

**AN EVALUATION OF
FINANCIAL CONTROL IN
ADAMAWA STATE LOCAL
GOVERNMENTS**

BY

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1996

DECLARATION

I hereby declare that this research work was carried out by me under the supervision of Mr. A.B.D. Watoseninyi who was also one of my course instructors.

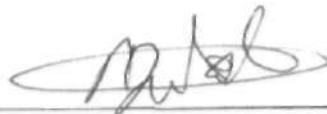
To the best of my knowledge and belief, this research work has never been submitted in Ahmadu Bello University Zaria or any other institution for the award of a degree.

Where some other persons' work were drawn upon, the necessary acknowledgements have been inserted, and any mistake in this work is entirely my own responsibility.

SHALA, DANIEL L. MUBI

CERTIFICATION

This thesis, entitled "An Evaluation of Financial Controls in Adamawa State Local governments" by Shala, Daniel L. Mubi (Mr.) meets the regulations governing the award of the Masters degree of Ahmadu Bello University, Zaria, and is approved for contribution to knowledge and literacy presentation.



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ABSTRACT

This research was undertaken to determine the extent of compliance of Adamawa State Local governments with the statutory provisions contained in the Financial Memoranda.

The Financial Memoranda has been the embodiment of guidelines and instructions governing the financial management in the Local governments in Nigeria since the Local government reforms of 1976. However, over the years, the conduct of financial management in Local governments throughout the country has been far below satisfactory despite series of reforms. Therefore, it has become imperative to find out how far they have implemented and observed the provisions of the FM with a view to enable Government carry out a thorough diagnosis of the perennial problems in Local government financial management.

CONTRIBUTION TO KNOWLEDGE:

This work would complement previous research works which were carried out on public sector financial management, especially the works of Ejisun, J.A., (1982) and Koleade, Oshisami, Peter N Dean, (1984).

METHODOLOGY

To carry out this study, questionnaire was administered, and personal interviews was carried out in the field. A study sample was drawn from the population of sixteen Local governments in Adamawa State. A critical D-score was set at 85% compliance. Any Local government which scored less than this was considered to have failed the critical D-test.

FINDINGS

The study found out that;

- i. none of the Local governments passed the test and that;
- ii. the overall compliance with all the sections of the FM by all the Local governments in the sample was just 52%.

RECOMMENDATIONS

To inject discipline in the financial management of the Local governments, it has been recommended that the State government should carry out the D-score test annually and firmly mete out appropriate sanctions on those Local governments that might fail the test.

Table 12 also revealed that the overall compliance with all sections was as low as 52%. There is no doubt that if the State government was firm on the Local governments, the overall compliance score would have been much higher and more satisfactory.

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CHAPTER 1

1.00 THE PROBLEM IN PERSPECTIVE

1.10 Introduction

1.11 Establishment of Local Governments in Nigeria

In 1974, the Public Service Review Commission, headed by Chief Jerome Udoji, examined the structure of Local government Administration in Nigeria. The recommendations of this Commission led to the Reforms of 1976.¹ The guidelines of the Reforms were adopted by all the states of the Federation. This led to the establishment of a uniform structure of Local government in the country. In 1979, Local governments were entrenched in the constitution of the Federal Republic of Nigeria as the third tier of government.²

1.12 Functions of Local Governments in Nigeria

The functions of the Local governments in Nigeria as contained in the Fourth Schedule, Part 1 of the Constitution of the Federal Republic of Nigeria Promulgation Decree No. 12, 1989, were divided into two parts. Part A has dealt with functions for which the Local government has responsibility and in respect of which it could make bye-laws. These were:

- a. Markets and motor vehicle parks;
- b. Sanitary inspection, sewage, refuse disposal;
- c. Control of vermin;

- d. Slaughter houses and slaughter slabs;
- e. Public convenience;
- f. Cemetries and burial grounds;
- g. Registration of births, deaths and marriages;
- h. Provision of community recreation centres;
- i. Parks, gardens and open spaces;
- j. Grazing grounds;
- k. Full plantations;
- l. Licensing and regulations of bicycles, hand carts and other types of vehicles and canoes;
- m. Licensing, supervision and regulation of bakeries, restaurants and laundries;
- n. Control or keeping of animals;
- o. Control of advertisements, use of loud speakers in or near public places or during drumming;
- p. Control of land held under customary tenure;
- q. Naming of roads and streets, numbering of plots and buildings;
- r. Control and collection of revenue from private forest estates;
- s. Collection of rates and issuance of radio and television license;
- t. Collection of community tax, property tax and other rates¹.

Part B, concerned powers which Local governments could exercise concurrently with the State governments. These were:-

- a. health centres, maternity centres, dispensaries and health clinics, ambulance services, leprosy clinics and preventive health services;
- b. meat inspection and abattoirs;
- c. nursery, primary and adult education;
- d. information and public enlightenment;
- e. provision of scholarships and bursaries;
- f. provision of public libraries and reading rooms;
- g. agricultural and animals health extension service and veterinary clinics;
- h. rural and semi-urban water supply;
- i. fire services;
- j. provision of roads, lighting and drainage;
- k. support for arts and culture;
- l. control of pollution;
- m. control of beggars, or prostitute and repatriation of destitute;
- n. provision of public utilities including road and water transport;
- o. public housing programme;
- p. regulation and control of buildings;
- q. town and country planning;
- r. operation of commercial undertakings;
- s. control of traffic and parking;
- t. piped sewage systems.⁴

1.13 Funding of Local Governments in Nigeria

To discharge their responsibilities, Local governments required external financial support. This was necessary because their local revenue was grossly inadequate for those purpose. Therefore, statutory allocations or subventions were made to them by the Federal government. These allocations were passed to them through their respective State governments. The statutory allocations started after the 1975/76 reform. In 1976/77 fiscal year, less than 2% of the Federation Account or ₦100 million was allocated to all the Local governments in the country.⁵ By 1982 about 10% of the Federation Account, amounting to ₦1.1 billion. This was raised even further to 15% in 1986, following recommendations of 1985 Dasuki Panel on Local government. The reforms provided for direct funding. During the Babangida regime (1985-92) the Federal government laid great emphasis on rural development. Democratic structures, based on Presidential system of government, was established in all Local governments. Regulatory functions and management of services were to be carried out by locally elected council and officials responsible to them. Large sums of money was released to them in form of subvention. In 1991, their statutory allocation was raised to 20% of the distributable pool. According to a report from The Presidency, "two billion naira was disbursed to all the Local governments in 1990 and 1991 financial years"⁶. Other sources of finance were in the form of locally generated revenue and contributions from the state

governments. "The latter amounted to 10% of the States internally generated revenue".⁷

1.14 **Financial Controls in the Local Governments**

The preceding paragraph has indicated that every year since 1976, a significant proportion of public funds in Nigeria went into the treasuries of Local government. Also it has revealed substantial increase in the proportion of their statutory allocations. In the light of this, it became imperative for the Federal government to provide detailed guidance and instructions for the control and management of the financial business of Local governments. Following the recommendations of Orewa Committee, the Federal government directed State governments to adopt the "Financial Memoranda"⁸ The memoranda contained the accounting and financial management system for the Local governments. It was expected that compliance with the provisions of this memoranda would safeguard against fraud and would ensure that public funds were spent on purposes for which they were appropriated.

