

Evaluating Local Government Budgeting and Financial Reporting Formats for Citizens' Participation in Governance in Lagos State.

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Abstract

The formats for presenting budgets and financial reports by local governments in Lagos State are in the form of out-turn reports. This format presents local government performance in a report that compares receipts and payments with approvals by the legislature. Sometimes, contents of such reports are difficult for non-financial experts to understand when trying to analyse performance. A citizen focused budgeting and financial report format requires structure and rules that facilitate the reporting of performance in a way that shows how expenditure is translated into services, value for money and the discipline of the spender. Evidence from this research suggests that budgeting and financial reporting formats of local governments in Lagos State are unfriendly to citizens and they are of little help in engaging government for governance. As such, there is the need to redesign the formats along the line of readability, relevance and easy to understand.

Keywords: Budgets and financial statement format, citizens, governance, participation.

1. Introduction

Governments all over the world are expected to prepare budgets and financial statements for the purpose of providing stewardship and accountability to citizens. These reports (budgets and financial reports) are believed to be the most important financial documents produced by a government (Chan, 2001). This is the case with local governments in Lagos State; where budgets are arranged by line-item inputs and financial statements are presented in the form of out-turn reports. The major distinction between these two documents is that while budgets are future oriented financial plans for allocating resources among alternative uses, financial reports retrospectively describe the results of an organisation's financial transactions and events in terms of its financial position and performance. In the private sector, budgets are targets rather than plans, which are neither compulsorily required nor published. For governments, it is compulsorily required by law to allocate financial resources through a budget, get legislative approval, publish the budget, and operate strictly in accordance with such approved budget. Therefore, governments wishing to implement citizens' oriented programmes "must of necessity have formal channels for citizen influence" (Andrews & Shah, 2005: 192) in the entire budgeting and financial management processes. However, it has been observed from various researches that citizens play very little role in the budgeting and financial management process of local governments (Andrews, 2002;

Blair, 2000; Gariyo, 2000; Goudsmit & Blackburn, 2001), thus limiting their ability to contribute to governance and effective evaluation of performance. This, according to Andrews and Shah (2005), results from the technical structure, design and formats of the budgeting and financial reporting processes of governments.

Most research works and literatures on public budgeting and financial reporting usually concentrate on the appropriateness of tools, mechanisms and concepts. They have generally ignored (or excluded) from their literatures, the relevance of the formats adopted in preparing the budget and financial statements for citizens' evaluation of local governments' performance. But, the format for presenting budget and financial statement is critical in making decisions and assessing performance (Blair, 2000).

Also, evidence from researches suggests that, even with legislative and policy pronouncements on participation, citizens remain excluded from the budget and financial management processes (Andrews et al., 2002), thus creating the need for effective report that will aid easy understanding and assessment of performance. This study is germane as it takes a critical look at the local government budget and financial statements formats in order to assess its efficiency and effectiveness in enhancing citizen evaluation of government performance.

This paper is structured around three major themes. Section one provides an introduction to local government budgeting and financial reporting requirements. Section two reviews literatures on historical development of local governments in Nigeria, their budgeting and financial reporting processes, formats for financial reports, and implications of such formats for citizens' participation in governance. Section three is on conclusions and recommendations.

2. Literature review

Historical development of local governments in Nigeria

Local governments became very prominent in the political discussions of Nigeria since 1976. Two critical factors are responsible for this development. Firstly, the 1976 national reform unequivocally recognised the tier of government as a distinct level of government with defined boundaries, clearly stated functions and provisions for ensuring adequate human and financial resources. Secondly, but related to the first, by deciding to recognise local government as the third tier of government, and allowing, at least theoretically, local government to conduct governance at the 'grass root' level. Ekpo and Ndebbio (1998) advanced the syntheses of reasons for creating the third tier of government as:

- To promote local freedom of action and autonomy;
- To promote local services and development;
- To promote national unity; and
- To enhance grass root democracy.

