

**ACCOUNTING PRINCIPLES AND PRACTICES IN PUBLIC
SERVICE IN NIGERIA**

**HAJJ INSTITUTE OF NIGERIA:
PREPARATORY CLASS AND TUTORIAL SESSION FOR
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ACCOUNTING PRINCIPLES AND PRACTICES IN PUBLIC SERVICE

In the dynamic realm of Nigerian finance and economics, the significance of understanding accounting practices cannot be overstated. Accounting practice is necessary for a company to produce the annual and legally required financial statements: the income statement, the comprehensive income statement, the balance sheet, the statement of cash flows, and the statement of stockholders equity.

Various accounting methods are used by companies for their accounting practices. The two primary methods are **cash accounting** and **accrual accounting**.

Cash Accounting

For cash accounting, revenue and expenses are recorded as they are received and paid, and transactions are only recorded when cash is spent or received. For example, in cash accounting, a sale is recorded when the payment is received, and an expense is recorded only when a bill is paid. This method is the most typically used method for small businesses. However, if a business generates over \$5 million in sales for the year, it must choose the accrual accounting method, according to the Internal Revenue Service.

Accrual Accounting

Accrual accounting is based on the matching principle, which is intended to match the timing of the realization of revenues and an expense. By matching revenues with expenses, the accrual method gives a more accurate picture of a company's true financial position. Under the accrual method, transactions are recorded when they are incurred rather than when payment is actually made. This means a purchase order is recorded as a revenue even though the funds are not received immediately. The same goes for expenses in that they are recorded when the payment may not yet have been made.

ACCOUNTING PRINCIPLES

Accounting principles are rules and concepts applied to accounting activities. **GAAP** refers to a common set of accounting principles, standards, and procedures issued by the Financial Accounting Standards Board (FASB). In Nigeria's journey towards becoming regional economic powerhouse, it's pivotal 'she' follows **Generally Accepted Accounting Principles**

(GAAP) principles when compiling their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP aims to improve the clarity, consistency, and comparability of financial information. Some examples of GAAP principles are the following:

The Revenue Recognition Principle:

This principle applies to the revenue entered on the income statement. Revenue is the gross inflow of cash and receivables of an enterprise from the sale of goods or services or the yielding of any interest, royalties, and dividends.

Historical Cost Principle:

The historical cost principle requires that the price paid for an asset at the time of its acquisition is the basis for its treatment in subsequent accounting periods. If the asset is acquired at no cost, the item will not be recorded as an asset. For example, a company's reputation is a valuable asset, but it is not recorded in the accounts.

Matching Principle:

The matching principle requires that a company report an expense on its income statement for the period in which the related revenues are earned. Additionally, a liability should be entered on the balance sheet for the end of the accounting period. The matching principle is associated with the accrual method of accounting and it requires entry adjustments.

Objectivity Principle:

According to the objectivity principle, the accounting data should be definite, verifiable, and free from the personal bias of the accountant. Each transaction recorded in the accounts should have evidence to support it, for example, in the form of receipts, cash memos, or invoices.

Full Disclosure Principle:

The information on financial statements should be accurate so that nothing is misleading. With this intention, important stakeholders will be aware of relevant information concerning the finances of your company. Similarly, you can build trust between stakeholders with your company with the transparency.

Special Considerations for Accounting Practice

As the physical and digital worlds have integrated over time, today's accounting information systems are typically computer-based methods with special accounting software.

Accounting practices and their attached systems produce financial reports used internally by management to assess performance and for strategic planning. Financial reports are also used by external stakeholders including investors, creditors, and tax authorities. When paired with accounting practices, accounting information systems support all accounting functions and activities including auditing, financial accounting and reporting, and tax management and accounting.

PRACTICES IN PUBLIC SERVICE

Principles and Procedures of Public Sector (Governmental) Accounting;

The fundamental purpose of accounting is the communication of financial information and current financial position and in the planning of future actions. Therefore governmental and commercial units adhere to the generally accepted accounting principles of consistency, materiality, objectivity, and full disclosure, and both uses Double Entry System.

Definition

Public Sector Accounting can be defined as the composite activity of collecting, analyzing, recording, summarizing, reporting and interpreting the financial transactions of government units.

Purpose of Public Sector Accounting

- (a) To demonstrate the correctness and reasonableness of transactions and their agreement with established rules.
- (b) To give evidence of accountability for the stewardship of government resources.
- (c) To make available vital information for good control and prudent management of government activities. Nature Public Sector Accounting by nature is closely linked to the budget process. The Federal Government establishes several accounting' principles and requirements to be followed by the government ministries and extra-ministeria departments through issuance of Treasury circulars and the Revised Financial Regulations of 1976.

