



ACCRUAL ACCOUNTING IN PUBLIC SECTOR ACCOUNTABILITY AND SUSTAINABLE DEVELOPMENT

Ngozi Benedette Nwali
Department of Business Education
Enugu State College of Education, Ikwo
Email: ngo.nwali@gmail.com

ABSTRACT

This paper discusses accrual accounting in public sector accountability and sustainable development. Accrual accounting has all it takes to enhance social accountability of public managers, increasing financial reporting, transparency, service cost accounting as sound accounting system is vital for sustainable development. Conclusion are drawn and recommendations made amongst all, that government should ensure that they create enabling environment for the development of professional accountants vested with accrual accounting knowledge and employ them to work in the public sector.

Keywords: Accrual Accounting, Public Sector, Accountability and Sustainable Development

INTRODUCTION

The introduction of accrual accounting in public sector has been a great concern among private and public sectors. The global crisis in financial system has confirmed that both the private sector and the public sector need the highest quality accounting standards. The cash basis of accounting which has been used for many years now has been assessed as not being comprehensive enough to give a true view of the activities of government as to contribute to better decision making or improved public information for sustainable development. Thus, a number of countries have moved their accounting system from cash accounting to accrual accounting based on the International Public Sector Accounting Standards (IPSAS)

The recent move to accrual accounting in the public sector will help them to present an accurate and fair view of government fiscal position and financial performance. Standardized and comparable financial information will now be possible across the world (NASB 2011). Therefore, effective implementation of accrual accounting reportage that would positively affect transparency objective of public sector reporting agenda are needed and should be tapped for sustainable development. Available sources in history have shown that the level of accountability and transparency in financial reporting and

management in the public sector depends largely on the use of qualified competent financial operators and the respect accorded to the accounting profession, for this it has been identified that there is a close relationship between the quality of accounting record kept and transparency objective of public sector (Nworie, 2014). This support that proper use of accrual accounting in public sector accountability are indispensable tools for sustainable development. This paper will therefore attempt conceptual clarifications and highlights the benefits of accrual accounting in public sector. This will be followed by an x-ray of sources of revenue and expenditure in public sector as well as accrual accounting in public sector accountability and sustainable development. Lastly, the authors view is that, if the recommendations here are religiously followed or implemented, accounting records that lack compliance with standards in public sector may become a story of the past.

Accrual Accounting

Accrual basis of accounting is one out of the three bases (cash basis, accrual basis and commitment basis) under which the financial statement of an enterprise could be prepared. Under accrual basis, revenue are recorded when earned and expenditure are recorded when incurred not minding the fact that the receipt or payment of cash could take place wholly or partly in another accounting period. The recent spread of accrual accounting to the public sector is caused by a number of factors such as (i) the introduction of computerized Financial Management Information System (FMIS) which greatly reduced the cost of transactions of collecting and consolidating accrual based information (ii) the limitations involved in pure cash accounting (iii) the recent development of Accrual Based International Standards for Government Fiscal and Financial Reporting including Government Finance Statistics Manual (GFSM) and International Public Accounting Standards (IPAS) (Danny, Jodie and Christopher, 2007). Accrual basis of accounting is commonly found in private and all government parastatals. Its benefits includes capturing more accurately business activity and profitability, providing more detailed view of governments financial performance and the cost of government activities, providing more comprehensive picture of the financial position of the public sector as a whole, improving the reliability and integrity of government financial data and helping to focus greater attention on the part of policy makers as well as the public on the acquisition, disposal and management of government assets and liabilities.



Public Sector

Public sectors are those organizations which are not privately owned and operated but which are established, run and financed by the government or its agencies on behalf of the whole citizen (Adams, 2006). The definition as seen above shows that public sector consists of organizations where the control and management of the organization lies on the hands of the public. The primary objective of public sector is to provide services to the citizens and not to maximize profit. Nigeria public sector consists of Federal Government such as its ministries, departments and agencies like Nigeria Airways, Nigeria Ports Authority (NPA), Central Bank of Nigeria (CBN) and Independent National Electoral Commission (INEC). At state level, public sector consists of state ministries, departments and its agencies including the local government. The type of quality of account prepared and presented at this level helps to monitor incomes, expenses, assets and liabilities. It equally helps to assist in the assessment of financial consequences of transactions and its occurrence.

Public Sector Accountability

Accounting in public sector is the process of recording, communicating, summarizing, analyzing and interpreting financial statements about government activities involving all receipts, custody and disbursement of government funds (Adams 2006). The purpose of public sector accounting includes:

- ❖ The provision for effective management of government assets, liabilities, expenditures and revenue.
- ❖ The provision of periodic financial statements with appropriately classified financial information as a basis for proper financial accountability, control and decision making.
- ❖ The determination of the cost-effectiveness with which planned objectives are achieved.
- ❖ The maintenance of financial records suitable for internal and budgetary control as well as the needs for auditors.

Accounting in public sector has the purpose of determining how much money was received and its sources, how much was spent and for what purposes and the financial obligations accrued (Om, Olehinwa and Naiyeju, 2012).