1.15 **Manpower**

Before 1976, efficient Local government officers deserving promotion could not have it since there were no higher posts in their respective Local Authorities to which they could be promoted. Besides, promotions were done mostly to those favoured by Councilors or

Chiefs neglecting deserving officers who remained in their ranks for years with attendant frustration. However, the Local government Reform of 1976 dealt with manpower problems. It introduced a Unified Local government system. Local government Service Board was established at State level as a neutral body. It was responsible for inter-Local government transfers of Senior officers, promotion and recruitment of senior officers on merit. This restored the morale of staff who had been under the unfavorable influences of party politicians⁹. Training schemes were provided under the following headings: "Induction Training, Professional Training, Training for the lay Administrative Officers, Management Training and Refresher Training."¹⁰ The civilian administrators inherited from their predecessors, the training of Local government personnel by three Universities (Ahmadu Bello, Ife and Nsukka Universities) which it had continued to support. Similarly, some state governments inherited the training of Local government personnel in the Polytechnic and Staff Development Centres to complement the effort of the Federal government. In addition, the Local government Reform which followed the recommendations of 1984 Dasuki Panel and the 1988 Civil Service Reforms introduced favourable conditions of service at the third tier of government. This attracted more qualified personnel such as graduates and HND holders to work with the Local governments. Also, about 1% of their monthly subvention was remitted to a joint fund meant for training purposes. Accordingly, Councilors and their

staff have been enjoying series of seminars, workshops, conferences and short courses.

1.20 **THE PROBLEM**

The Constitutional recognition of Local governments as the third tier of government and the establishment of democratically elected Councils to run their affairs became a major landmark in the history of Nigeria. The Federal government's objective "was to make Local governments not only a democratic institution but also a vehicle for promoting rapid social and economic transformation of rural areas."¹¹

To realise this noble objective, the Local governments were charged with specific and broad functions outlined earlier. They were generously funded. They also had powers to generate internal revenue for their use. As control measures, Guidelines and instructions governing their financial management and accounting were instituted in form of financial memoranda. Conditions of service was enhanced.

Manpower development schemes were pursued. This attracted better quality of staff than they had before.

Unfortunately, glaring evidence at hand showed that the noble objective of the Federal government has been undermined by lapses prevalent in the Local governments throughout the country. The lapses were in the

form of financial misappropriation, fraud, corruption and reckless spending of public funds.

According to the Daily Times, Augustus Aikomu expressed Federal governments disappointment at the dismal performance of the elected Local government officials in the country. He said, "the Federal government had evidence to show that Local officials were making unwise expenditure and they engage in illegitimate outflow of public funds."¹²

In 1992, the Vice -Chairman of Isiala Mbano Local government in Imo State, wrote a ten-point petition to the presidency. He was protesting against his Chairman's "gross mismanagement of the affairs of the Local government."¹³ In Igbo Etiti Local government, the Chairman "got into trouble when he turned down the request of the councilors for ₦30,000.00 each as Christmas bonus"¹⁴ similarly, in Ikot-Abasi Local government, the chairman "ran into trouble when he refused to share out ₦1 million derivation fund given to the council for some projects in oil producing villages in the area."¹⁵ In Adamawa State, nearly all the Local government were alright to court by conliactors between 1992 and 1993 over unsettled liabilities. In Kastina State an authoritative source blamed the growing mismanagement of funds at council levels on Auditors and Treasurers who convince with the chairman, "even though they are expected to act as watchdog of chief Executives as it affects expenditure"¹⁶

There was growing discontent among the people and the Authority against the activities of Local government officials. In 1992, the governor of Cross River State "expressed his displeasure with the ways and manner the Local government funds were being misappropriated by Council officials in the state."¹⁷ the "New Nigeria" considered it necessary to highlight this deplorable state of affairs in its editorial column of 15th December, 1992. It cited the case in Kaduna State where it was revealed that "no single Local government council in the state had submitted its audited accounts since 1976."¹⁸ The Editorial said, "The extent of misappropriation, corrupt practices and general maladministration pervading most Local governments in the country is quite evident."¹⁹ This practice continued even after the Babangida Regime. In September, 1993, the Head of State, Chief Ernest Shonekan, assembled the Chairmen of 589 Local governments in the country and indicted them over financial mismanagement. He said, "I regret to inform you that there have been series of complaints and other grievances from many sections of the society against the management of public finances in our Local governments throughout the Federation."²⁰ According to him, "The enormous amounts being allocated to the third tier of government were enough reason for the Federal government to be interested in how such funds were being expended."²¹ similarly, at a meeting held between the Head of State and traditional rulers at Abuja in September 1993,"it was agreed that something ought to be done to address the glaring lapses in the

management of public finances in Local governments.”²²

In summary, the problem was the glaring lapses in the financial management of Local governments in Nigeria with particular reference to Adamawa State and the need to find out the extent of their compliance with the statutory provision of the financial memoranda (FM).

1.21 **Statement of the problem**

To what extent have Adamawa State Local governments complied with the statutory provisions of the Financial Memoranda?

1.30 **Motivation**

Two factors motivated me to carry out this research. These are:-

1.31 **Concern for the populace:**

I always felt concerned about the development of the rural sector of the Nigerian populace. Therefore whenever there was opportunity I tried to contribute in form of ideas, no matter how modest it might be. For example, I wrote a Memorandum on Local government service Review to the Dasuki panel (1984/85). In it, I recommended the following:

- a. direct funding to Local governments by the Federal government:

- b. better conditions of service to attract more qualified staff;
- c. scrapping of the defunct ministry for Local government;
- d. monitoring and evolution and;
- e. independent audit of Local government accounts.²³

I was invited by the Panel to defend my Memorandum, which I did successfully. The panel accepted four of my recommendations above.

1.32 My experience in England

One of my most profound experiences during my stay in Britain was my observation that virtually every town throughout the country looked like a mini-London in the sense that they appeared to be "self-contained" in terms of basic infrastructure and amenities for the populace, what were provided in great city centres like London, Birmingham and Manchester, were also uniformly provided in the rural towns and living standards were high. Britain achieved this through its country- boroughs operating under Local Authority system.

