

THE EFFECTS OF ADOPTION OF ACCRUAL-BASED BUDGETING ON TRANSPARENCY AND ACCOUNTABILITY IN THE NIGERIAN PUBLIC SECTOR

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ABSTRACT

This study appraises the effects of adoption of accrual-based budgeting on transparency and accountability in the Nigerian public sector. A sample of two hundred and ninety-five respondents in the Nigerian public sector, drawn from Cross river, Edo, Kwara and Lagos States of the federation, was used to conduct the study. Two hundred and fifty-eight valid responses representing 87% of the sample were used in the analysis. This study employed Karl Pearson coefficient of correlation “r” statistics for analysis. Findings from this study indicated significant impact of accrual budgeting on transparency and accountability, there is also significant impact of transparency and accountability on economic growth in the Nigerian public sector. This study provides important management information, and can be used in enhancing fiscal transparency and accountability towards good governance in the Nigerian public sector.

1. INTRODUCTION

1.1 BACKGROUND

In view of the experience from the global financial crisis, nations are striving to improve their financial management strategies in the area of transparency and accountability. Some countries are now aiming to free themselves from the limits of their present system of financial reporting by adopting credible financial reporting in their budget operations. Therefore, the budget otherwise referred to as appropriation is very prominent in the Nigerian public sector as it is a major financial statement.

Ouda (2007), Omolehinwa (2005), Althukorola and Reld (2003), and Wynne (2003) studies on public sector accounting emphasized the importance of public budgeting. They explained that it is intended as a mechanism for setting goals and objectives, for measuring progress made towards achieving the set objectives, for management by exception, and for controlling and integrating the diverse activities carried out by numerous subunits, ministries, departments and agencies within a large government bureaucracy. Public budgeting works by channeling various types of information about societal conditions and about the private and public value that guide resource allocation decision making. Some Nigerian studies (Ekot and Ogala [2011], Omolehinwa [2005], and Ula-lisa [2005]) have found links between public budgeting systems and transparency and accountability accounting practice in Nigeria.

In preparing a budget, an accounting basis is required. The public and private sectors both used cash basis of accounting until the 16th century. While government accounting remained on a cash basis, the private sector developed generally accepted accounting principles (GAAP) including accrual accounting in response to economic pressures. However, many authors including Omolehinwa (2005), Lee, Johnson and Joyce (2004), and Althukorola and Reld (2003), explained that the public sector environment differs from the private sector environment because government fiscal activities as contained in the budget intentionally impact the economy.

However, in view of the growing evidence that the world economies are more interconnected and symbiotic, governments are accountable to a wider group of stakeholders. Therefore government needs to adopt a strategy for acceptance of its financial activities. These activities are closely scrutinized through the budgets and forecasts mechanism. And as such, the need for a review of an accounting basis of budgeting is of concern to the public sector.

Nigeria is faced with the challenges of transparency and accountability in its present cash-based budgeting system. If care is not taken, the challenges may deteriorate to cases like that of Parmalat, US Energy giant (Enron), and WorldCom. Kuye's 2010 study in Nigeria expressed the same concern. Similar to this is the Nigerian crisis of inefficiency of some government organisations, such as Power Holding Company of Nigeria Plc, Nigerian Ports Authority Plc, and the Nigerian Police Force. Oyejide and Soyibo (2001) opined that this crisis is mainly due to financial malpractices and concealment of material facts due to lack of transparency and accountability.

The high tendency for government organisations to collapse encouraged the transparency and accountability in government to come under sharp scrutiny. This led to a disturbed global public to call for improved basis of accounting in the public sector. However, public sector accounting is peculiar because of its stewardship characteristics, which are non-business and mainly for service to constituents. It is also without a standard for performance measurement. These characteristics have implications for its accounting, which in effect pose some challenges as to the basis of accounting to be adopted.

Empirical studies in Nigeria have established that there are questions about accountants' competence and integrity, especially in the public sector. This environment robs the public budget where credibility as to transparency and accountability is put to question (Dandago (2007), Ekot and Ogala (2011), and Iweala (2011)).

What is then required is an accounting practice that supports moral and ethical standards in order to ensure transparency and accountability. However, there are gaps in the literature as to reducing these challenges in the Nigerian public sector. To worsen the situation, the International Public Sector Accounting Standards (IPSAS) Board has only been categorical on the cash or accrual basis of accounting, but they have not articulated an alternative to accrual basis. All except one of the IPSAS are issued on the accrual basis.

It is in light of this situation that the *Financial Reporting Council Act No. 6 2011, LFN* mandates the adoption of International Financial Reporting Standards (IFRS) on which the accrual IPSAS are based.

According to Pwc Nigeria (2011), the Financial Reporting Council of Nigeria has concluded arrangements for the enforcement of adoption of accrual based IPSAS by 2014 in order to make Nigeria a reference point in IFRS education. Based on this Roadmap, Nigerian listed companies and significant Public Interest Entities (PIEs) are required to comply with IFRS for periods ending after 1 January 2012. Other PIEs will be required to comply for periods ending after 1 January 2013 and small and medium sized entities will need to comply for periods ending after 1 January 2014.

Therefore, this is the time for this type of study. This study examines if it is worthwhile that the current cash-based budget should be prepared under accrual basis in Nigeria using global financial reporting benchmarks. Since this is for a better understanding and appreciation of risks, making decisions about the flow of the economy with transparency and accountability is very important.

This study examines the issues and challenges of transparency and accountability of Nigerian Public budgeting system by employing a purely narrative analysis. The focus of analysis is on

the Public Sector structure, budget design and maintenance in the day to day operations within the context of transparency and accountability. The study is anchored on the hypothesis testing in the form of descriptive statistics and Karl Pearson coefficient of correlation 'r'.