Accounts kept in departments, parastatals, administrative entities as well as ministries must comply with the various rules and regulations applicable to the organization be it government or private or public limited liability companies. Izedonni and Ibadin (2013) argued that sound public sector accounting rests in an articulated framework which has been defined to reflect best practice around the world. In order words, what is important is to present accounting records that are well documented, simple to learn and operate as well as relatively uniform that reflect the objectives, scope and activities of the sector which when further processed must give useful information necessary for further decision making and for sustainable development. Thus, the type of account prepared and kept should suit the needs and capacity of the users in line with the accounting standards. To be accountable is all about being answerable to those who have invested their trust, faith and resources on you.

Okoh and Ohwoyibo (2009) opined that public accountability reflects the need for government and its agencies to serve the public effectively in accordance with the laws of the land. It is the obligation to demonstrate that work has been done in accordance with the agreed rules and standards and the office reports accurately on the performance results (Adegite, 2010). In order words, there is need for financial statement reporting that will contain all of the public sector's revenue and expenditure in line with the due process. Premchand (1999) observed that the ability to achieve full accountability has continue to be inadequate partly because of the way accountability is design and as well the range of objectives and expectations attached to it. He further argued that for full accountability to be achieved it must be designed with care to meet the needs of the organization concerned. Johnson (2004) argued that public accountability is essential for proper functioning of our political system. Ezeani, Ogbonna, Ezemoyih, and Okonye, 2012, Ojiakor 2009, Kim and Yaoon, 2012 and Chan, Lam, Smieliavskas and Ye, 2010) observed that there are factors and forces affecting full accountability in Nigeria system. Such factors range from corruption and manipulation, culture, ethnicity and tribalism, religious dichotomy, level of technical competence to auditor responsibilities. They noted that huge sum of money is lost through one financial malpractice or the other in Nigeria which led to folding up of many companies in the country and draining the nations meager resources with far reaching consequence of financial status of the country.



The collapse of many corporate organization and government parastatals resulted from nasty services rendered by their employees. Appah and Appiah (2010) argued that cases of fraud is prevalent in the Nigeria public sector that every segment of the sector could be seemed to be involved in one way or the other in some of these acts. He further pointed out that public sector activities has increased substantially in recent years and this increase has brought with it increased demand for accountability of public officers that manage these activities of the public. In view of the above Olaitan, Alaribe and Omeh (2010) noted that employment of qualified, experienced and competent staff to work in public sector as well as good governance is important for its effective performance and sustainable development of the country to be achieved.

Development

The concept of development has been an issue of debate among various scholars. Development in human society is not a one side process but rather multidimensional issues. Individuals sees development as increase in the skill and ability. They view it as maximum freedom, the ability to create responsibilities. Development in the context of accounting is the preparation of the capabilities, abilities, talents of each individual for his/her own satisfaction and enhancement of social and economic good. Seers (1977) in Ezinwa (2009) argues that development is all about outcomes. According to him, development occurs with the reduction and elimination of poverty, inequality and unemployment within a growing economy. Thus, he identified three objectives of development as:

- Producing more "life sustaining" necessities such as food, shelter and health care and broadening their distribution.
- Raising standards of living and individual self esteem and
- Expanding economic and social choice and reducing fear.

In furthermore of the above objectives, the United Nations has developed a widely accepted set of indices to measure development against a mix of composite indicators. According to UN's Human Development Index (HDI), development measures a country's average achievements in three basic dimensions of human development: life expectancy, educational attainment and adjusted real income per person. Furthermore, UN's Human Poverty Index (HPI), opines that development measure deprivation using the percent of people without access to health services and safe water and the percent of underweight children under five. In summary, development is growth plus

change. This change may be informed of social, cultural, economic, qualitative and quantitative. Therefore, development in a society has the implication not only of a change in the status quo but an improvement on the existing way of life, socially, economically, culturally and politically. In other words, development is said to be sustainable if its effects are seen to continue and to generate further developments.

Roles of Accrual Accounting to Public Sector Performance

Accrual basis of accounting is one out of the three bases (cash basis, accrual basis and commitment basis) under which the financial statement of an enterprise could be prepared. It is an accounting methodology under which transactions are recognized as the underlying economic events occur regardless of the timing of related cash receipts and payments. Following this methodology revenue are recognized when income is earned and expenses are recognized when liabilities are incurred or resources consumed. The basis of accounting to which an organization used determines the extent of information that an accounting system can collect and therefore report. Accrual accounting which is one of the accounting methods use to determine when and how to report income and expense in the books of account has significantly played a major role in enhancing accountability in public sector. It provides better information for decision making and accountability purposes than earlier financial information available to managers, government and the users of accounting information. Accountants in various agencies are able to contribute to a more informed understanding of the transactions. Accounting advice can inform decisions as it relates to recognition of revenue and expense, asset and liability management including the impact of transactions where cash has not yet been received/paid. The financial statements help government to focus on management by results as well as management of resources which became more useful because organizational performance can be measured more reliably where full costs for a period are taken into account.