That experience made me realise the important, role of Local government in National Development. Furthermore, it led to my firm

conviction that in order to minimise political bickering, resource wastage and to achieve rapid and uniform spread of development, Nigeria should abolish the states and adopt a two-tier structure of government - Federal and Local government only. As an expression of this conviction, I wrote a Memoranda in 1991 to the President, General Ibrahim Babangida, appealing to him to dissolve the states and revert to two-tier system advocated above.²⁴

This continued to illustrate my interest in Local government system and therefore, my motivation to undertake this research with the hope that my modest contribution might be useful in government's effort at improving the financial management in Local governments in Nigeria.

1.33 **Research Objective**

- a. The study was expected to reveal the extent to which the local governments comply with the guidelines contained in the Financial Memoranda in their day-to-day operations.
- b. The extent of their compliance should serve as an indication of the degree of reliability of their accounting records and soundness of financial management.

- c. Based on the results obtained in (a) and (b) above, appropriate recommendations would be made aimed at improving the quality of financial management in the sixteen local governments under study.
- d. These recommendations were expected to be useful to Adamawa State government, the Federal government and higher institutions of learning. This was in consideration of the fact that the financial operations of the local governments in Nigeria were guided by similar legislation and identical financial memoranda.

1.34 **Importance of the Study**

- a. Over the years, enormous funds had been disbursed to the local governments from the federation account. In addition the State governments allocated to them 10% of locally generated revenue. The local governments too, generated their own funds internally. All these were public funds meant to be utilised properly for the benefit of the local community. Guidelines for the management of the funds were provided through legislature and financial memoranda. Therefore, it was important to undertake this research in order to evaluate the extent of compliance of local governments with FM.

- b. The recommendations emanating from the research were expected to be useful to the following establishment:-
- i. Adamawa State government
 - ii. Other State governments
 - iii. Federal government of Nigeria
 - iv. Local governments
 - v. Higher institutions of learning
 - vi. Independent Auditors.
- c. The findings of the study and the recommendations were expected to contribute modestly to academics.
- d. This study was expected to widen my exposure to financial management of local governments both in theory and practice. Such exposure will be very useful to me in my consultancy career.

1.35 **Rationale and Theoretical Framework**

Basically there were two models of local governments. under the first model there was a strong centre where policies were determined and administered by local units which act as agents. The central government allocated funds to the local governments to enable them

provide services for which they were responsible. The local governments did not have power to raise revenue, and where they possess such power it could be very limited and in financial terms, negligible.

The second model was an arrangement where real political authority was decentralised to lower levels of government. The local authorities might raise substantial part of their revenue through the imposition of local taxes. However, the bulk of their revenue came from the central government through statutory allocation.

Britain adopted the latter model and imposed it on Nigeria during her colonial rule, when native authority was the lowest level of government. The local authorities in Nigeria have experienced series of structural changes, culminating in the new local government system under the decree of 17th May 1989, known as Local government (basic Constitutional and Transition Provisions) decree 1989.

The Audit Ordinance of 1956 and the finance (control and management) Ordinance of 1958 have laid the foundations for the indigenous management and control of public funds. The provisions of both Ordinances were incorporated and integrated with the provisions of the various constitutions of 1960, 1963 and 1979.

In order to guide officers in Nigeria pre-independence, the colonial administrators have designed and published two documents namely, **General Orders (G.O)** and **Financial Instructions (F.I)**. G.O prescribed administrative procedures while F.I consists of a body of rules governing management of financial business of government. The federal government has undertaken a comprehensive review of the F.I in 1962 (post-independence). The regional governments have designed the F.I of the local Councils or Native Authorities. Thus each regional government derived its F.I from the Federal government and each local Council derived its F.I from the regional government. The F.I of the local Councils was called Financial Memoranda to distinguish it from that of the Federal or Regional government.

The Financial Management and accounting system currently in use followed the recommendations of the Dasuki panel of 1985. It comprised the last edition of the financial memoranda as amended by the **Implementation Guidelines** in the application of the Civil Service Reforms to the Local governments and the relevant provisions of **Decree No.15 of 1989** and the 1991 amendments.

The Financial Memoranda set out the basic accounting and reporting principles of local government accounting and financial management. The system adopted the cash basis of accounting whereby a transaction was recorded when cash was paid or received irrespective of when

goods were received or when services were rendered. This approach differed fundamentally from the system of accounting practiced in the private sector where the accrual basis of accounting was in use. The operation of local government began with the adoption of the budget. The budget was an annual estimate of revenues and expenditure. It was also the legal source of authority to spend money. Government accounting dealt with the collection, measurement (classification and valuation) processing, communication, control and stewardship of receipts, expenditures and related activities in the public sector. Accordingly, this indicated the direction along which a standard for local government financial management (or government accounting function) can be developed.

The new Presidential system of government which was already operating at the grassroots level, gave the local governments their autonomy. The legislature established the Finance and General Purpose Committee as a Committee of the House. Also apart from the Executive Council there was a Funds Allocation Committee comprising the Chairman, Vice-Chairman, Supervising Councilor for Finance, Secretary to the Local government, the Treasurer and Head of Personnel management. Each local government was also expected to set up an Audit Alarm Committee. As earlier mentioned, the broad principles, procedures, rules and regulations for local government financial management were set out in the Financial Memoranda. The

objective of this study was to evaluate the extent of compliance of the local governments in Adamawa State with the provisions of the FM and to make appropriate recommendations to relevant authorities.

1.36. **Delimitation**

- i. This study did not intend to evaluate the effectiveness of the accounting and financial management system provided in the Financial Memoranda. The study was confined to the determination of compliance level of Adamawa State Local governments with the provisions of FM.

- ii. Similarly, the study did not intend to investigate the alleged lapses or determine their number and amount of money involved.

CHAPTER 2

LITERATURE REVIEW

2.00 Historialc Development of Local Government in Nigeria and the Evolution of thier Financial Control System

2.10 PRE 1976

2.11 Community Set Up

In any community the basic unit was the family. In the family the father was the head and the other members became loyal to him. The extended family system has been the norm among communities in Nigeria before 1900. In this system it was customary to recognise and respect the eldest or the most popular member of such a large family as the head, and each member of the family became loyal to him. Similarly, a village was made up of many families and every villager was loyal to the village head by custom. The village heads, chiefs spiritual or religious leaders played prominent roles in the administration of the local communities. Traditionally, the elders organised family meetings to arrange team farming, to settle disputes, to reprimand or punish family offenders, to learn oral history, legend myths and folklove of the tribe. Village council was made up of family heads which usually included a member from a ruling house as the village head or chief. The council's functions were to protect the villager from external aggressors, settlement of disputes, organising cultural activities and environmental sanitation. There were also clan and tribal councils representing clan and tribal interests respectively.²⁸

2.12 The Northern Region

In 1914, the Northern and the Southern protectorates were amalgamated and renamed the colony and protectorate of Nigeria under Sir Fredrick Lugard as the first Governor-General.²⁶ The colonialists introduced the system of indirect rule in Nigeria. Under this system the colonial masters ruled through native chiefs who were regarded as integral part of government with defined powers and functions recognised by law.