1.2. STATEMENT OF THE PROBLEM

Nigeria is faced with a high poverty level, poor transparency rating, and high cost of borrowing because of poor budget accounting of unspent funds. This situation is due to the consequences of the non-business characteristics of government. In business the accounting equation is Total Equity = Assets + Liabilities. But in cash basis accounting, all assets are short changed because they are written off in the year of occurrence rather than over the entire life span of the asset.

Assets are written off because (contrary to the theory of a business cycle which expects birth, growth, and decline before a possible death) the cash basis does not give opportunity for growth at all, nor does it plan for decline. It pays more attention to almost instant death. Therefore, sadly the equation is re-written as Total Equity \neq Assets + Liabilities. And as such the equation is not balanced as reflected in the Nigerian public management. The cash basis equation is Total Receipts = Partial Assets + Liabilities + Unspent Funds (Sometimes Un-accountable Funds).

More worrisome is the fact that despite the availability of unspent funds, Nigeria engages in huge borrowing at unaffordable cost and the unspent funds result in negative balances. For instance, a United Nation's (UN) 2004 report suggested that Nigeria lagged behind on the goals of eliminating extreme poverty and combating diseases, where 45% of the population lives below the poverty line. An illicit fund of \$458 million was successfully deposited in a Swiss account by a late President.

Furthermore, according to Transparency International (2007), the corruption perceptions index placed Nigeria as ranking 147 out of 180 countries. A World Bank report (2006) also placed Nigeria in position 108 out of 175 countries in the ease of doing business index.

According to Awom (2012), an amount of N156 billion was stolen from the pension fund in Nigeria. Whereas, Athukorola and Reld (2003) summarized that at the aggregate level, accrual-based fiscal indicators provide better information about the sustainability of fiscal policies. For instance, the effects of pension policies on a government balance-sheet are disclosed and provide a stronger basis for government accountability. Accrual accounting information cannot be manipulated as easily as cash-based information.

These statistics call for concern. This concern is expressed by Dandago (2007), Oladele (2001), and Omolehinwa (1989) studies in Nigeria, which stated that programmes implementation is a basic problem in Nigeria due to poor accountability. Omolehinwa (2012) argued that the failure to recognize the problem of output measurement was one of the reasons why the Nigerian government had unrealistic expectations of its Planning Programming and Budgeting System (PPBS), which it introduced in 1980.

Interestingly these problems have a solution because "...almost every cost can be measured in terms of output, every activity will respond to quantifiable measurement." (Omolehinwa 2012:16). The UN (2004) stated that a prerequisite for improvement is transparency and accountability in the Nigerian public sector. The impediments to proper accounting by governments is not to be related to cost, nor to available expertise, but rather it requires a commitment at the political level that transparency is not a choice but an obligation, and, like the private sector, the rules are written not for the subset but for the whole entity and for the entire stakeholders (Wynne 2007: 56).

Government accountability should be a fundamental obligation to the citizens who are not being treated like other investors. They have no such choice in relation to the contribution made to

government through taxation, whereas investors usually choose where to invest their hard earned money.

Athukorola and Reld (2003) opined that there is evidence from the United States of America where “states that use accrual information borrow at better terms than those states that use solely cash information”. Accrual budgeting is harder to manipulate. Also, Ouda (2007) explained that accrual budgeting is a way forward because it accommodates efficiency, effectiveness, transparency and accountability. This is contrary to Wynne’s (2007) study, which argued that accrual accounting is more complex than cash accounting. In view of the diverse opinions, it is necessary to empirically find out the real position.

1.3. OBJECTIVES OF THE STUDY

This study empirically appraises the effects of adoption of accrual budgeting on transparency and accountability in the Nigerian public sector. In achieving this, the study identifies two specific objectives, which are to:

- i. Determine the extent to which there is transparency and accountability in the current cash budgeting system in the Nigerian public sector.
- ii. Determine the extent to which the adoption of accrual budgeting has an impact on transparency and accountability in the Nigerian public sector.

1.4. RESEARCH QUESTIONS

The objectives of the study raised some questions, which are:

- i. To what extent is there transparency and accountability in the current cash budgeting system in the Nigerian public sector?
- ii. To what extent does the adoption of an accrual budgeting system have an impact on transparency and accountability in the Nigerian public sector?

1.5. RESEARCH HYPOTHESES

Based on the objectives of this study and the research questions for which answers are intended from the findings of the study, two hypotheses were formulated for testing; they are stated in the null form as follows:

Hypothesis 1

Ho: There is no significant relationship between cash budgeting and transparency and accountability in the Nigerian public sector.

Hypothesis 2

Ho: There is no significant relationship between accrual budgeting and transparency and accountability in the Nigerian public sector.

1.6. SIGNIFICANCE OF THE STUDY

In view of the public perception of problems of transparency and accountability in the Nigerian public sector and its negative effects on the Nigerian economy as expressed in Ekot and Ogala (2011), Iweala (2011), and Ula-lisa (2005), this study is significant for its objectives. Wynne (2003), in a related study on accrual accounting in the United Kingdom, established that an approach should be developed that correctly identifies to whom governments should be accountable and what their financial information needs are. This study provides information on

the appropriate approach. It has the potential for improving stewardship which will then translate to adequate provision of jobs and a conducive business environment.

