tool. Findings show that there is relationship between appraisal of transparency and integrity of public office holders and public sector performance output of Ose Local Government Area of Ondo State, Nigeria. The paper recommends that the issue of immunity clause as treated in the 1999 Constitution must be revisited to improve accountability of public office holder in Nigeria public service. Public office holders need to be made to answer for any suspected acts of funds misappropriated irrespective of social status of persons involved.

Onuorah and Appah (2012) investigated the management of public funds in terms of how public office holders give accountability report of their stewardship. Secondary data were sourced from statistical bulletin from the Central Bank of Nigeria from 1961 to 2008. Findings show a poor level of accountability in Nigeria because the attributes of accessibility, comprehensiveness, relevance, quality, reliability and disclosure of economic, social and political information about

government activities are completely non-available or partially available for the citizens to assess the performance of public officers mostly the political office holders.

Rotberg and Gisselquist (2009) report that there is an association between perceptions of governance accountability score and income tax revenue performance. Extant literature indicated that the state must be perceived and seen to be accountable and responsive for the citizens to support the government (Adeyeye & Otusanya, 2015; Adeyeye, Otusanya & Aromowole, 2016). Modugu et al., (2012) posit that if governments are perceived as accountable, more people will pay their taxes voluntarily which reduces the need for coercion and the costs of tax collection. Conversely, people are likely to develop negative attitude to tax payment if the government is not accountable. Everest-Phillip and Sandall (2009) also report that public perception of government accountability influences tax morale and by extension voluntary compliance.

### 3. Methodology

Qualitative research design was adopted to gain deep insight into the tenets of public financial management in Nigeria. It uses descriptive analysis and observation methods to investigate public financial management in Rivers State. This paper, which is theoretical in nature, basically draws its arguments from secondary data and other related publications. Statistical data were also used where appropriate as empirical evidence gleaned from ICAN-Accountability Index (AI) and public financial management (PFM) framework. Based on the Framework developed by ICAN-AI Steering Committee on PFM best practices in Nigeria and in line with global standards, the assessment of the entities was done based on four-grade scoring model as presented in Table 2 below:

#### *Scoring Criteria*

A	High level of performance that meets good international practices.
B	Sound performance above the basic level.
C	Basic level of performance broadly consistent with good international practices.
D	Either less than the basic level of performance or insufficiency of information to score (designated as D*).

#### 3.1 Scoring methodology

Using either the Weakest Link (WL) method or the Averaging (AV) method. Each indicator specifies the method to be used.

i. **Weakest link method: M1 (WL).** This method is used for multidimensional indicators where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator. It is applied where there is a “weakest link” in the connected dimensions of the indicator.

ii.

**Averaging method: M2 (AV).** The application of this method is prescribed for selected

multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator.

#### 4.1 Analysis and interpretation of data

**Table 3:** Access to information 2019 Vs 2018

	2019			2018	
	Availability	Non-availability	Change	Availability	Non-availability
	%	%	%	%	%
Rivers State	37	63	+35	2	98
Bayelsa State	23	77	0	23	77
Cross Rivers State	26	74	+7	19	81
Akwa Ibom state	21	79	+5	16	84
Delta State	7	93	-4	11	89
Edo state	3	97	-2	5	95

Source: ICAN –AI 2019 Assessment Report

**Table 4:** Performance indicators

PFM Performance Indicators	Scoring Methods	Dimension Ratings				Overall Rating
		i	ii.	iii.	iv.	
<b>Policy-based Fiscal Strategy and Budgeting</b>						
1 Macroeconomic and fiscal forecasting	M2	A	A	B		A
2 Fiscal strategy	M2	A	B			B+
3 Medium-term perspective in expenditure budgeting	M2	A	C	D	D*	D
4 Budget preparation process	M2	C	D*			D
5 Legislative scrutiny of budgets	M1	D*	D*	D		D
<b>Budget Credibility</b>						
6 Total expenditure implementation	M1	D	A			D
7 Revenue generation	M2	A	D*			D
8 Budget documentation	M1	D*				D
9 Government operations outside budget	M2	A	D*			D
10 Public access to fiscal information	M1	D*	D*	D		D
11 Local government aggregate budget implementation	M2	D*				D
<b>Management of Assets and Debts</b>						
12 Public investment management	M2	A	D*	D*		D
13 Public asset management	M2	D*	D*	D		D
14 Debt management	M2	A	C	C	D*	D



**Control in Budget Execution, Accounting & Reporting**

15	Salary payroll controls	M1	D*	D*	A	D
16	Pension controls	M1	D*	D*	D	D
17	Procurement	M2	A	D*	D*	D
18	Internal audit	M1	D*	D*	D	D*
19	Account reconciliation	M1	D*	D8		D
20	In-year budget reports	M1	D*	C		D
21	Annual financial reports	M1	C	C	C	C
22	Local government annual financial reports	M1	D*	D*	C	D
<b>External Audit &amp; Legislative Scrutiny</b>						
23	External audit	M1	D*	D*	B	D
24	Legislative scrutiny of audit reports	M2	C	D*	D*	D
25	Local governments external audit	M1	D*	D*	D	D

**Source:** ICAN –AI 2019 Assessment Report

**4.2 Interpretation of Results**

Table 3 above provides data on the availability of information for the assessment. This serves as our measure of the level of transparency in public finance management. Rivers State performance in terms of transparency as measured by the availability of financial information was 37% and non-availability was 67%. This shows 35% improvement when compared with year 2018 where non-availability as a measure of transparency record an abysmal low score of 2% and non-availability 98%. As poor as these scores are, they are still higher than other Niger Delta States for year 2019. The State achieved a ranking of 13<sup>th</sup> position out of the 37 government assessed in 2019 and first among Niger delta states.

Table 4 shows Rivers State Public Financial Management (PFM) Performance indicators. The assessment shows the ranking of the government in terms of overall performance using five pillars of PFM. Overall, Rivers State recorded less than the basic level of performance and insufficiency of information as the score is D.

**5.1 Conclusion and Recommendations**

In general, the findings of the 2019 ICAN-AI Assessment Report on the entire country and Rivers state in particular showed a low level of fiscal transparency and accountability in spite of the plethora of legislations and laws in Nigeria mandating the availability of relevant public information through the freedom of information Act 2011 and other Acts to stakeholders. Nevertheless, Rivers State has an improved performance of 35% over 2018 result.. The low level of information availability in Rivers State and other states of Nigeria is not consistent with global best standard thus showing lack of credibility on the part of governments at all levels. The study concludes that effective accountability and public financial management could influence good governance and public service delivery in Rivers State; hence it was recommended that the Rivers State Government should be more accountable and transparent in the formulation and implementation of its budget as well as grant quick access to relevant public information. It is also



recommended that there is need for government to identify and strengthen all areas militating against Public Finance Management system in Nigeria. There is the need to review a number of the laws which have become obsolete in the context of recent global and local developments and also harmonize the plethora of laws and legislations dealing with PFM system in Rivers state and the nation at large.

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