After the 1945 World War II, there was an attempt by the British government to democratise local government as a basis for social and economic development. From that time the main objective was "... bringing government closer to the people, involving people at the grassroots in the progress of their areas and in the context of the overall development of the region which they belonged ..."²⁷ The local government systems continued to develop separately in each of the regions in Nigeria. After 1950, it became clear that the North adopted a more conservative approach which emphasised functional effectiveness rather than popular participation. In the South, the emphasis was on popular participation and this led to the development of liberal local government similar to the British model.

2.13 The Eastern Region

In the Eastern Region, the Local government Ordinance replaced the Native Authority Ordinance which was in force. By this reform nearly 80% of the councilors were directly elected by the people. Also District Officers were no longer allowed to attend council meetings. A three-tier system of local government came into existence, namely: country, district and local councils. However, the country councils were abolished in 1958 and were replaced by a single-tier local authorities. The Eastern Nigeria Local Government Law of 1960 also restructured the local authorities into urban country and country councils (rural) respectively.

2.14 The Western Region

Similarly, reforms took place in the Western Region. The Local Government Law of 1952 shifted political power into the hands of elected representatives. A three-tier system of local government was adopted, namely: Divisional, District and Local Councils. The Local Government Law of 1957 increased local government autonomy and withdrew District Officers.

The sources of Local government revenue in Eastern and Western Regions included:

- a. Grants-in-aid by either Regional or Federal government;

- b. Proceeds from the letting, leasing or sale of council land or building;
- c. Licensing fees;
- d. Fees and fines from any customary or Native courts maintained by the council;
- e. Interest received from investments of the council;⁷⁸

In the Northern Region where a conservative approach was adopted the emphasis was on maintenance of law and order through traditional agencies. Therefore, the Native Authority Law of 1954 simply consolidated the existing structure and concept rather than effecting fundamental changes in the system of local government. The Premier appointed Chiefs who presided over the councils. The North had already an organised form of taxation. "By 1911, Native Treasuries were established, a local audit set up, and Emirs had voluntarily become paid officials of their authorities. ... The Authorities became highly efficient in the collection of taxes."²⁹

The creation of twelve States in Nigeria in 1967 raised the problem of the desirability or otherwise of local government. This led to a general re-examination of the local government system, and culminating in

local government reforms. In 1968, the name Native Authority was changed to Local Authority. "In the Southern states the name Development Administration was adopted while in others it was called Divisional Administration or Local Administration."³⁰ The Udoji Public Service Review Commission of 1973 recommended a single-tier system and introduction of property tax and other sources of revenue for the local governments throughout the Federation. The federal government accepted the recommendations and directed the State governments to implement them. Consequently, various reforms were announced even though they differed from one State to another. However, "there was no coordination and very little or nothing was done to improve local government finances"³¹

2.20 1976 - 92

2.21 The 1976 Guidelines

The 1976 Guidelines formed an important land mark in the evolution of local government in Nigeria. The Guidelines were adopted through the promulgation of State government Edicts, thus embodying uniform provision in the laws of all the States of the Federation. The reforms, therefore, paved way for the emergence of a uniform structure of local government. The local government gained recognition, its functions were clearly defined and their human and financial resources were increased and guaranteed.

The Audit Ordinance of 1956 and the Finance (Control and Management) Ordinance of 1958 have laid the foundations for the Management and control of public funds in Nigeria. The provision of the two Ordinances have been incorporated and integrated with the provisions of the various constitutions of 1960, 1963 and 1979.

The reforms of 1976 were entrenched in the 1979 constitution of the Federal Republic of Nigeria. The constitution guaranteed a system of democratically elected Local Government Council, specified its functions and made it mandatory for the Federal and State governments to make direct financial grants to the local governments. Their functions have been highlighted in Chapter 1. In the area of finance, the Treasurer became the Head of Department as well as the advisor to the council. His relations with the council were to be conducted through a Finance Committee. His duties were as follows:-

- a. receiving and disbursing money;
- b. keeping proper accounting records of money received and spent;
- c. seeing that financial instruction were observed;
- d. informing the council regularly of the State of its

finances;

- e. making necessary returns to the State government;
- f. ensuring that all revenues belonging to the council were collected;
- g. seeing that policies and expenditures were carried out with due regard to economy and value for money;
- h. maintaining efficiently run and staffed financial operations.³²

2.22 **The Financial Memoranda (FM)**

To guide public officers in Nigeria during pre-independence period, the colonial administrators designed and published two important documents, namely, General Orders (G.O) and Finance Institutions (F.I). The former prescribed administrative procedures in the civil service; the latter consisted of a body of rules and regulations governing management of financial business of government. F.I was reviewed the Federal government in 1962, and was adopted by the Regional government. The latter also prepared the F.I to be used by the Local Councils or Native Authorities. These documents were virtually mere copies from the British system. To distinguish it from

those of the Federal and State governments the F.I of the Local government was called Financial Memorandum. This document was made mandatory for all Local governments throughout the Federation following the 1976 reform. The Financial Memoranda "established a basis for internal control and for external accountability"³³.

In fact, until 1978, each Region/State provided its own rules, regulations and guidelines for use in their respective Local governments. However, in 1977, the Federal government appointed a Committee to review and harmonise the various Financial Memoranda in the Federation. The Committee submitted its report in 1978 with a draft FM designed to replace the three different volumes which were in use in the former three regional governments. The draft FM were issued as a model FM to be adopted by each State of the Federation subject to minor amendments to reflect local peculiarities and to be issued under appropriate section of the State Local government Edict. In his paper on financial regulations and accountability in Local governments, Halidu Abubakar defined Financial Memoranda as "a document with specific set of rules and regulations which provides detailed guidance and instructions on the financial and accounting procedure to be followed in the administration of the financial affairs of a Local government in Nigeria"³⁴.

According to him, FM was designed to do the following:-

- i. define the precise duties and responsibilities of the Local governments, the Local Government Executive, the Council and senior officers with regard to funds, stores and financial management;
- ii. prescribe certain financial organisational arrangement of Local government and processes in respect of collection and accounting for revenue and control and accounting for expenditure;
- iii. state the accounting objectives and accounting principles and practices to be followed;
- iv. prescribed the main and subsidiary books of accounts to be maintained and the statement of accounts to be prepared monthly and at the end of the financial year and,
- v. state the arrangements for internal audit.

The new constitution of 1979 established a basis for frequent auditing of Local Government Councils. Previously Nigerian local authorities hardly knew of any form of audit other than that performed periodically by officials of the State government. Moreover, audits were often conducted too late. The constitution required a Director of

Audit to audit the public accounts of a State and all office, courts, and authorities of the State, including all persons and bodies established by Law entrusted with the collection and administration of public monies and assets. He was also required to submit this audit report to the State House of Assembly. This ensured that his report on Local government and their accounts were considered by elected representatives of the councils themselves.