The accounting and reporting procedures for a governmental unit differ in some respects, from those of a commercial unit because governmental and commercial units have different purposes and operate in different environments. For example, while the primary purpose of a commercial unit is the maximization of profit within the limits of socially acceptable action, the primary purpose of a governmental unit -is to provide services. Also, the freedom of conduct of governmental units is more limited by legal requirements and regulations. Although, Public Sector Accounting should be based on principles and techniques that promotes economy and efficiency in accounting for public funds, it must also demonstrate compliance with applicable legal provisions. Any divergence between generally accepted accounting principles and the law must be resolved in favour of the legal provisions. For instance, if a legal regulation requires that the activities of a unit be reported on a cash basis, the units must comply, even though the results may be incomplete or unreliable.

Nature of Governmental Entities:

a.) Service:

Governmental entities are established by the citizenry, through the constitutional and charter processes. The primary objective of governmental entities is to render service to citizens.

b.) Lack of Profit Motive

c.) Dependence on Legislative authorities: Governmental entities generally receive their authority to act directly from the legislature, which ultimately oversees and circumscribes governmental operations. Although, the operation of commercial sector enterprises is also overseen by the legislature, this type of oversight is regulatory rather than proprietary in nature.

d. Responsibility of Citizens:

in financial reporting matters, governmental entities have the responsibility of demonstrating good stewardship over financial resources provided and entrusted to them by the citizenry. In contrast, commercial sector enterprises have similar stewardship to their senior and equity security owners.

e. Taxes as a source of revenue:

The principal source of revenue for governmental entities is taxes levied on the citizenry. Commercial sector enterprises, on the other hand, have not comparable source of revenue.

Concept and Principles of Government Accounts:

Concepts have been defined as broad based assumptions underlying the preparation of financial statements of an enterprise. Public Sector Accounting is an integral but separate branch of accounting, sharing in common many concepts and principles applicable to the private sector e.g. Consistency, materiality, periodicity, monetary, double entry, duality, costs and objectivity: concepts.

Basis of Government Accounting There **are (3) three different basis on which financial accounts can be compiled. They are:**

- (1) The cash basis**
- (2) An Accrual basis and**
- (3) A commitment or obligation basis.**

The Cash Basis

This basis is very easy to understand. It is the basis of accounting under which revenue are recorded only when cash is received, and expenditures recorded only when cash is paid, irrespective of the accounting period in which the service was rendered or the benefit received. This is the basis upon which the preparation of government accounts in most countries including Nigeria lies. One of the reasons for the government to choose this basis is its simplicity. For example, laymen find accounting a difficult subject but in government many laymen e.g. post masters and police, superintendents, are called upon to perform some accounting or at least to supervise.

Accrual basis

Under this basis, revenues are recorded when earned and expenditure are recorded as the result in liabilities are known or when benefits are received notwithstanding the fact that the receipt or payment of cash could take place wholly or partly in another period.

This is the basis commonly found in the private sector and all government parastatals like NIPOST, NITEL, e.t.c.

Commitment basis

This is a basis that records an anticipated expenditure evidenced by a contract or by a purchase order or determined by administration. In government finance, budgetary and accounting systems are closely related to this basis. This is used in the department votebook for expenditure.

ACCOUNTING SYSTEMS IN GOVERNMENT: STANDARD REQUIRED

Accounting standards in Nigeria have evolved over time to meet the changing needs of the country's economy. The first set of accounting standards, known as Statements of Accounting Standards (SAS), was issued in 1982. These were later replaced by the Nigerian Accounting Standards Board (NASB) in 1983. The NASB was responsible for developing and issuing accounting standards in Nigeria. In 2010, the NASB was transformed into the Financial Reporting Council of Nigeria (FRCN).

Regulatory bodies responsible for setting accounting standards in Nigeria;
Central Bank Of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Security And Exchange Commission (SEC), The Financial Reporting Council of Nigeria (FRCN), e.t.c.

The Financial Reporting Council of Nigeria (FRCN) is the primary regulatory body responsible for setting accounting standards. FRCN is empowered to develop, issue, and enforce accounting and financial reporting standards in Nigeria. The FRCN is also responsible for regulating the accounting profession and promoting best practices.

Key Nigerian accounting standards (IAS/IFRS) and their significance:

IAS 1 – Presentation of Financial Statements: It sets guidelines for presenting financial statements.

IFRS 9 – Financial Instruments: It provides rules for recognizing and measuring financial instruments.

IFRS 15 – Revenue from Contracts with Customers: It guides revenue recognition in Nigeria.

IFRS 16 – Leases: It outlines accounting treatment for lease agreements.

FRCN's oversight contributes to a stable and reliable financial environment in Nigeria.

In fact, Nigerian accounting standards, based on GAAP and IFRS, play a crucial role in financial reporting. These standards enhance transparency, comparability, and reliability of financial statements in Nigeria.

The Nigerian Accounting Standards Board, responsible for setting GAAP, ensures alignment with international practices. Key standards such as IAS 1, IFRS 9, IFRS 15, and IFRS 16 provide guidelines for preparing and presenting financial statements.

The Financial Reporting Council of Nigeria plays a vital role in enforcing compliance with accounting standards and safeguarding investor interests.