Literature revealed that accrual accounting is an important element in public sector reforms directed to improving the efficiency and responsiveness of government services and enhancing the accountability for the use of public resources (Ouda (2007), Mcphee (2006), Athukorola and Reld (2003), Wynne (2003), and Oladele (2001)). Athukorola and Reld's (2003) study established that the adoption of accrual accounting removes a barrier preventing access of private sector trained financial managers to many public sector financial management jobs. This study intends to fill the gap in the literature available on the impact of adoption of accrual accounting on transparency and accountability.

Therefore, this study aims at throwing more light on good business practice in government in the area of revenue responsibility, expenditure control, and management and planning through a result oriented or value driven budgeting system as a primary tool in improving transparency and accountability. The study takes a look at financial administration in government dealing specifically with the effects of adoption of accrual based-budgeting on transparency and accountability in the Nigerian public sector. Financial markets and credit rating agencies should find this study useful.

This study is of benefit to students, and researchers due to the dearth of empirical literatures available in this area of study. The findings from this study may provide reference for legislators and policy makers. It may be of importance to regulatory authorities in the Nigeria economy, private and institutional investors, academics, politicians and public servants.

1.7. SCOPE OF THE STUDY

This study focuses on the accrual budgeting aspect of accrual accounting. It evaluates the effects of adoption of accrual-based budgeting on transparency and accountability in the Nigerian public sector with particular reference to Cross river and Edo States in the South-South Zone, Kwara State in the North Central Zone, and Lagos State in the South-West Zone of the Federal Republic of Nigeria. The focus of the research in terms of study area is the executive and legislative arms of government in the states concerned.

These states were chosen for the study because they constitute the nation's economic nerve centres, especially Lagos where over 65% of the country's commercial activities are carried out according to Nigeria business directory index (2009). The scope of the study could have covered the whole of accrual accounting rather than limiting it to accrual budgeting. Also the study area could have been nationwide, but time, finance, distance and other academic workload did not allow this possibility.

2. LITERATURE REVIEW

2.1. OVERVIEW OF PUBLIC SECTOR BUDGETING

A budget is a prominent financial statement in the public sector. Omolehinwa (2012) opined that the budget was viewed as the principal means of securing accountability and control over the use of public funds. "The importance of the budget for accountability was that it provided standards by which to judge the annual accounts" (Normanton, 1966:6 as cited in Omolehinwa, 2012)

Literature revealed that public budgeting systems are systems for making choices of ends and means. These choices are guided by theory, selfishness, partisan politics, and individual value judgments. Governments are not spending their own money, they are spending constituents' money, tax payers' money, aid and grants. They are entrusted with the management of assets

and liabilities that have been built up over decades, and which will have an impact on the welfare of citizens for many more decades.

Like any other investor, tax payers as citizens are entitled to information that will allow them to hold governments accountable for their use of these public resources. The way to achieve this accountability is by an appropriate basis of accounting for the budget.

The budget is one means by which governments can engage constituents in the polity's process, and engender confidence. According to Wynne (2007), as supported by Omolehinwa (2005), a government, regardless of the form it takes, represents the interests of the people it governs. Good government requires that constituents have confidence in those that govern. This confidence is enhanced when governments fully inform their constituents, and provide for them through reliable budgets.

Literature revealed that there are many examples of poor budget management by governments because government decision making in general lacks the standard for measuring activities (Ekot and Ogala, 2011; Iweala, 2011; and Ula-lisa, 2005). Also Lee, Johnson and Joyce (2004), argued that there is a large difference between the inclination of governments internationally to act to enhance private sector performance and the relative lack of urgency devoted to improving their own budgeting system and financial management.

In order to improve financial management in government, some advocates of better governance are clamoring for accrual budgeting over the traditional cash budgeting. According to McPhee (2006), accrual accounting and budgeting in the public sector have come a long way. Accrual accounting is an important element in a suite of public sector reforms directed at improving the efficiency and responsiveness of government services, and enhancing accountability for the use of public resources.

McPhee (2006) argued that some of the traditional accounting concepts need additional consideration, and in some cases, modification for application in the public sector environment. Though this is a very important change that is not without its wrinkles, it is indeed a major achievement in linking transparency and accountability to the budget.

According to Athukorala and Reld (2003), many governments that have implemented accrual accounting have not uniformly applied the accrual basis to these mechanisms. For instance, budgets may be prepared on a modified accrual accounting basis, appropriations may be made on the cash basis, and reports may be presented on the accrual basis.

According to Wynne (2007), the United Kingdom government has adopted accrual accounting within both local and central government. At present, this is still at an agency and local authority level, but consolidated audited reports are expected later. His study further found that the Canadian government has issued financial statements on a full accrual basis (Wynne, 2007). He argued that those jurisdictions that have fully adopted the accrual basis have found it generates very significant benefits. Accrual budgeting can play a key role in public management developments as the means by which measurements are made, achievements are documented and negotiations take place with transparency and accountability.

2. 2. TRANSPARENCY AND ACCOUNTABILITY IN THE NIGERIAN PUBLIC SECTOR

Literature revealed that financial management in government is for the purpose of providing adequate financial information to the citizens through talking to citizens and listening to them. This can be done through the process established for carrying out financial and non-financial activities. Compliance with the processes is necessary to ensure transparency and accountability (Wynne, 2007; Omolehinwa, 2005).

According to United Nations Development Programme (UNDP, 2008), accountability is the obligation to demonstrate that work has been conducted in accordance with agreed rules and standards. The officer reports fairly and accurately on performance results compared with plans. UNDP (2008), stated that transparency refers to a process by which reliable, timely information about existing conditions, decisions and actions relating to the activities of the organisation is made accessible, visible and understandable.