Although the human and financial resources of the local government increased considerably, they were still heavily dependent on and controlled by the State Ministry of Local Government. However, the defunct civilian administration (1979-1983) did not pay adequate attention to realise the objectives of the 1976 Local Government Reforms. Therefore, the new military administration set up a 20-man Committee under the Chairmanship of Alhaji Ibrahim Dasuki "to re-examine the existing structure, functions and financial resources of Local governments"⁴⁵ in the country. The Committee's recommendations led to further reforms. For instance, in 1988, the Federal Military Government dissolved the State Ministries of Local government and transferred the regulatory functions to the office of the Military Governor. This marked the beginning of the autonomy of Local governments in Nigeria. Under the new dispensation there would be a democratically elected Local Government Council which would operate a Presidential System of government. Also, they would

receive their grant direct from the Federal government and no longer through the State government. A new Decree known as local government (basic constitutional and transition provisions) Decree No. 15, 1989, was promulgated. Sections 27 and 28 of the Decree contained the functions of Local government. The functions were also contained in the fourth schedule part 1 of the Federal Republic of Nigeria Promulgation Decree No. 12, 1989. These have already been highlighted in chapter one of this thesis. The following documents were contained in Executive, Legislative, Administrative and Financial structure of the new Local government:-

- a. The implementation guidelines on the Application of the civil service reforms in the Local Government Service published in October 1988 by the government printer
- b. Local government (Basic Constitutional and Transitional Provision) Decree No.15, 1989 and its 1991 Amendments (No. 1-3) and
- c. The constitution of the Federal Republic of Nigeria (Promulgation) Decree No 12, 1989.

Every Local government would operate:

- i. one Department of Personnel Management,

- ii. one Department of Finance, Supplies, Planning,
- iii. not more than four Operations Department reflecting the basic functions and areas of concern to local government as follows:-
 - a. Education;
 - b. Agriculture and Natural Resources;
 - c. Works, Housing, Land and Survey and
 - d. Medical and Health.³⁶

The Local Government Service Commission was established to provide uniform guidelines for recruitment, promotion and discipline of local government staff.

The local government Edict of 1976 introduced the Committee system in the running of the affairs of Local government. This was a means of dividing up the work of local government among committees consisting of groups of elected members smaller than the size of a council as a whole. It made it possible for matters to be more critically examined at a faster rate than when considered by the whole council. The committee would submit its report and recommendations to the council for its decision. One of such statutory committees was the Finance and General Purpose Committee (F.G.P.C.) constituting of:

- a. The Chairman of the Local Council;
- b. The Supervisory Councilors and
- c. Not more than two other members.

The Committee was responsible for:

- a. the regulation and control of the finance of the Local government;
- b. subject to such upper limits as might be prescribed by Local government from time to time, the consideration and award of contracts;

- c. the implementation of the decisions of the Local government with which no other body or committee was charged and for the running of the affairs of the Local government;
- d. such other functions as the Local government might, from time to time, delegate thereto except the power of levying a rate or tax or borrowing money.⁴⁷

Local Government Inspectors were also appointed to take charge of a group of Local governments. Their duties included the following:-

- a. to ensure that the Financial Memoranda for the better control and management of financial business of the council were strictly complied with;
- b. to inspect accounting books and records of the council;
- c. to attend council and committee meetings;
- d. to establish pre-audit system to minimise fraud and to reduce statutory audit queries;

The 1988 Implementation Guidelines on the application of Civil Service reforms in the Local Government Service provided for the first time, the establishment of Internal Audit in all Local governments in Nigeria. This is to be headed by a qualified accountant to ensure a complete and continuous audit of the accounts and records of revenue, expenditure, plant, allocated and unallocated stores where applicable. The Internal Auditor would be directly responsible to the Accounting Officer. His duties were as follows:

- a. to submit to the Accounting Officer and the Director of Local Government Audit, a detailed audit programme;
- b. to submit monthly report on the progress of the audit to the Accounting Officer, as well as the Director for Local Government Audit;
- c. to issue special reports, if necessary, where in his opinion, the attention of the Director of Local Government Audit should be drawn to any irregularity or apparent departure from earlier internal audit reports/recommendations;
- d. to assume the control of stock verification, and direct their programme of inspection where a system of stock verification does not exist.

In addition to the establishment of internal audit in the Local government, Section 13 of the Guideline provided for the creation of the office of the Director of Local Government Audit in the State. This was another major landmark in the evolution of Local government financial controls in Nigeria. The size of funds disbursed to them and the extent of financial misappropriation and fraud in the Local governments throughout the country prompted the Federal government to create the Directorate. Section 13.1 says:

In the recent past, Local governments have assumed increasing financial responsibilities with an enormous amount of money flowing to them from the Federation Account as well as 10% of internally generated revenue from State governments. For instance, between 1983 and 1987, a sum of ₦6.742 billion accrued to all the Local governments in the country as statutory allocation from the Federation Account in addition to the huge sums from internal revenue which some urban local governments are generating. While there is the Auditor-General and the Director of Audit at Federal and State levels, there is a serious vacuum at Local government level which cannot be effectively filled by the State Director of Audit in view of the enormous responsibilities that the civil service reforms have imposed on his office. In view of the above reason there shall be established in each State the office of the Director of Local government Audit.³⁸

The Director of Local Government Audit would:

- a. have power to carry out, on regular basis, the auditing of local government accounts;
- b. have power to sanction and surcharge any officer as stipulated in the Guidelines governing offences and sanctions;

- c. be the Chairman of the Local government Audit Alarm Committee;
- d. have access to the State Governor through the Governor's representative on the Audit Alarm Committee and;
- e. notify the Public Accounts Committee of audit alarms of significant importance and serious prepayment audit queries for which the Accounting Officer of the Local government is liable or responsible.

2.23 Local Government Audit Alarm Committee

Another innovation in the financial controls was the establishment of Local Government Audit Alarm Committee in each Local government in Nigeria comprising:

- i. Director of Local Government Audit;
- ii. Director of Local Government Inspectorate representing Governor's Office

After outlining the historical development of local government financial controls in Nigeria, we would examine its practice as revealed by different authors.

After outlining the historical development of local government financial controls in Nigeria, we would examine its practice as revealed by different authors.

