

Financial Regulations and the Management of Fund in the Local Government System: A Study of Orumba North Local Government Council Of Anambra State, 2010-2018.

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Abstract: *This study is on financial regulations and the management of funds in the local government system: a study of Orumba North Local Government council of Anambra state. Financial regulations are a body of rules designed to achieve probity and accountability in government spending and use of funds. However, considering the situation within the local government system where administrators are sometimes unable to meet up with their financial obligations in terms of provision of social services and infrastructural development to the citizens, one wonders if these regulations have impacted on fund management in the local government. This is because service delivery at the grassroots continue to dwindle owing to poor fund management. It is on this note that this study seeks to assess the impact of financial regulations on fund management in the local government system. The study adopted a survey research design and data were generated from primary and secondary sources. The population for the study was 481 staff of the Orumba North local government council. The data generated for this study was analyzed using descriptive statistical tools and the hypotheses were tested using the chi-square. Findings indicate that the financial estimate regulations have effect on spending in Orumba North Local Government Council, that the revenue collection procedure has not ensured that all revenue due to the local government are collected promptly and remitted into the local government treasury and that the expenditure procedure has no effect on the diversion of funds in Orumba North Local Government Council. Drawing from the findings, the study recommends that there should be strict adherence to the financial estimate regulation/ procedures to ensure that funds are utilized only for the purpose for which they are allocated in the annual budget, that the local government authority should institute an inbuilt detective system to check fake receipt issued by corrupt revenue collectors and there should be a consistent and strict pre-audit check to eliminate loopholes in the expenditure procedure so as to discourage the diversion of fund voted for local government projects.*

Keywords: Financial Regulation, Fund Management, Financial Estimate Regulation, Revenue Collection Procedure, Expenditure Procedure

INTRODUCTION

The worth of any local government is determined by the quality and quantity of services it renders to the people at the grassroots. Local governments are the third tier administrative structure in Nigeria, created to bring government closer to the people at the grassroots and render social services to the people (Agba, Ogwu & Chukwurah, 2013). According to Agi (2002), local government is a political authority set up by the federal government as subordinate authority for the purpose of dispensing or decentralizing political power. Local government, therefore, is a political subdivision of a nation which is constituted by law and has sub-national control of local affairs including the power to impose taxes or to extract labour for prescribed purposes.

The National Guideline for the reform of local government (1976) provides that one of the aims of creating local government in any organized society is delivery of goods and services close to where people live. This objective constitutes the most important indicator of success or failure of any local government system. To enhance rapid development at grass root level, the federal government has made some fundamental changes in local government administration and place a lot of priority on their viability. This is because the success and the effectiveness of local government depend largely on the financial resources available to the individual local government and the way these finances are utilized by the local government administrators (Oguonu, 2004). One of the basic functions of the local government administration is therefore, the utilization and management of its financial resources.

To this end, there are therefore, financial regulations and financial instructions put in place to ensure effective management of fund in the local government system. Financial regulations are a body of rules designed to achieve probity and accountability in government spending and use of funds. It takes the form of financial estimate which is the local government working plan within a period of one year and which requires that the activities of the local government must be conducted within the financial framework (Ajayi, 2000); revenue collection procedures (as outlined in the 2009 model financial memoranda for local governments which provide guidelines on how monies are collected and utilized for proper accountability; and expenditure system which involves the operational procedures for making payment on goods bought and services rendered (Appah,2009). In Nigeria, local government expenditures are made using a variety of procedures. These include book adjustments, issuance of cheques, cash and other payment

systems. The procedures for making payments are documented in the 2009 Federal Republic of Nigeria Financial Regulations to guide the local government administrators on how to make payment for goods procured and services rendered.

Akpan (2002) observed that most local government financial administrators arbitrarily spend government fund without recourse to the guideline stipulated in the government financial regulations. Wuam and Ngarka (2010) posits that local government financial administrators rarely comply with the financial regulations in making payments, which invariably lead to inaccurate financial statement. When financial estimate regulations are not observed spending is made without recourse to the estimate which could lead to excessive spending. When fund proposed to be used for one financial year is expended in six months, it will stress the treasury, hinder development and leads to deficit budgeting. When revenue collection procedures are not followed, revenue meant for the local government will be lost into the pockets of private revenue collector. When these losses occur without check it makes lean the internal revenue (IGR) available for the running of the local government and for the development of the local area. Ensuring proper collection and remittances of these revenues is most essential now that fund from the federation account does not come straight into the local government treasury due to the state-local government joint account.