UNDP (2008), argued that accountability and transparency are indispensable pillars of democratic governance that compel the state, private sector and the civil society to focus on results, seek clear objectives, develop effective strategies, and monitor and report performance. In this regard, some authors [McPhee (2006); Lee, Johnson and Joyce (2004)] support this view. They argued that accountability is essential in government. Accountability indicates that agencies should be held answerable for promised results by doing things transparently in line with due process.

“The problem with this concept of accountability is that its focus is on whether or not spending votes are exceeded without questioning whether the amounts paid for services and goods are reasonable. Thus, this type of accountability in the Nigerian public sector cannot provide answers to a question like, ‘what did the tax payers receive for the money spent?’” (Omolehinwa, 2012. p.31). Omolehinwa stated that it is this limitation of accountability that shifted attention from compliance to performance-based accountability.

The Government Performance and Results Act of 1993 (called GPRA in USA) and performance “contract” in form of Public Service Agreement in Britain, reinforced by Resource Accounting and Budgeting (RAB), are attempts at laying emphasis on performance-based accountability in government. Under both methods, the government is expected to indicate targets/outcomes that are supposed to be the commitment of government to their citizens on what to expect for the use of public funds. Through the annual budget reports, the public and the legislative arm of government can judge whether or not public funds are well spent.

Oladele (2001) stated that accountability expectation is enshrined in the *Constitution of the Federal Republic of Nigeria, Act No. 24 LFN*, which emphasizes regulation and control of public funds and the whole aspect of financial management in government. Accountability includes financial, administrative, social, and political stewardship. This view is supported by Ula-lisa’s (2005) study which established that when accountability is transparent it suggests that all means of facilitating citizens access to information and their understanding of decision-making mechanisms is based on integrity, in order to ensure an unimpaired condition of soundness synonymous with honesty.

United Nations Economic Commissions for Africa (UNECA, 2005), stated that to talk about accountability is to talk about responsibility and responsiveness. Since public accountability is central to good governance, it has been generally taken to be the public expectation for fairness. A reliable budget is expected to achieve this fairness.

UNECA (2005) agreed with IMF (2001) that budgeting facilitates monitored by policy analysis, promotes transparency and accountability as a result of regular fiscal reporting, sound management of revenue, expenditure, assets and liabilities of all government institutions. Therefore, IMF (2001) argued that transparency and accountability in budgeting should be pursued based on good practices on fiscal transparency, there should be clarity of roles and responsibilities, public availability of information is essential, and there should be open budget preparation, execution and reporting.

Ekot and Ogala (2011) describe the Nigerian 2011 budget as one that is expected to help deal with an overhanging deficit by reducing an over-bloated overhead and running cost. This description agrees with the view of Ula-lisa (2005), who stated that bad leadership traits in

budgeting are the very reason why the leaders must not only be accountable but also transparent in all things. In this manner, the people can monitor and determine what direction they want from their representatives.

UNECA (2005), argued that to achieve assurance of integrity, fiscal data should meet accepted quality standards and should be subjected to independent scrutiny, there should be mechanisms in place that provide assurances to the public about data integrity. Some improvements are needed to ensure that the budget data reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments. The improvements may be achieved by reviewing the cash basis of accounting and adopting accrual accounting.

2.3. THE ADOPTION OF ACCRUAL BUDGETING SYSTEM IN THE NIGERIAN PUBLIC SECTOR AS COMPARED WITH THE TRADITIONAL CASH BUDGETING

The basis of accounting in the Nigerian government is cash, which means the amount spent in pursuing capital items is treated the same way as that used for recurrent items. Just because most public sector activities are not intended to be profitable, it does not mean that business-like measurement of results in relation to costs should be rendered useless.

Lee, Johnson and Joyce (2004, p.4) argued that whether a business is undertaken for profit or for regulation of public matters, it should be evaluated like any other business in terms of performance. This is because legislators, investors and other users need information that helps them assess a government's results in the management of its resources and financial affairs. A comparison of the actual results with those originally forecast in the budget, and with those of the prior period, is necessary to identify significant differences. A budget based on the accrual method is the financial statement that includes a comparison of the government's actual and planned financial results in a year. It provides important accountability information about the budget decisions of the current period to assure that the cost of services provided today are paid for by the recipients today and not passed on to future generations.

If it is agreed that government's budget is a crucial element in the accountability cycle and the standard against which subsequent performance is judged, governments should be held publicly accountable for the choices they have made, for their programs, the cost of services and the financial position of their jurisdiction. The comparisons of actual and budgeted results, on the statement of income and expenditure and on the statement of change in net debt, provide the key accountability information integral to evaluating a government's performance in achieving its operational and spending plans.

Some authors [McPhee (2006); Athukorola and Reld (2003)] argued that accrual accounting enhances accountability. This stems from the availability of information on actual and budgeted spending on capital assets. According to Oladele (2001), at the end of a financial year, the actual results (in the form of Accountant-General reports) have to be measured and released for comparison with budgeted results so that appropriate actions could be taken on the variance that might arise. Oladele (2001) expressed that this has not been possible because of the reporting problems in the Nigerian public sector in the area of government responsibility over budgeting.

There are arguments in favour of accrual accounting basis for preparing financial statements such as a budget, but while generally recognising that the accrual accounting basis is superior to the cash basis, opponents tend to raise concerns about implementation difficulties. Some commentators oppose the use of accrual accounting.

2.3.1 Arguments for accrual- based accounting statements

According to some authors [Hughes (2007); Ouda (2007); Athukorola and Reld (2003); Mcpee (2003)], accrual accounting is superior because accrual accounting provides better information for fiscal sustainability. Cash accounts generally comprise a single income and expenditure statement in contrast to the multiple statements and notes provided by accrual information. In practice, cash based government financial statements tend to be idiosyncratic and difficult to understand and interpret. Conversely, accrual financial statements are familiar to a wide range of people (such as business people, financial journalists and credit rating agencies).