The second phase of the Local Government reforms is the election of the first Executive Chairman in all the Local Government Councils of Nigeria and the granting of autonomy to each of these Local Government Councils in 1988. Thus, the Local Government, which used to be an appendage of the defunct Ministry of Local Government, has now become a true third-tier of government in Nigeria. The operations and activities of local governments in Nigeria vary from state to state and are determined by laws enacted through the individual State House of Assembly. In Lagos State, local governments are arranged by a fusion of executive and legislative arms, with an intention of having credible local government system that serves as a training ground for grassroots politics (Awotokun, 2005).

3. Sources of finance for local governments in Lagos State

Local governments are financed from both internal and external sources (Constitution of the Federal Republic of Nigeria, 1999; Lagos State Local Government Administration Law, 1999; Local Government Levies (Approved Collection) Law, 2010). External sources include:

- Revenues from the federal government in the form of statutory allocation, in accordance with section 160(2) of the constitution of the Federal Republic of Nigeria, which stipulates that any amount standing to the credit of the federation account shall be distributed among the Federal, State and Local Governments in each state on such terms and in such manner as may be prescribed by the National Assembly.
- Statutory allocation from state government. The state government pays to the local government such proportion (10%) of its internally generated revenue.
- Federal grants in aids. Section 162 of the constitution of the Federal Republic of Nigeria stipulates that the federal government may make grants to local governments to supplement their revenue.

Internal sources of finance available to local governments include:

- Fees and charges – the services for which fees and charges may be based varies but are basically classified as:
 - o Charges for work done or services provided for a socially desirable purpose e.g. rents, library charges, etc.
 - o Revenue from services which are run on broadly commercial lines for profit e.g. car parks, transportation, etc.
 - o Permissive revenue such as radio and television licence fees, special fees and fines, registration and licence fees, tenement rates, and business permit fees.
- Local Taxes – Although the constitution does not empower local governments to raise taxes or introduce new form of taxes without express permission from the state government, local government rates have been part of the local government revenue for many years.

4. Budgeting and financial reporting systems of local governments in Lagos State

As contained in the Budget Manual for Local Governments in Lagos State (2010), the budgetary process of local governments in Lagos State starts with the Head of Planning Research and Statistic providing the lead and framework for integrating the Local Economic Empowerment and Development Strategy (LEEDS) document into the annual budget. The manual stipulated four distinct stages in the budget preparation process as follows:

- i. Budgetary planning stage – This involves the formation of a budget committee that is responsible for developing policy statements on budget, making fiscal projections and allocating resources in line with priorities. Membership consists of all Heads of Departments, with the head of Budget and Planning as the coordinator.
- ii. Budget preparation and approval stage – This involves the issuance of call circular, preparation of budget proposals and approvals by the Executive Committee and Legislative Council.
- iii. Budget implementation – This involves development of work plans, spending and execution of plans.
- iv. Ex post evaluation and control – This involves compliance monitoring and performance measurement.

Local government financial reporting procedures in Nigeria are typically shaped by the Nigeria Constitution, state level legislative requirements, and other regulatory bodies and policies (e.g. International Public Sector Accounting Standard, and local financial regulations). These budgeting and financial reporting obligations provide for publication of summaries of financial statements, setting forth income and expenditures during the preceding year, the estimates of income for the ensuing year (determined within legal parameters), estimated expenditures required to carry out all local government functions in the year, all essential facts regarding long term obligations and indebtedness of the local government, and other financial statements and data deemed necessary to disclose detailed financial condition of the local government (Accounting Manual for Local Governments in Lagos State, 2003). Various legislations and rules governing local government budgeting and financial reporting in Lagos State are entrenched in the following:

- Lagos State Local Government Administration Law No.7 of 1999.
- Budget Manual for Local Governments in Lagos State, 2010.
- Local Government Levies (Approved Collection) Law 2010.
- Lagos State Public Finance Management Law No.9 of 2011.
- Model Financial Memoranda for Local Governments, 2010.
- Guidelines on Administrative Procedure for Local Governments, 2011.
- The Local Economic and Empowerment Development Strategy (LEEDS).