When expenditure procedure is not adhered to, diversion of fund will be rampant. The implication is that fund meant for a project under the estimate subhead can be moved to another project under a different subhead. This kind of situation will produce a lopsided development in the favour of the interest of the ruling class.

The heart of any country's government administration is the effective management and control of its public fund. Government administration needs to be run in accordance to the laid down rules and regulations of which the financial regulation is one.

However, according to Salawu (2005), in spite of the functions spelt out in the government financial regulation for proper management of local government fund, one still wonders if it has positively affected management of fund in the local government. Several factors including fraud and misappropriation of funds, weak institutional controls and high incidence of tax evasion negate adequate compliance of these regulations with respect to fund management. This study therefore tries to determine the impact of the financial regulations on the management of fund in Orumba North Local Government between 2010 and 2018. The choice of Orumba North is a matter of convenience as the research is from the area and so can understand local situations that may help to give meaning to the subject of study.

Objectives of the Study

The broad objective of this study is to assess the impact of financial regulations on the management of fund in Orumba North local government council from 2010 to 2018.

Specifically, the objectives include:

1. To ascertain the effect of financial estimate regulations on Orumba North Local Government spending
2. To determine whether the revenue collection procedure have enhanced remittances into Orumba North Local Government treasury.
3. To examine the effect of expenditure procedure on diversion of fund in Orumba North Local Government council.

Hypotheses

1. Financial Estimate Regulations have not affected government spending in Orumba North Local Government Council.
2. Revenue Collection Procedure has not enhanced remittances into government treasury in Orumba North Local Government Council.
3. Expenditure Procedure has not affected diversion of fund in Orumba North Local Government Council.

CONCEPTUAL EXPLANATIONS

Financial Regulations

Financial regulations are a body of rules designed to achieve probity and accountability in government. Such rules cover the opening of bank accounts, use of cheques and the collection of revenue. Financial regulations define the duties and responsibilities of finance officers of government (Okwoli, 2004) and financial authorities are the legal instruments that empower and guide all public officers in carrying out government financial transactions.

Such financial transactions include the receipt, custody of and accounting for government revenue; the procurement, custody and utilization of government stores and assets, and the disbursement of funds from the major government funds. These mechanisms are

embedded in the financial regulations. In Nigeria, the mechanisms are embedded in the 1991 Revised Financial memoranda for Local Government. The Financial Memorandum stipulates the generation and judicious management of funds for the benefit of the entire community.

Buhari (2001) defined financial regulation as the process of ensuring that cash and other financial resources of government are in accordance with the legislation, regulation and accounting manual which constitute legal and administrative framework of a particular entity.

Anyafu (2004) defined financial regulation as a process of assuring that cash is used properly and for authorized programmes that involves observation and measurement by comparing actual performance against the planned and correcting variances. Adams (2004) and (Mainoma, 2007) defined financial regulation as the steps taken to ensure maximum safe custody of financial resources in order to avoid waste, misuse, embezzlement, misappropriation or illegal disposal of public finance.

Government enforces financial regulation through the use of such instruments like civil service rule, financial instrument, financial memorandum, treasury accounting manual, financial regulation, etc. When these documents are issued, it is expected of all arms of public service to comply and be guided by them (Akpata, 2001).

Anyafu (2004) stated that financial regulation is an essential element that requires due consideration in the public sector, because no organization can function effectively without a sound and effective financial regulation in their operational activities.

According to Adamolekun (2003) the local government versions of financial regulations are the financial memoranda. According to him, the objective includes: professionalization of civil service, decentralization and delegation of authority, accountability and probity in government and enhancement of effectiveness, efficiency and speed of operation.

In view of the above, financial regulation is very important in an organization's operations because it is concerned with the steps taken to ensure maximum safe custody of financial resources. Adhering to financial regulations instill financial discipline. Financial discipline is the judicious allocation and utilization of scarce resources to ensure that benefits accrue from any activity undertaken. It focuses on ensuring that funds are only expended on activities (projects) from which benefits accrue. The essence of financial discipline is to ensure accountability and prudent utilization of scarce financial resources. Without a disciplined financial set-up, businesses are bound to fail. It thus, entails the following; prudence in spending, ensuring proper expenditure regulation, blocking all leakages and eliminating all sorts of malpractice associated with funds management, ensuring value of money, accountability, strict adherence to budget, review of budget and financial allocation from time to time (Johnson, 2006; Damagun, 2003; Sani, 2009). Financial regulations at the local government level, according to Adams (2004), Buhari (2001) and Sani (2009) are of two ways; internal and external regulation. Internal financial regulation include; issuance of financial authorities e.g warrant, appointment of committee for different services, centralization of all payments to and out of the council, preparation of estimate of income and expenditure for the year and establishment of authority limit, while the external financial regulation include; parliamentary regulations, state/ federal government regulations, regulations by the general public and external auditor regulation. Local government services are financed through internally generated revenues, share from the federation account, borrowing, leasing and so on (Adams, 2004).