Ejisun³⁹ outlined specific sources which empowered State government to exercise control over local government financial management. This included the various States' local governments Edicts. This together with the regular grants which they received from the Statutory Allocations stabilised their finances and enhanced their financial planning. According to him, one aim of financial control was to facilitate routine accountability on the part of the local governments and their staff in order to maintain probity in financial management. He cited section 103 of Kaduna State Local Government Edict which spelt out the main sources of revenue of local governments while section 104 explained to what use the revenue should be put. Section 7 (1) of the 1979 constitution of Nigeria also specifically charged each State governments to enact a law that would provide for the finances of local governments. Control was therefore, expected to be exercised through the annual estimates of revenue and expenditure prepared by the local governments. He also cited section 113 (1) of Kaduna State Local Government Edict which enjoined every local government to prepare a detailed estimate of the revenue and expenditure for the next financial year. Section 113 (2) empowered the State Executive Council to consider an annual estimate submitted by local governments in order

to ensure that it was not inconsistent with the general budgetary measures. This, he said was "another element of control"⁴⁰.

Section 112 (1) of the above Edict empowered the Commissioner for Local government to issue written instructions to be called Financial Memoranda (FM), for better control and management of the financial business of the local governments in the State and for the regulation of the procedure of Finance and General Purpose Committees.

Ejisun cited section 110 as the "last area of financial control of the State government which required every local government to render annual account of its financial activities and to submit such accounts to be audited by an auditor appointed by the State government. The local government was expected to render to the State Executive Council an annual financial statement.

In the above analysis, Ejisun, attempted to explain the financial relationship between kaduna state government and Local governments in the state. According to him there have been many schools of thought on the desirability or otherwise of State's control over local government finances. He said that many recommended partnership approach rather than the master versus servant approach; some have gone to the extent of advocating for the total insulation of local governments from any slightest State government control.

Ejisun asserted that since local governments were required to conduct their financial affairs in a prudent manner, it implied that certain group of people collectively or individually be assigned with certain duties and responsibilities. In certain circumstances they could be charged for *omission, negligence, inefficiency or dishonesty*. He asserted that since these groups of people or individuals charged with the financial management were not the owners of the resources which they were holding in custody and that anyone in possession of resources belonging to others was in a position of stewardship. He compared this to a company where directors in turn entrusted some of the resources to managers. Further delegation took place down the line of authority in the company. Similarly, Federal and State governments managed resources entrusted to them by the citizens through the National Assembly, State House of Assembly and Local Government Councils respectively. They in turn delegate resource allocation and decision-making powers to government functionaries and local government officers respectively. Every steward was held accountable to the *person or body which entrusted resources to him, whether the latter was a superior steward or the ultimate owner*. Ejisun pointed out that such double duty of stewards, including an audit, has had a long and continuous history. Indeed, according to Littleton, "the need for independent checks or control lie deep in human nature"⁴¹

Chapter 40.5 of financial memoranda for use in all local governments in Nigeria provided that the internal auditor must report to the council at least four times a year on the financial prudence of the local government. It also Stated that every local government must keep accounts and should immediately after the end of each financial year close its accounts and prepare a balance sheet. The balance sheet should form the core of its financial statement which must be forwarded to the Ministry of Local Government annually in accordance with the provisions of chapter 32 of the financial memoranda.

The above analysis by Ejisun has brought out six important Local government financial control measures as follows:-

- i. Statutory rules and procedure contained in the FM
- ii. Annual estimates of revenues and expenditure
- iii. The FGPC
- iv. Rendering of annual accounts
- v. Audit of annual accounts and
- vi. Stewardship accountability.

Budgets in Local governments were classified into two, namely, recurrent and capital. Where Local government spent money on something that would serve its community for a period of more than one year it finances the project from capital budget. Examples included new schools, clinics, plant and machinery. Where money was spent on something whose value or service was for a period not exceeding one year, payment would be made from recurrent budget, for example, staff salaries and maintenance of vehicles.

2.24 **Budgets as Instrument of Control**

Budgets were important instruments of financial control in local governments. This would involve the preparation of annual estimates of revenue and expenditure for the next financial year department by department. Such estimates which should be in line with the State government policy must be approved by the respective local government councils. Once this was done it would be illegal to incur expenditure on projects which were not approved in the budget without the council's approval. Additional approval would be in form of supplementary budget. If adhered to budgets instill discipline and prudence in financial management of any organisation. The study would attempt to find out the extent of adherence of local governments with the laid down instructions contained in the FM.

However, Ejisun contended that unrealistic budgets prepared by local governments contributed to their inefficient financial controls. In his study he found out that there were unrealistic approach to estimates preparation on the part of the local government officials. "Often, estimated revenue figures would be inflated. No consideration was given to past trend of actual revenue collection which would have been useful in preparing realistic estimates"⁴².

Koleade Oshisami and Peter N Dean⁴³ also had a similar opinion to that expressed by Ejisun on the effect of the inability of some public sector organisations to render annual accounts in time. They contended that failure to maintain proper accounting records or delay in submission of audited accounts as well as the inability of the government to enforce strict adherence to the provisions of Financial Regulations (FR) constituted a major weakness in the financial controls in the public sector. They cited the Okigbo Commission Report (1980), reports of the Central Bank of Nigeria and that of the Anti-inflation Task Force (1975) which confirmed either lack of proper accounting records or long arrears of audited accounts of various public sector organisations.

Furthermore, Abubakar Halidu⁴⁴ examined measures stipulated for financial improprieties. According to him the Guidelines classified acts of financial impropriety as follows:

- i. Irregularities resulting in losses to government due to either fraudulent activities, negligence or incompetence. In this category 16 offences have been identified, each with its prescribed sanctions.

- ii. Irregularities not directly resulting in losses to government
Abubakar Halidu pointed out that the establishment of the Audit Alarm Committee at all levels of government was one of the important innovations introduced by the 1988 Civil Service Reforms. The Committee, whose Chairman was the Auditor-General, was charged with the responsibility of preventing irregular payments before they were made. Queries raised by internal auditor but over-ruled by the Chairman of a local government should be referred to this committee. Any officer who went ahead to process any queried voucher under the Audit Alarm System would be deemed to have committed an offence unless the Auditor-General issued a certificate of clearance.

Although this aspect of the reform was commended when introduced, Halidu Stated that there were disturbing indications of implementation bottlenecks. He said that although no officially sourced progress report on the implementation existed as yet, glimpses into comments and reports by individuals and bodies charged with this responsibility readily confirmed such fear⁴⁵.

2.25 SUMMARY

In this chapter, we reviewed the historical development of local governments in Nigeria. The emphasis was on their financial control system. We also reviewed works of various authors related to the practice of local government financial control.

A number of problems were highlighted covering wide areas. This included such areas as preparation of annual budget, preparation of annual accounts, revenue and audit. Therefore in relation to this, it would be pertinent to find out to what extent Adamawa State Local governments comply with the statutory instructions and procedures laid down in the FM. Chapters four and five would be devoted to this.