Although literature argued that both cash and accrual information can be manipulated, many non-technical people believe cash accounts to be more prone to manipulation than accrual information. Accrual accounting statements are more comparable and consistent. Athukorola and Reld (2003), Mcpee (2003), Hughes (2007), and Ouda (2007), argued that accrual information improves understanding of the underlying fiscal position by removing year-to-year variability caused by the timing of cash receipts and payments (particularly capital payments).

Financial markets and credit rating agencies are particularly interested in the sustainability of financing and expenditure policies. Accrual financial statements provide a richer set of information for analysing the sustainability of fiscal policy and the quality of fiscal decision-making.

Athukorola and Reld (2003), argued that government accountability differ markedly among countries depending, among other things, on electoral arrangements, political institutions and the degree of decentralization. However, these differences are generally not important when considering the appropriateness of fiscal information as a basis for accountability. "IMF considers the accrual basis superior, because all resource flows are recorded, including internal transactions, transactions in-kind and other economic flows. This comprehensive recording permits the integration of flows with changes in the balance sheet." (Athukorola and Reld, 2003, p.17).

In any case, accrual reports also provide cash flow statements. Conversely, cash based accounts normally do not differentiate between expenses and acquisitions of non-financial assets such as buildings. Under the accrual basis, acquisitions of non-financial assets are recorded separately. Furthermore, the IMF (2001) contends that separating current and capital transactions is useful for analyzing the economic impacts of fiscal policy. By providing information on depreciation and asset valuation changes, accrual information allows better judgments to be made on the quality of government investments and the sustainability of fiscal policy. It also removes the conflicting treatment of sales of financial equity and physical assets.

Hughes (2007); Ouda (2007); Athukorola and Reld (2003); Mcpee (2003); and Wynne (2003), all supported the view that the advantages of accrual accounting statements outweigh those of cash accounting because they include liability disclosures. Governments generally have significant liabilities other than public debt (borrowings). An important example is the future obligation to pay civil service pensions. These obligations are typically under-funded. Under accrual accounting, the unfunded liability is usually shown on the balance sheet as a liability. Also additional disclosures are made in supplementary notes. These include information on contingent liabilities and on commitments.

Athukorola and Reld (2003), opined that information is provided for considering intergenerational fairness. Intergenerational fairness is important in fiscal policy, it reflects the degree to which the government today is paying the costs of services today, as opposed to shifting costs to other periods. Accrual accounting provides a longer-term perspective for judging policy impacts. For example without accrual accounting, decisions on pensions that create pension liabilities may not fully consider the impact of the liabilities on future budgets.

Athukorola and Reld (2003) argued that the basis for identifying arrears is explained better in accrual accounting statements. Payment arrears arise when an obligatory transaction is not made by its due-for-payment date. All arrears are automatically included in accrual-based statistics. Information for managing liquidity is also provided. Managing liquidity is crucial to government operations. It is not necessary to use the cash basis to meet this need. Cash flow information is provided by the accrual basis. It may also be difficult to assess solvency and future flows with the cash basis because of minimal information disclosure. There is better information for decision making on fiscal strategy, that is, the direction and objectives of fiscal policy and the management of revenue and expenditure flows, assets and liabilities. Under the cash basis, fiscal strategy focuses on short-term revenues and expenditures (that is 1-3 years).

Under the accrual basis, assets and liabilities are given the same attention as debt in terms of targets, risk analysis and contribution to economic policy objectives. Arguments are made that clerical staff are required for cash - based accounting systems with minimal input from qualified accountants, whereas accrual systems require trained accountants, who have responsibilities towards their professional callings, particularly during implementation.

2.3.2 Arguments against accrual - based accounting statements

According to Omolehinwa (2012), the basic aim of accountability is to ensure that the authorized budgetary votes were not exceeded and are utilized only for purposes specified by the Assembly. The problem with this concept of accountability is that its focus is on whether spending votes are exceeded or not without questioning whether the amounts paid for services and goods are reasonable or not. Thus, this type of accountability cannot provide answer to a question like what did the tax payers receive for the money spent. Although his study criticised the present level of accountability in the Nigerian Public sector, he maintained that Nigeria should not adopt the alternative accounting basis, which is the accrual basis.

Wynne (2007), Athukorola and Reld (2003), Mcpee (2003), and Wynne (2003), recognised the weaknesses in accrual accounting. Some of the opponents of accrual accounting argued that shifting the government budget to the accrual basis will not avert an Enron type of fiasco because Enron reported its finances on the accrual basis, but accrual basis does not remedy the 'off- balance sheet' problem. Athukorola and Reld (2003) argued that accrual basis entails numerous, often complex, assumptions about future events, the assumptions are subject to judgment and manipulation, and the assumptions often dominate the relationship between firms and external auditors. Wynne (2007) argued that there are costs associated with accrual accounting, and these costs are on-going. It also requires regular revaluations of all capital assets, therefore, it is more complex.

According to Athukorola and Reld (2003), Enron took advantage of gaps in accounting standards to avoid consolidating special purpose entities. This failing was due to failure to follow accounting standards, not accrual accounting because accrual financial statements include cash flow information, which would have exposed the gaps.

The overall arguments of Ekot and Ogala (2011), Ouda (2007), McPhee (2006), Ula-lisa (2005), Athukorola and Reld (2003), and Oladele (2001), is in line with the adoption of accrual budgeting. They summarized that at the aggregate level, accrual-based fiscal indicators provide better information about the sustainability of fiscal policies. For instance, full disclosure provides a stronger basis for government accountability. Accrual accounting information cannot be manipulated as easily as cash-based information.