Management of Fund

Effective management of fund is a pre-requisite for the achievement of the aims and objectives of the 1976 local government reforms. For funds to be effectively and efficiently managed the provisions for the handling and custody of fund as provided by the Revised Financial Memoranda 2009 must be strictly adhered to and this would ultimately lead to enhanced performance and sustenance of the Nigeria local government

Fung, (2012) defines public financial management as being part of the decision-making, planning and control subsystems of an enterprise. It is considered to incorporate, the treasury function, which includes the management of working capital and the implications thereof. It also incorporates the evaluation, selection, management and control of new capital investment opportunities.

Financial Estimate Regulations and Local Government Spending

Financial estimate regulations are statements of the objective of the Local Government in financial terms for the financial year concerned, and are in effect, the Local Government's working plan for the year. The activities of the Local Government must be conducted within the financial framework prescribed by the estimates, as they are approved, unless and until supplementary estimates are approved which would vary with the original framework. Any expenditure must be covered by a provision in the annual appropriation estimates, failing which it is unlawful.

Having established a financial framework for action, the estimates are then to be used as a mechanism for ensuring that adequate controls are maintained over expenditure and revenue. Because the Local Government accounting system is organized in heads and subheads of the estimates, when the amount spent under any sub-head gives an indication of being likely to exceed the approved estimates, the control arrangements must be such that prompt steps are taken either to obtain a supplementary authorization, or to contain the approved estimates (Awoyemi, 2009).

The main financial management activities have been established to be the planning and controlling of organizational finances towards the attainment of stated objectives (Pandey, 2005). In line with this, Anyanwu (2007) points out two main instruments of financial management in the local government as (1) Budgeting; and (2) Auditing. Budget is the nerve centre in the management of financial resources in both public and private organizations. A budget is a financial plan that shows in detail the proposed estimate of revenue and expenditure for a defined period, usually one year (Onah, 2005; Adamolekun, 2003). Budget estimate is achieved in the local government by means of annual estimates which are attainable.

The model financial conventions document (1991) provides that every department shall in each year; prepare a detailed estimate of its revenue and expenditure for the coming financial year. The estimate should be submitted to the executive committee which shall ensure that it is consistent with the budgetary measures adopted by the local government and the state for the succeeding financial year. Budgetary regulation is concerned with the establishment of responsibilities with set targets to achieve and at the end of the day comparing the actual achievement with set target with the aim of putting in place corrective measures that will ensure that the result achieved are in conformity with the planned or budgeted. (Lekarchman, 2007 and Mueller, 2008). Budgeting and budgetary regulations is another means of managing and controlling local government finance in Nigeria.

Local governments are to ensure that funds allocated to various projects under different sub heads in the appropriation are utilized for their intended purpose. The movement of funds from one subhead or project to another must not be undertaken except with the approval of the legislature through the passage of a supplementary appropriation law. Strict adherence to these budgetary regulation procedures ensure that funds are utilized only for the purpose for which they are allocated in the annual budget.

Revenue Collection Procedure and Remittances into the Local Government treasury.

Adams (2004) defined revenue as the fund required by the government to finance its activities. It is also defined as the total amount of income that accrues to an organization (public or private) within a specified period of time (Mueller, 2008). These funds are generated from different sources such as taxes, borrowing, fine, fees etc. The revenue collection procedures are concerned with the guidelines set up to ensure the collection of revenues of governments through properly identified sources, the proper monitoring of such collections and ensuring that collected revenues are accounted for properly.

The amount of money to be collected as revenue depends on the assessment and allocation machinery. One thing is to know the sources of revenue; another thing is the ability to collect the revenue appropriately and effectively. The organ charged with the responsibility of collecting and mobilizing revenue in the local government is the finance department headed by the treasurer. It is stated clearly in the financial memoranda that the finance department is to see that all revenue due to the local government are collected promptly and properly paid into the local government bank account.