The Lagos State Public Finance Management Law No. 7 of 2011 requires all Local Governments in Lagos State to keep proper books of accounts and records and prepare, within the first quarter of the following year, a statement of its final accounts in conformity with the existing regulations. The financial statement of a local government is made up of the following components (Accounting

Manual for Local Governments in Lagos State, 2003):

- Statement number 1: Statement of Financial Responsibility – This is an attestation by the Council Treasurer that he is responsible for ensuring that the system of internal control is operated adequately throughout the reporting period.
- Statement number 2: Statement of Opinion from Auditor General for Local Governments – Attestation by the Auditor General for local Governments that he has responsibility for reporting on the true and fair view of the financial statement and has examined the financial statements.
- Statement number 3: Statement of Cash flow – This report provides users of the financial statements with information on the ability of the local government to generate cash and cash equivalents and how it has been utilised.
- Statement number 4: - Statement of Assets and Liabilities – The report provides information on all assets and liabilities of the local government at the end of the financial year.
- Statement number 5: Statement of Revenue and Expenditure - This includes line items of internally generated revenue, statutory allocations, miscellaneous revenue, personnel costs overhead costs, capital projects costs and other expenditures.
- Statement number 6: Notes to the Financial Statements – Contains accounting policies, principles and conventions adopted in the preparation and presentation of the financial statements.

5. Budgeting and financial reporting formats of local governments in Lagos State and their limitations

The formats adopted by local governments in Lagos State for budget and financial reporting are presented in three standardised reports; statement of cash flow, statement of assets and liabilities and statement of revenue and expenditure. These reports (known as out-turn reporting) are prepared to present comparison of receipts and payments with what was approved by the legislative council. This type of reporting has the only one objective – legal compliance. But the objective of citizens' participation in governance goes beyond this. According to Vinnari and N' Asi (2008), a citizen oriented budget and financial report is measured in terms of quality of information it contained and ability to show clearly:

- How money is being translated into services;
- The spending efficiency of government;
- The discipline of the spender; and
- Level of accountability structure.

Governance that is centred on providing citizens focused services should concentrate “on creating the right institutional environment for results” (Andrews & Shaw, 2005: 190). This right environment includes presenting financial reports of the local government activities to the citizens in the form that is relevant, readable and easy to understand. Globally, out-turn reporting favours what Chambers (1983: 154) refer to as “technocrat substance of traditional reporting”. Although, this type

of reporting format facilitates internal control; it does not support the main purpose of government accountability, because it is designed to favour a process that only the professionals can understand and control (Chambers, 1983). In such instance, a non financial expert finds it difficult to understand a government financial statement. In the same vein, how do citizens report on performance, when the reports are only for technocrats understanding?

In the management control literature, accounting has consistently been viewed from a stewardship perspective (Andrews, 2002; Jones, 1997; Solomon, 1965). Accordingly, good accounting rules have the property that the resulting accounting-based performance metrics guide users towards value increasing decisions. This perspective was central to Solomon's (1965) pioneering study on divisional performance measurement. The study outlined the importance of linkages between inputs, outputs and outcomes in performance measure. The debate about desirable government financial management system has recently been reinvigorated in connection with Result Based Management (RBM) introduced in public sector management. This requires linkages between government expenditure (inputs), activities (or projects) and outcomes.

6. Implications of the budgeting processes for citizen' participation

In general and by international practice, citizen focused budgeting and financial reporting process requires institutionalised structure and rules (Andrews & Shah, 2005) that will facilitate the inclusion of citizens' demand in the budget and ability to report on budget implementation in a manner that facilitates citizens' understanding. Review of the budgeting and accounting manual of local governments in Lagos State suggests that citizens were not actively represented at any of budgeting processes of local governments in Lagos State. A general observation tends towards irregular discussions with Community Development Associations (CDAs) on activities of the local government without presentation of financial reports and budgets to corroborate acclaimed results.

Budgeting processes in local governments are highly institutionalised such that rules, laws and norms have major effects on fiscal allocation, management behaviour and outcomes (Mummert, 1999). Therefore, enhancing citizens' participation both at the ex-ante budget and ex-post budget periods requires effective institutional mechanism that influences the budgeting process (Andrews, 2002). Though there are legislative and policy requirements on citizen participation in budgeting at the local government level (see LEEDS document, Lagos State local Government Administration law of 1999, Guideline on Medium Term Expenditure Framework), there is no evidence of effective citizens' involvement in the process. According to (Andrews & Shah, 2005), some of the problems that limit citizen's access and hinder participation include the following:

- Citizens are not generally empowered to actively participate in the process;
- Use of structurally flawed participatory mechanism by the government; and
- Difficulty in identifying the outcomes and agreements at the participatory meetings (especially with large crowd)

Though, the 'public audit process' (which is part of the Financial Management System) provides comfort on the financial statement; it does not provide other information necessary for assessing effectiveness and efficiency of spending by the local governments. Also, the process is considered a post-decision activity that only reports on legislative compliance and implementation of the balance principle.