Wynne (2007) and Omolehinwa (2012) in their studies sounded a note of warning in the complete adoption of accrual basis of accounting because of the implementation costs for users understanding viz-a-viz the usefulness of the reports.

3. RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

This research is essentially investigative and explanatory in that it seeks to appraise the benefits of transparency and accountability in the adoption of accrual budgeting in the Nigerian public sector from the public servants and legislatives perspectives. The structure of its process and procedure is therefore descriptive and this belongs to the generic family research design type called survey design. Research design is “the structuring of investigation aimed at identifying variables and their relationships to one another” (Asika, 2008).

3.2 STUDY POPULATION

According to Asika (2008), a population is made up of all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher while a sample is precisely a part of the population. It is expedient to know the nature of the population so as to aid the choice of sampling technique. Therefore, due to the technical nature of the topic of study coupled with the need to ensure that the response obtained is representative and reliable enough, the population of this study is all public servants in the accounting cadre and members of the State’s house of assembly who are in the public account committee (PAC) in Cross River and Edo States in the South–South Zone, Kwara State in the North Central Zone, and Lagos State in the South-West Zone of the Federal Republic of Nigeria.

3.3 SAMPLING TECHNIQUE

A sample refers to a part of a population selected for study while a sampling technique is the method adopted for selecting such a sample from the population. The sample considers the objectives of this study, “it is expedient to ensure that the sample identified is a statistical representation of the population and stands clear of bias, the sample must be adequate and possess stability” (Asika, 2008). The sampling procedure adopted for the research work is quota sampling; it is often used in public opinion studies (Gupta, 2009).

Respondents who are in the senior officers and management categories in the accounting cadre under the accountant general and PAC members in four states representing three out of the six geo-political zones of Nigeria, which totaled 376 out of a population of 1,065, was sampled. This sample was considered a good representation of the respondent population since the ultimate is how representative the sample is of the population (Asika 2008; Gupta 2009). This sampling method was adopted so as to save time and ensure a high degree of probability of returns. Copies of questionnaire were distributed to 295 respondents, 276 copies were retrieved, and 258 were adequately analysed (see Figure 3.1 below).

Figure 3.1: ADMINISTRATION OF QUESTIONNAIRE IN FOUR STATES IN NIGERIA

STATE	GEO-POLITICAL ZONE	QUEST DISTRIBUTED	QUEST RETRIEVED	QUEST USED
Cross River	South-South	63	60	56
Edo	“	36	33	30
Kwara	North Central	96	86	80
Lagos	South-West	100	97	92
Total		295	276	258

Source: Field survey 2011

3.4 RESEARCH INSTRUMENT

Research instrument is a device for collecting data or measuring the variables used for answering the research questions and testing the hypotheses. For the purposes of this study, a five-point Likert scale type of questionnaire was adopted as the research instrument. The questionnaire was designed in such a way as to provide vital answers for the research questions and hypotheses testing. The questionnaire contained a set of questions classified into two major sections A and B - 1, 2 and 3.

Section A featured five questions on bio-data of the respondents. This includes location of the organization and length of service in the public sector. The inclusion of these variables is necessary as they help to classify the respondents properly as well as analyse their responses. Section B of the questionnaire comprised of statements of assertion and open-ended questions. These were designed primarily to provide information for testing the hypotheses. The opinions of respondents to these statements of assertion were sought through the use of a questionnaire in the Likert scale format which is a psychometric scale commonly used in questionnaires, and is the most widely used scale in survey research. When responding to a Likert scale questionnaire item, respondents specify their level of agreement to a statement. According to Changing Minds (2011), a Likert scale normally measures the intensity of agreement by the respondent to a statement that asserts a phenomenon.

The applicable five-point Likert scale used in the construction of the questionnaire is outlined and interpreted with points of degree of agreement as Strongly Agree 5, Agree 4, Undecided 3, Disagree 2 and Strongly Disagree 1 for B1, and Always 5, Regularly 4, Seldom 3, Neutral 2, Never 1 for B2 and B3, respectively. The categories being tested are strongly agree, agree, undecided, disagree and strongly disagree for B1 and always, regularly, rarely, seldom, neutral and never for B2.

Both primary and secondary methods of data collection were employed. Primary method consists of questionnaire design, administration and analysis of responses.

The secondary method consists of references into previous scholarly works on budgeting and accounting concepts in textbooks and journal articles. Figures shown and analysis done were based on responses to copies of the questionnaire issued and returned.

3.4.1. Instrument validation

In the light of this, the research instrument was subjected to content validation to ensure that the content of the instrument measures the variables investigated in the study. The first draft of the questionnaire was given to two PhD students in accounting. Based on their suggestions improvements were made, and the improved copy was given to a post graduate lecturer who also made positive input. The input was incorporated in the final copy, which was used in carrying out the study. A reliability test was done on the data collected for testing the hypothesis. It resulted into a Cronbach's Alpha of 63.6 % as shown in Figure 3.2.below. This implies that the data are highly reliable.

Figure 3.2: RELIABILITY STATISTICS

Cronbach's Alpha	N of Items
.636	20

Source: Field Survey 2010

3.5 METHOD OF DATA ANALYSIS

In order to analyse the primary data obtained from the administered questionnaire comprehensively, both descriptive and inferential statistics were applied. The profiles of respondents outlined in section 'A' and the Likert scale questions featured in section 'B' were analyzed through the use of quantitative descriptive statistics in the form of frequency and Karl Pearson coefficient of correlation "r".