Through its oversight, FRCN promotes transparency and maintains the integrity of financial reporting, contributing to a stable financial environment in Nigeria.

These standards enhance financial reporting quality and comparability with international practices.

▪ THE ROLE OF PUBLIC-SECTOR ACCOUNTING IN CONTROLLING CORRUPTION

Every country has a public accounting system (PAS), a system that manages and provides information on the government's financial transactions, assets, and records. Accounting, book-keeping, recording, and reporting is necessary for effective decision-making, control, and transparency. Timely, accurate, and adequate information on income and expenditure flows strengthens the capacity of government to decide and control budget totals. It also helps in the management of long-term fiscal sustainability and affordability of policies. A proper public accounting system ensures that the government can meet payments.

▪ PROBLEMS OF PUBLIC SECTOR ACCOUNTING IN NIGERIA

a.) Prevalent Lack Of Understanding Of The Purposes Of Government Accounting;

There is general lack of understanding in the society, and particularly the following specific groups; politicians (members of the legislature and the executive arm), the administrators (permanent secretaries) and sadly enough, a substantial proportion of the accounting personnels in government.

The society in general: Wrong notion of the wealth of government which, contrary to reality, is usually regarded as limitless; a national cake from which any individual in position could cut his/her share at will and get away with it; hence very scant and weak public or societal reaction against the excesses' of public officers which frequently include deliberate misallocation and misappropriation of funds, fraud, embezzlement, waste conversion, etc., public opinion through that press against these serious shortcomings not articulate and purposeful though e.g. press have not seen the need to advocate the strengthening of the control powers of the Treasury. Not a single editorial has been written by any of the dailies in support of the aspirations of the conference of Accountants-General to instill discipline in government administration, nor has the television or Radio stations mounted any programme aimed at this objective - all of which sum up society's attitudes, feelings, and or lack of understanding of one important basic purpose of government accounting which is to ensure that public functionaries entrusted with government funds account for every kobo thereof. Society itself is averse to probes and has scarcely benefitted from the results of several probes undertaken in the past.

(b) The Legislators:

The behaviour of this group in the' society since the inception of the now defunct presidential system; they see their role in a different context from that of the electorate that elected them, same national cake idea; the legislator does...not see himself as the beginning and the end of accountability, that is, the beginning through budgetary approval (legislative appropriations), and the end - to whom public officers are accountable for those appropriations. Hence cannot conceive a notion of duty which requires him to bring about legislation's aimed at improving the effectiveness of government accounting without which satisfactory standard of public accountability can be achieved.

(c.) The Executive and the Administrator:

Same national cake concept is seen even in more pronounced degree in this group.

Appointment to positions of ministries or administrative heads of department are not seen as call to service but arrival of their turn to partake their personal share of the cake.

(d.) The Accounting Personnel:

Majority of this group do not possess adequate accounting education and therefore lack proper understanding of the role of accounting function in government. Consequently, they cannot make desirable impact on the activities of government institution or their organization. They see themselves most of the time as pay functionaries.

e.) Inherent weakness in the existing organization/administrative arrangements for government accounting functions. i.e lack of co-ordination between budgeting and accounting, which are complimentary functions. Technical ineffectiveness and efficiencies inherent in the location of treasury.

f.) Technical issues:

Shortage of qualified accounting staff occasioned by lack of training facilities within and outside the government.

RECOMMENDATIONS

- There is need to educate the society at large on public accountability. The media and treasury could co-operate to formulate a programme for this purpose. Treasury, all over the country to be strengthened by relocation, internal re-organisation and legislation.
- Training programme for accounting staff to be expanded and a professional certification in government accounting introduced. Conference of Accountant's-General to be called upon to implement a decision taken on this issue many years ago.
- The office of Accountant General to explore areas of government administration which had hitherto not benefitted from internal audit appraisals e.g. Foreign Exchange Department of the Federal Ministry of Finance,. Company Affairs Division of the

Ministry of Commerce, assessment of Customs and Excise duties etc. and have them placed within the jurisdiction of expanded internal audit service.

- Seminars of the type held at ASCON some time ago on "Cost Consciousness", should be arranged and conducted at various levels, beginning with the legislators, after their inauguration, and administrators together, and down the ladder across the main spectrum of public service.
- Meritocracy in Service must be given credence and priority over nepotism, ethnicity, religion and politics.

CONCLUSION

Accounting principles and standards play a crucial role in ensuring transparency, reliability, and comparability in financial reporting. Furthermore, we explored the benefits of adhering to accounting standards, such as boosting investor confidence and attracting foreign investments. It is essential for individuals and organizations to stay up-to-date with the evolving accounting standards in Nigeria. By doing so, they can ensure compliance and enhance their financial reporting credibility. Staying informed also enables them to make informed business decisions and improve efficiency. Therefore, I urge readers to regularly follow updates from regulatory bodies and seek professional guidance when necessary. Compliance with accounting principles and standards will not only benefit individual entities but contribute to the overall growth and stability of Nigeria's economy.