Accrual accounting has issued a Better Practice Guide (BPG) on the preparation and presentation of financial statements by public sector organizations. This is to assist agencies and audit committees to enhance their preparation and accountability process for agency financial statements. This gave way to government discipline to be applied to the end of accounting period by many agencies. Thus, government agency is able to benefit from other experiences in streamlining their own approaches and practices. Accrual



accounting have increased capacity to provide correct and complete information on resources, debt and revenue in order to improve communication with such communities, leaders and general public (Tat-kei Ho and Ya Ni (2005). This inturn aids decision making by government representatives and thus have contributed to more informed policy choices, strong performance and a more comprehensive basis for accountability.

Accrual accounting provides relevant, reliable and comparable information useful to a wide range of users in making economic decisions. Financial reports from the organization have to rely on the budget and to show any difference between the actual results and the budget as well as any changes during the period. Accrual accounting shows the organizations cash flows. The movement to an accrual basis of accounting does not mean the abandonment of cash accounting. A modern accrual – based systems have functionalities to support cash-based accounting and reporting. Accrual accounting provides comprehensive information on current and certain projected cash flows including those associated with accounts and receivables, leading to better cash management and assessing the preparation of more accurate cash budgets. In summary, the introduction and adoption of accrual accounting in public sector have improved the efficiency, effectiveness and accountability of public sector. Thus, effective implementation of accrual accounting in public sector is starting point for effective financial performances in Nigerian public sectors leading to sustainable development.

Accrual Accounting in Public Sector Accountability and Sustainable Development

Sustainable development varied in definition as scholars of different fields try to define it in their own way. The term sustainable development is first used by the World Commission on Environment and Development (1987), also known as the Brundtland Commission Report (1987) where it played a central role in defining the environmental aspects of economic development. The report defines sustainable development as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland Commission Report, 1987). The commission added that sustainable development contains two concepts: the concept of ‘needs’ and the ‘ability’ to organize the technical and social environment to meet up the present and future needs. Sustainable development in line with the idea of John (2015) is a system approach to growth

and development and to manage natural produced and social capital for the welfare of their own and future generations.

In the same vein Ogbækirigwe (2009) conceived sustainable development as efficient utilization of resources (natural or materials) to solve immediate problems and making sure that they are not permanently damaged or depleted. She added that a sustainable development in a country is measured by the ability of the country to make effective use of its resources and conserve same for the next generation. To guarantee sustainable development in a country, there is therefore, the need to employ and utilize the activities of qualified, experience and honest accounting personnels that can help to eliminate corruption and promote transparency in both private and government establishment. There is also need for effective public management of financial resources and accountability. Effective management of financial resources is central to sustain economic growth and development. This shows that sustainable development cannot be achieved without public sector system. In summation, sustainable development is the practice of organizing the principle that meets up with the human developmental goals and at the same time able to sustain the available natural systems for the provision of natural resources and services that the society and economy depend on. By and large, any individual or corporate action that truncates progressive development is seen as de-sustainable development.

From the views of different authors one can deduce that accrual accounting is important in public sector if sustainable development is to be achieved. It is on this ground that Bastani, Abolhalaji, Ramzani, Jafari and Kordi (2012) maintained that accrual accounting helps the government to have better picture of their performance since the revenue earned and expenditure incurred are clearly stated during the period. In addition, accrual accounting enhances planning and decision. Ouda (2004) observe that accrual accounting leads to more detailed information to government legislators and other interested parties which helps to evaluate its performance and enhance sustainable development. If sustainable development must be achieved, it follows that from the early stage of man's development, he must be conversant with his environment in order to maintain its usefulness (Nnachi, 2009). Corruption, untimely preparation of financial statements, fraudulent financial practices, lack of adequate accrual information and absence of high qualified and competent financial operators are financial issues in public sectors that result



as man tries to better his worth. This issue must be carefully handled by man through qualitative education and workshops so as to sustain development.

CONCLUSION

In the course of this paper, we have x-rayed the concept of accrual accounting and its benefits, public sector accountability and development. We also looked into sources of revenue and expenditure in public sector as well as accrual accounting and sustainable development. Based on the foregoing discussions, it is important to note that the role of sound accounting system in public sector is indispensable in sustainable development. Thus, the authors concluded that qualified and competent accounting personnels with enough accrual information should be employed to work in the public sector.

Recommendations

The following recommendations are made:

- A strong and independent auditors are needed in order to audit accounts prepared in public sector
- Government should ensure that they create enabling environment for the development of professional accountants vested with accounting knowledge and employ them to work in the public sector.
- There should be retraining of existing ones through in-service training, seminars, workshops and other work motivational packages.
- Authors should be exposed adequately to training on technical sides of accrual accounting until they are competent enough to audit account prepared and presented using accrual basis of accounting.
- Accounting profession should map out better strategies for transferring accounting policies into actions for effective compliance and to bring to book any financial personnel found in financial malpractice to serve as deterrent to others.

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