With respect to the hypothetical statements asserted in section 'B' of the questionnaire, a combination of the descriptive and inferential statistics was employed in analyzing the responses. Descriptive statistics used include probability sampling, frequency measures and parametric inferential statistics in form of the Karl Pearson coefficient of correlation "r" which is regarded as "the most popular measure of correlation for analysing differences between sample means, it summarises in one figure not only the degree of correlation but also the direction." (Gupta, 2009).

Karl Pearson coefficient of correlation "r" statistical method is adopted for its simplicity of interpretation, it is the most widely used in practice (Gupta, 2009), it is adopted because the study is about the strength of relationship between transparency and accountability and the adoption of accrual budgeting when compared with the traditional cash budgeting in the Nigerian Public Sector. The formulated hypotheses were tested with the aid of Statistical Package for Social Sciences (SPSS) version 17.0 to ascertain whether or not the respondents are significantly in agreement.

4. DATA ANALYSIS

4. 1. INTRODUCTION

This section discusses the data gathered from field survey by means of a questionnaire which was used to conduct the study, the questionnaire was made up of two sections, A and B as aforementioned. In section 'B' Questions 16 and 17 were drawn to answer research question I, questions 7 and 8 were to answer research question II. The formulated hypotheses were tested using the questionnaire's section 'B' questions 6, 12 and 17. The data analysis is presented in the figures below according to the responses to the questionnaire items.

4.2 PRESENTATION OF DATA

The completed copies of questionnaire were used for the analysis from two hundred and fifty eight (258) valid respondents out of the two hundred and ninety five (295) distributed. The response rate represents 87% of the total sample. Most respondents are in the accounts and audit sections at 73.6% and mostly executive officers at 56.2%, about 26.4% of them are directors, about 60.5% work for State governments while about 18.2 % are legislators. Most of the respondents have spent above 10 years in the public sector as shown in Figures 4.1.1, 4.1.2 and 4.1.3 below. The fact that most respondents are accountants and auditors who have spent over ten years on the job in an executive officer's capacity and that some of them are legislators who make the laws adds to the reliability of this study because the result is coming from familiar and knowledgeable people in the area of this research topic.

Figure 4. 1.1: Respondents' job section in the public sector

		Frequency	Percent	Cumulative Percent
Valid	Accounts	136	52.7	52.9
	Audit	54	20.9	73.9
	Budget & Economic Planning	31	12.0	86.0
	Legislature	36	14.0	100.0
	Total	257	99.6	
Missing	System	1	.4	
Total		258	100.0	

Source: Analysis of survey data (2011)

Figure 4.1.2 : Respondents' job designation

		Frequency	Percent	Cumulative Percent
Valid	Executive officer	145	56.2	56.4
	Director	68	26.4	82.9
	Ministerial/Parastatal's head	5	1.9	84.8
	Legislators	39	15.1	100.0
	Total	257	99.6	
Missing	System	1	.4	
Total		258	100.0	

Source: Analysis of survey data (2011)

Figure 4.1.3: Respondents' length of service in public sector

		Frequency	Percent	Cumulative Percent
Valid	Less than 5 years	34	13.2	13.2
	5- 10 years	55	21.3	34.6
	Above 10 years	168	65.1	100.0
	Total	257	99.6	
Missing	System	1	.4	
Total		258	100.0	

Source: Analysis of survey data (2011)

RQ1: To what extent is there transparency and accountability in the Nigerian current cash budgeting system?

About 36.4% of respondents expressed that a cash-based budget is never anchored on transparency and accountability principle while 18.6% are neutral making a total of 55% as shown in Figure 4.2.1 below. Also in Figure 4.2.2 below, 61.6% of respondents observed that key reconciliations are never performed to provide assurance around the integrity of information being reported under cash-based budgeting. The analysis shows that there is no adequate transparency and accountability in the Nigerian current cash budgeting system.

Figure 4.2.1 : A Cash-based budget is anchored on transparency and accountability principle

		Frequency	Percent	Cumulative Percent
Valid	NEVER	94	36.4	36.6
	NEUTRAL	48	18.6	55.3
	SELDOM	36	14.0	69.3
	REGULARLY	79	30.6	100.0
	Total	257	99.6	
Missing	System	1	.4	
Total		258	100.0	

Source: Analysis of survey data (2011)

Figure 4.2.2: In cash-based budgeting key reconciliations are performed to provide assurance around the integrity of information being reported

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NEVER	159	61.6	62.6	62.6
	NEUTRAL	44	17.1	17.3	79.9
	SELDOM	29	11.2	11.4	91.3
	REGULARLY	22	8.5	8.7	100.0
	Total	254	98.4	100.0	
Missing	System	4	1.6		
Total		258	100.0		

Source: Analysis of survey data (2011)

RQ 2: To what extent does the adoption of accrual budgeting system have impact on transparency and accountability in the Nigerian public sector?

In Figure 4.3.1 below, 68.2% of respondents strongly agree that accrual budgeting provides full disclosure of information for transparent governance more than cash accounting. This view is further supported with a record of 42.2 % and 35.7% for agree and strongly agree, that is, a total of 77.9% respondents who believe that accrual budgeting improves international credibility and assurance more than cash budgeting as shown in Figure 4.3.2 below. Therefore, the adoption of accrual budgeting system has impact on transparency and accountability in the Nigerian public budgeting system to a large extent.