7. Implications of budget and financial statement formats for citizen participation

The financial report format of local governments does not provide adequate information on how expenditures relates to activities. The format limits analysis to aggregated line items and thus affects users understanding of any relationship between activities, projects or services. Even where direct service expenditures (and revenue) are disaggregated (e.g. education services, health and environment, etc), the format does not include portions of general expenditure (e.g. salaries) on each service type.

According to Oates (1993), the adoption of fiscal decentralisation will enhance economic efficiency. Therefore, local governments are more likely to provide the right services in more economic way than central governments. The financial statement format of local governments in Lagos State does not provide means of assessing how well money is being spent (that is spending efficiency). The budget does not provide fiscal outcomes or outputs expected from budgeted expenditure and the financial statement formats does not provide any basis for assessing achievement of goals. Above all, exclusion from the budgeting process has greater impact on citizens' voice mechanism and government responsiveness.

Though, the budget and financial statement provides a broad measure of spending discipline through presentation of comparison of budgeted and actual expenditures in the financial report; it is weak in providing overall information on whether the government is spending more or less than is needed to achieve its goals. The only available mechanism for assessing spending discipline is through the Auditor General's report, a component of the financial statement. Citizen's reliance on this report is limited due to the top-down intergovernmental delegation approach adopted in the entire audit process. The Auditor General is a civil servant and is answerable to the government that appointed him. Thus, the use of this type of mechanism for assessing local government performance is open to criticism of political interference (Schick, 1998). In most cases, the Auditor General's report is produced at irregular intervals (Feinstein & Picciotto, 2000), and concentrates only on fiscal probity and rule adherence.

Lastly, local government financial statements do not provide a basis (or do not include reports) for assessing poorly performing projects, programmes or departments. There seem to be no higher government procedure for ensuring that budget performance in one year earns some kind of response or redress in the next as many queries of the Auditor General are usually rolled over to the next year.

8. Conclusion and Recommendations

Budgeting and financial statement formats of local governments reporting are unfriendly to citizens and they are of little help in engaging government for good governance. Citizens have limited access to the budgeting processes and face constraints in assessing performance or holding local government officials accountable on the basis of published budgets and financial statements. Thus, the processes require changes, if the desire is to facilitate citizen participation in a democratic setting. Information contained in the budget and financial reports need to be more detailed and meaningful for the ordinary citizen. Even with institutionalised participation and access, a major impediment is the structure, design and format of the budget and financial management documents. It is therefore suggested that budget and financial reports formats be redesigned along the line of the following considerations:

- The budget and financial statement format should be classified in a more meaningful form to show what government was meant to provide, where it will be provided, quantity to be provided, the timeline within which it will be provided and at what cost and quality. These should be the driving force of the budget and financial statement format as it provides clear information about what can be easily understood by an average citizen.
- Budget and financial reports formats should be accessible to citizens with minimum literacy level. It should allow for easy understanding of the information contained therein and easy comparison of budgets with performance levels as opposed to the existing complex and externally confusing reports, which is only understood by technocrats. Improving budget readability will require a complete move away from internal input-based system currently being used to results-oriented reporting format that facilitates external evaluation by citizens.
- In public organisations, budgets and financial statements are meant to communicate core responsibilities of governments (Mikesell, 1995). This should reflect in the most important report presented by a government, the budget and financial reports. As such, the budget and financial report should be formatted to include clear information on how much was spent on each activity, what was achieved with the spending and identities of those officials entrusted with spending. This ensures that the budget and financial report communicates information by responsibility to citizens for things that matter. The system where government officials are held accountable for adherence to strict procedural rules without reporting on efficiency or effectiveness of such spending does not make any meaning for the purpose of external evaluation by citizens.

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