The process is initiated through the finance bill which is the request to parliament by the executive to seek authorization for the collection of annual revenues from identified sources. All revenues and other monies due to a local government shall be received either by the cashier in the treasury or by a revenue officer. A local government shall appoint in writing such employees as it thinks fit to be revenue officer for the local government to discharge the duties and responsibilities set out in financial memorandum 1 (20) where appropriate, a local government may appoint a person other than an employee as a revenue collector and such person shall receive an appropriate proportion of the taxes or fees he collects, as commission.

According to the financial memoranda for local governments (2009), a revenue officer is required to pay all Local Government monies he has collected into the treasury or if so authorized in writing by the Treasurer, into the nearest branch of the Local Government's bank at intervals prescribed by the Finance and General Purposes Committee or immediately when the maximum sum prescribed by the FGPC is held by him. Payments direct to the treasury cashier must be made by the revenue collector himself or an accredited literate representative, so that the receipt issued by the cashier may be signed by the payer.

Before making payment to the treasury at the interval prescribed under financial memorandum 6.3, the revenue collector's cash book shall insert such totals in a revenue collectors summary book (Form LGT 16) recording the under mentioned information: date; type of revenue; number of receipts issued since last payment; total amount for each type of revenue; grand total of all revenue. When making payments to the treasury or presenting to the treasury a paying-in-slip in respect of cash paid direct to a bank, the revenue collector shall produce all receipt books, his revenue collector's cash book and revenue collector's summary cash book.

According to the revised financial memoranda for local governments (1991), the treasury cashier shall then; check the cash or pay-in-slip handed over by the revenue collector against the records so produced.

Expenditure Procedure and Diversion of Local Government Fund.

Expenditure regulation procedures are the regulation system within the spending institutions which ensure that all the spending done within the organizations are done exactly for the purposes that were agreed. This is also known as vote regulation and is exercised by the accountant of the organization. The regulation measure according to Appah, (2008) involves awareness by every organization or personnel to ensure that items are procured which will give the highest benefit from the spending, and the acquisition of items or services through proper negotiation and bargaining to ensure cost reduction.

This often have to do with pre-audit checks to ensure that, for instance authorization has been given for the presented vouchers, the supplier of the activity has been properly identified, the quantity of items has been well identified and agreed on, the right amount has been identified subject to any discounts, and other terms of payment, and the necessary documentation has been provided or attached to the main request.

Expenditure procedures as outlined in the 2009 Model Financial Memoranda for local government provides guidelines on how expenditures are made for proper accountability. Section 14 (2-8) provides the following: no payment shall be made unless authorized funds are available, each payment must be supported by a properly authorized payment voucher prepared on one of the forms referred to as LGT 45 General Payments, LGT 46 salaries, LGT 48 Pensions and LGT 49 Traveling allowances. A payment voucher shall be prepared as follows: it must be made out in favour of the person to whom the fund is actually due, it must be capable of being checked without reference to other documents, it must be clearly worded and give full particulars of payment, each voucher shall show the head or subhead of expenditure to be charged, alterations to payment voucher must be signed in full by the official authorizing payment and vouchers with extensive alterations may be rejected at the discretion of the treasurer..

Section 14 (8) also requires the payment voucher to be authorized by the officer controlling the vote; or the person to whom an Authority to Incur Expenditure (A.I.E) has been issued. Section 14 (9) provides that the signature of the official authorizing the payment certifies the correctness of all the details on the voucher. The treasurer will therefore be held liable for any payment in excess of approved votes, which are unreasonable or are found to be irregular in any other respect

METHODOLOGY

Research Design

The study adopted the survey research design. The field investigation was carried out in Orumba North Local Government council of Anambra state. The administrative headquarters of Orumba North Local Government council is in Ajali.

The population of study was four hundred and eighty one (418) staff of Orumba North local government council of Anambra State. This is categorized as follows

Table 1 Population of the Study

SEX	SENIOR STAFF	JUNIOR STAFF
MALE	56	48
FEMALE	300	77
TOTAL	356	125

Source: Anambra State Local government Service Commission, 2017

Sample size for the study was determined using Taro Yamane's formula for sample size determination. Yamane's formula was used because the population size is known. The sample size is 218. The respondents were drawn from the total population using judgmental sampling method. This procedure enabled the researcher to select only staff with the requisite knowledge on the subject. Thus respondents were selected based on the possession of knowledge that will help actualize the research interest. The study relied mainly on primary and secondary data. The primary data were collected using a structured questionnaire. The structured questionnaire is a pre-coded type of questionnaire in which respondents respond by way of listed options to questions.