Figure 4.3.1 : Accrual budgeting provides full disclosure of information for transparent governance more than cash budgeting

		Frequency	Percent	Cumulative Percent
Valid	STRONGLY DISAGREE	3	1.2	1.2
	DISAGREE	19	7.4	8.6
	UNDECIDED	4	1.6	10.1
	AGREE	55	21.3	31.5
	STRONGLY AGREE	176	68.2	100.0
Total		257	99.6	
Missing	System	1	.4	
Total		258	100.0	

Source: Analysis of survey data (2011)

Figure 4.3.2: Accrual budgeting improves international credibility and assurance better than cash budgeting

		Frequency	Percent	Cumulative Percent
Valid	DISAGREE	21	8.1	8.2
	UNDECIDED	35	13.6	21.8
	AGREE	109	42.2	64.2
	STRONGLY AGREE	92	35.7	100.0
Total		257	99.6	
Missing	System	1	.4	
Total		258	100.0	

Source: Analysis of survey data (2011)

Hypothesis 1

Ho: There is no significant relationship between cash budgeting and transparency and accountability in the Nigerian public sector.

Figure 4.4.1: Correlations of Cash budgeting and Transparency and Accountability in the Nigerian current cash budgeting system.

		Transparency and Accountability ensure management by exception.	A Cash-based budget is anchored on transparency and accountability principle.
Transparency and accountability improve management by exception	Pearson Correlation	1	.049
	Sig. (2-tailed)		.437
	N	257	257
A Cash-based budget is anchored on transparency and accountability principle	Pearson Correlation	.049	1
	Sig. (2-tailed)	.437	
	N	257	257

Source: Analysis of survey data (2011)

In Figure 4.4.1 above, hypothesis 1 predicts a positive relationship between cash budgeting, transparency and accountability but the relationship is not significant, therefore, the null hypothesis is accepted and it is concluded that there is no significant relationship between cash budgeting and transparency and accountability.

Hypothesis 2

Ho: There is no significant relationship between accrual budgeting and transparency and accountability in the Nigerian public sector.

Hypothesis 2 predicts a positive and significant relationship between accrual budgeting and transparency and accountability at 0.01 level of significance as shown in Figure 4.4.2 below. Therefore, we reject the null hypothesis and conclude that there is relationship between accrual budgeting and transparency and accountability. The result agrees with the findings of Althukorola and Reld (2003), who stated that accrual accounting should be adopted in the public sector environment for better accountability because government fiscal activities intentionally impact the economy.

Figure 4.4.2 Correlations between accrual budgeting and transparency and accountability

		Accrual budgeting provides full disclosure of information	Transparency and Accountability ensure management by exception
Accrual budgeting provides full disclosure of information	Pearson Correlation	1	.383**
	Sig. (2-tailed)		.000
	N	257	257
Accrual budgeting ensures management by exception	Pearson Correlation	.383**	1
	Sig. (2-tailed)	.000	
	N	257	257

** . Correlation is significant at the 0.01 level (2-tailed).

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

This study examines the impact of the adoption of accrual budgeting in the Nigerian public sector. A sample size of 376 respondents in the Nigerian public sector was used. Data analysis was carried out through the use of quantitative descriptive statistics in the form of frequency and Karl Pearson coefficient of correlation “r” with the aid of Statistical Package for Social Sciences (SPSS) version 17.0. This study answered two research questions and tested two hypotheses, it provides the answers in section four. The study found out that transparency and accountability is not exercised in the Nigerian public sector cash-based budgeting system to a large extent, and it is evidenced that adoption of accrual budgeting system has benefits of transparency and accountability when compared with the traditional cash budgeting to a large extent. This study drew trends and issues from a diverse range of sources in the public sector in order to examine some key areas in the budget process, principles and administration. The study combines literature review with analytical review to ensure proper education of the intention of the researcher.

The conclusions drawn from the results of the study are to a large extent similar to that reached by the Institute for Democracy in South Africa (IDASA)’s African Budget Project in a similar study although IDASA's study expanded to nine countries (UNECA, 2003). This study evidenced that accountability and transparency in the Nigerian budgeting system need improvement through the adoption of accrual budgeting. This agrees with (Iweala, 2011) who expressed that “the 2011 Nigerian budget is not good for development.”

5.2 CONCLUSION

This study predicts a positive significant relationship between accrual budgeting and transparency and accountability at 0.01 level of significance. The result agrees with the findings of Althukorola and Reld (2003), who stated that accrual accounting should be adopted in the public sector environment for better accountability because government fiscal activities intentionally impact the economy. If the accrual basis of budgeting is adopted there may be hope of finding solutions to the problems of hunger and poverty, transparency and accountability. This change in the budgetary basis may bring relief to pensioners as pension

fund scams are expected to be reduced. Also, the global community, such as credit agencies, shall have confidence in the Nigerian public sector.

5.3 RECOMMENDATIONS

- i. It came out from this study that accrual accounting should be embraced in the Nigerian public sector. There should be clarity of roles for financial and program decision making at all levels of government to ensure assurance of integrity and a transparent budgeting system as an instrument for financial decision making.
- ii. Federal government has responsibility for the overall state of the economy, therefore, the responsibility to use budgeting as an instrument of economic policy must be taken seriously. There should be public availability of information, in the interest of credibility, the government should be committed to publishing financial information regularly, to ensure full disclosure of information, which is the essence of transparency and accountability.
- iii. Transparency and accountability should be improved upon in the public sector. Budget spenders should be accountable by agreeing expected results from capital and recurrent expenditures spending, monitoring implementation, and reporting to stakeholders such as constituents, credit and donor agencies.

5.4 FUTURE STUDY/ LIMITATION OF THE STUDY

This study is limited to respondents located in four states due to financial and logistics constraints. Future research is necessary to extend the scope of the study to cover the Nigerian nation. Also the study is concerned with samples of state government operations, a future study should cover the operations in the entire nation.

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