CHAPTER 3

3.00 RESEARCH METHODOLOGY

3.10 Introduction

The objective of the study was to evaluate the extent of compliance of Adamawa State Local governments with the Financial Memoranda⁴⁶ (FM) and make appropriate recommendations. This chapter discussed the method and procedure for conducting the research. The modality of the study design was in survey and documentary forms.

3.20 Sample Design

The study sample of seven local governments was drawn from a population size of sixteen. The list of local governments in Adamawa State as at 1993 when the research took place would be found in Appendix 1 of this thesis. The sample size was randomly selected to enable us obtain a representative data of the State under study with regard to compliance of the local governments with the provisions of the FM.

3.30 Questionnaire and Data Collection

The classification of the provision of the FM into six sections was adopted for the purpose of questionnaires. For each section, the number of statutory provisions it contained were counted. Each constitutional provision was given a value of one point. For example, section I was on estimates; it contained 21 provisions, therefore, this section had a total of 21 points. In otherwords, under "Estimates" Local governments have been expected to comply with those 21 provisions. Any Local government which complied with all the 21 provisions would score 21 points or lower as the case might be. The questionnaire were personally delivered to the internal auditor of each sample local government. In addition the researcher visited each Local government in the sample, and interviewed the following staff:- Treasurer, Accountant, and Revenue officer and also personally verified some of the responses contained in the questionnaires. The classification and maximum number of scoring points (total number of provisions in each section) were presented in tabular form as follows:

<u>Section</u>	<u>Classification</u>	<u>Nº of scoring points (b)</u>
I	ESTIMATES	21
II	REVENUE	8
III	EXPENDITURE	13
IV	BOOKS OF RECORDS AND ACCOUNTS	47
V	STORES	9
VI	AUDIT	4

3.31 Evaluation Method and Criteria

For the purpose of evaluation each section has been allocated a certain percentage weight out of 100% as follows:

<u>Section</u>	<u>Classification</u>	<u>%ge Weight (a)</u>
I	ESTIMATES	15
II	REVENUE	15
III	EXPENDITURE	20
IV	BOOKS OF RECORDS AND ACCOUNTS	30
V	STORES	10
VI	AUDIT	10
		—
		100
		—

The researcher personally collected back the questionnaire and analysed the responses. For each Local government the score (x) was obtained. This score was converted into percentage form ($X \times 100$) to obtain the percentage score (p), then the weighted percentage score, (d), was calculated by multiplying (a) and (p). The weighted percentage score, (d), for sections I - Vi was aggregated ($\sum d$) for each Local government to arrive at the value of D, which represented the degree of compliance with FM by a given Local government, that is,

$$D = \frac{n}{\sum_{i=1}^t d_i} > 0, \text{ where}$$

D = degree of overall compliance with FM

n = no. of sections of FM

d = weighted percentage score

t = no. of ds

3.32 The Importance of the value of p

The importance of the value of p or percentage score of a Local government with respect to a given section of FM were as follows:

- i. to determine the degree of compliance of a Local government with the given section of the FM, say Estimates or Revenue etc.
- ii. to find out the section(s) of least compliance with FM for appropriate sanction.
- iii. Sections with low value of p would be indications of areas of weak internal control. This would aid especially independent auditors in planning their audit programme.

- iv. Low value of p for each section would reveal negligence on the part of the Treasurer in complying with statutory provisions of FM.

3.33 **The Importance of the value of D**

As expressed above, the value of D represents the overall degree of compliance of a Local government with all the six sections of FM. Its importance were as follows:

- i. to determine the overall degree of compliance with FM.
- ii. to expose the negligence or otherwise of a Treasurer in complying with the statutory provisions of FM.
- iii. to provide a scientific basis for comparison between Local governments of the same one State or even between all the Local governments in Federation with regards to the degree of their compliance with FM.
- iv. to provide especially the independent auditor with relevant statistical information useful in planning his audit.

3.34 The Critical D

Being statutory in nature, all the provisions of the FM were expected to be complied with by every local government. On this basis, and in order to lay a strong foundation for high degree of discipline in Local government financial management the researcher has set 85% as the minimum degree of overall compliance d, with FM by a Local government. This minimum was referred to as the Critical d would be quarried for negligence in complying with statutory provisions of FM and the Treasurer would be appropriately sanctioned. Thus where:

Critical D	\leq	84	-	Query
Critical D	\geq	85	-	Pass

3.35 Justification

(a) Over the years there has been a lot of criticism on financial management in Local governments. Despite this, no serious attempt was ever made to find out the extent to which the Local governments comply with statutory provisions of FM in the manner dealt with in this research. It should be appreciated that comprehensive compliance with FM would provide a proper foundation for discipline in the financial management of Local governments.

3.36 (b) After all, the rationale for embarking on annual estimates was to:

- i. provide a financial plan of action:
- ii. provide legal authority for incurring expenditure:
- iii. provide control mechanism over Local government revenue and expenditure and
- iv. establish the financial position of the Local government.

So, if a Local government failed to implement the provisions of the FM satisfactorily that would amount to poor control mechanisms over its revenue and expenditure. Therefore, to ensure strict compliance with FM by Local governments, a criteria for assessment ought to be developed and applied. This was the rationale for developing the mathematical model and the critical D-test described above.

The reasons for the choice of 85% as the critical D-test mark were:

- i. to ensure a comprehensive coverage of all the six sections of the FM:
- ii. to ensure a high degree of compliance with FM by Local governments:

3.38 Statistical Method of Data Presentation

In this study the use of percentages and tabular form of data presentation were adopted for easy understanding and clarity and a simple statistical formula was used to express the mathematical model. The model has been explained above.

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CHAPTER 4

4.00 DATA PRESENTATION AND ANALYSIS

4.10 Introduction

This research was carried out in order to evaluate the extent of compliance of Adamawa State Local governments with FM. It was considered that unless they complied strictly with the provisions of FM no meaningful financial control could be expected in their financial management system. Seven Local governments were randomly selected and questionnaire on major sections of FM were administered. Practical observation of documents in the treasury was also carried out. In the process data was collected and presented in the form outlined in chapter 3 and analysed as follows:

4.11 TABLE 9 (a)

LG 1 EVALUATION OF COMPLIANCE WITH ALL THE SECTIONS OF FM

<u>FM. Section</u>	<u>%ge Weight</u> (a)	<u>NO. of scoring items</u> (b)	<u>Observed score</u> (x)	<u>Percentage score x 100</u> (p)	<u>weighted %ge score (a x p)</u> (d)
1. ESTIMATE	15	21	10/21	47.6	7.14
2. REVENUE	15	8	4/8	50.0	7.50
3. EXPENDITURE	20	13	6/13	46.2	9.24
4. BOOKS OF RECORDS AND ACCOUNTS	30	47	14/47	29.8	8.94
5. STORES	10	9	4/9	44.4	4.44
6. AUDIT	10	4	4/4	100.0	10.00
	<u>100</u>				<u>47.26</u>
				<u>D = Σ d =</u>	<u>47.26</u>