The data generated were collected and analyzed using descriptive statistical tools like tables, frequencies and mean ratings. The decision rule for interpretation of the mean scores of the data is that 3 is the cut off mark for accepting an item at the agreed level and mean ratings below 3 is to be taken as an indication of mean scores within the disagreed level.

The hypotheses were tested using Chi square.

DATA ANALYSIS

Test of hypotheses

Chi square was used to test the hypotheses.

Hypothesis 1

Ho: Financial Estimate Regulations have not affected Orumba North Local Government Spending.

Contingency Table

FX	EF	FX – EF	(FX – EF) ²	$\frac{(FX - EF)^2}{EF}$
40	50	-10	100	2.0
56	47	9	81	1.7
59	49	10	100	2.0
6	16	-10	100	6.25
28	18	10	100	5.5
7	16	-9	81	5.0
7	17	-10	100	5.8
15	5	10	100	20.0
218	218	0	762	48.25

The calculated Chi-square = 48.25

Table value = 5.99

Level of significance = 0.05

Degree of freedom

$$(r - 1) (c - 1)$$

$$(4 - 1) (2 - 1)$$

$$(3) (1) = 2$$

DECISION RULE

If the calculated value of Chi square is greater than the table value, we reject the null hypothesis, otherwise accept the null hypothesis. Based on the tested hypothesis, since the calculated hypothesis is greater than the table value (5.99) at 0.05 level of significance and 2 degree of freedom we therefore reject the null hypothesis and conclude that the financial estimate regulation has effect on spending in Orumba North Local Government council.

Hypothesis 2

Ho: Revenue Collection Procedure has not enhanced Remittances into Orumba North Local Government treasury.

Contingency Table

FX	EF	FX – EF	(FX – EF) ²	$\frac{(FX - EF)^2}{EF}$
21	21	0	0	0
27	27	0	0	0
69	74	-5	25	0.3
44	40	4	16	0.4
2	2	0	0	0
9	9	0	0	0
31	26	5	25	0.9
10	14	-4	16	1.1
218	218	0		2.7

The calculated Chi square = 2.7

Table value = 5.99

DECISION RULE

Since the calculated Chi-square is smaller than the table value, we accept the null hypothesis and conclude that the revenue collection procedure has not enhanced remittances into the Orumba North local government treasury.

Hypothesis 3

Ho: Expenditure Procedure has not affected the diversion of fund in Orumba North Local Government Council.

Contingency Table

FX	EF	FX – EF	(FX – EF) ²	$\frac{\text{FX} - \text{EF}}{\text{EF}}$ ²
64	64	0	0	0
66	67	- 1	1	0.0149
12	13	-1	1	0.076
19	18	1	1	0.055
22	22	0	0	0
25	24	1	1	0.041
5	4	1	1	0.25
5	6	- 1	1	0.16
218	218	0	6	0.5969

The calculated Chi square = 0.5969

The table value = 5.99

DECISION RULE

Since the calculated Chi-square is smaller than the table value, we accept null hypothesis and conclude that expenditure procedure has no effect on the diversion of fund in Orumba North Local Government treasury.

Findings

In summary, the findings are:

1. That the financial estimate regulations have effect on spending in Orumba North Local Government Council. The financial estimate regulations have ensured that the local government financial activities are conducted within the financial framework prescribed by the estimate.
2. That the revenue collection procedure has not ensured that all revenue due to the local government are collected promptly and remitted into the local government treasury.
3. The expenditure procedure has no effect on the diversion of funds in Orumba North Local Government Council. That means that the regulation has not ensured that all the spending done within the local government is done exactly in accordance with the stipulated regulations.

Recommendations

1. There should be strict adherence to the financial estimate regulation/ procedures to ensure that funds are utilized only for the purpose for which they are allocated in the annual budget.
2. The local government authority should institute an inbuilt detective system to check fake receipt issued by corrupt revenue collectors. This will help reduce and fish out corrupt revenue collectors for prosecution.
3. There should be a consistent and strict pre-audit check to eliminate loopholes in the expenditure procedure so as to discourage the diversion of fund voted for local government projects.

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