4.12 TABLE 9 (h)

LG2 EVALUATION OF COMPLIANCE WITH ALL THE SECTIONS OF FM

<u>FM. Section</u>	<u>%ge Weight</u>	<u>NO. of scoring items</u>	<u>Observed score</u>	<u>%ge Score x 100</u>	<u>Weighted %ge score (a x p)</u>
(a)	(b)	(x)	(p)	(d)	(d)
1. ESTIMATE	15	21	12/21	57.1	8.56
2. REVENUE	15	8	2/8	25.0	3.75
3. EXPENDITURE	20	13	6/13	46.2	9.24
4. BOOKS OF RECORDS AND ACCOUNTS	30	47	34/47	72.3	21.69
5. STORES	10	9	7/9	77.0	7.78
6. AUDIT	10	4	3/4	75.0	7.50
	100				58.52



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4.13 TABLE 9 (c)

LG3 EVALUATION OF COMPLIANCE WITH ALL THE SECTIONS OF FM

<u>FM. Section</u>	<u>%ge Weight</u> (a)	<u>No. of scoring items</u> (b)	<u>observed score</u> (x)	<u>%ge score x 100</u> (p)	<u>weighted %ge score (a x p)</u> (d)
1. ESTIMATE	15	21	12/21	57.1	8.56
2. REVENUE	15	8	3/8	37.5	5.63
3. EXPENDITURE	20	13	6/13	46.2	21.69
4. BOOKS OF RECORDS AND ACCOUNTS	30	47	25/47	53.2	16.00
5. STORES	10	9	4/9	44.4	4.44
6. AUDIT	10	4	3/4	75.0	7.5
	<u>100</u>			<u>D = $\sum d =$</u>	<u>63.82</u>

4.14 TABLE 9 (d)

LG4 EVALUATION OF COMPLIANCE WITH ALL THE SECTIONS OF FM

<u>FM. Section</u>	<u>%ge weight</u>	<u>No. Of scoring items</u>	<u>Observed score</u>	<u>%ge score x 100</u>	<u>weighted %ge score (a x p)</u>
	(a)	(b)	(x)	(p)	(D)
1. ESTIMATE	15	21	14/21	67.0	10.05
2. REVENUE	15	8	4/8	50.0	7.50
3. EXPENDITURE	20	13	6/13	46.2	9.24
4. BOOKS OF RECORDS AND ACCOUNTS	30	47	25/47	53.2	16.00
5. STORES	10	9	4/9	44.4	4.44
6. AUDIT	10	4	3/4	75.0	7.50
	<u>100</u>				<u>54.73</u>
				<u>D = $\sum pd$</u>	

4.15 TABLE 9 (c)

LGS EVALUATION OF COMPLIANCE WITH ALL THE SECTIONS OF FM

<u>FM. Section</u>	<u>% weight</u>	<u>No. of scoring items</u>	<u>observed score</u>	<u>score x 100</u>	<u>weighted %ge score (a x p)</u>
(a)	(b)	(x)	(p)	(d)	
1. ESTIMATE	15	21	11/21	52.4	7.86
2. REVENUE	15	8	3/8	37.5	5.63
3. EXPENDITURE	20	13	4/13	30.8	6.16
4. BOOKS OF RECORDS AND ACCOUNTS	30	47	15/47	31.9	9.57
5. STORES	10	9	4/9	44.4	4.44
6. AUDIT	10	4	3/4	75.0	7.50
	<u>100</u>				<u>41.16</u>

4.16 TABLE 9 (f)

LG6 EVALUATION OF COMPLIANCE WITH ALL THE SECTIONS OF FM

<u>FM. Section</u>	<u>%age Weight</u>	<u>No. of scoring items</u>	<u>observed score</u>	<u>%age Score</u>	<u>Weighted %age score (a x p)</u>
	(a)	(b)	(x)	(p)	(d)
1. ESTIMATE	15	21	11/21	52.4	7.86
2. REVENUE	15	8	3/8	37.5	5.63
3. EXPENDITURE	20	13	3/13	23.0	4.60
4. BOOKS OF RECORDS AND ACCOUNTS	30	47	15/47	31.9	9.57
5. STORES	10	9	4/9	44.4	4.44
6. AUDIT	10	4	3/4	75.0	7.50
	<u>100</u>				<u>39.60</u>
				<u>D = Σ d =</u>	<u>39.60</u>

4.17 TABLE 9 (g)

LG7 EVALUATION OF COMPLIANCE WITH ALL THE SECTIONS OF FM

<u>FM. Section</u>	<u>%ge weight</u>	<u>No. of scoring items</u>	<u>observed score</u>	<u>%ge score x 100</u>	<u>weighted %ge score (a x p)</u>
	(a)	(b)	(x)	(p)	(d)
1. ESTIMATE	15	21	11/21	52.4	7.86
2. REVENUE	15	8	3/8	37.5	5.63
3. EXPENDITURE	20	13	10/13	76.9	15.38
4. BOOKS OF RECORDS AND ACCOUNTS	30	47	31/47	66.0	19.80
5. STORES	10	9	4/9	44.4	4.44
6. AUDIT	10	4	3/4	75.0	7.50
	<u>100</u>			<u>D = $\Sigma d =$</u>	<u>60.61</u>

4.20 Analysis

4.21 LG1 (GUYUK LOCAL GOVERNMENT)

Table 9 (a) revealed that this Local government complied fully (100%) with only one section of FM and that is with the section on Audit. Its compliance with the remaining five sections has been poor, especially in the case of section 4 which was on Books of records and Accounts, where it scored the least percentage of 29.8%. This information would aid the independent auditor in assessing the internal control system of the Local government, since the results in table 9 (a) indicated at a glance the areas of weaknesses in terms of compliance with statutory operational provisions.

The overall compliance of Guyuk Local government with FM that is weighted percentage score (D) was 47.26%. This implied low compliance with FM, indicating that this Local government operated a poor financial control system during the year under review. When subjected to the critical D-test of 85% the Local government failed. Consequently, its failure ought to attract a query from the State government and subsequently the Local government should be advised to comply strictly with all the sections of FM.

4.22 **LG2 (YOLA LOCAL GOVERNMENT)**

This Local government scored above 70% in compliance with three sections of FM, namely the sections on Books of Records and Accounts, Stores and Audit. However, its overall weighted percentage (%0 score (F) of 58.52% was not very impressive due to its low percentage score in the remaining three sections of FM, especially in Revenue Section where it scored as low as 25%. When subjected to the Critical D - test the Local government failed. Consequently, it ought to have been queried too and be advised to comply strictly with all sections of FM.

4.23 **LG3 (DEMSA LOCAL GOVERNMENT)**

This Local government scored a higher overall weighted percentage score D, of 63.82% but failed the Critical D. test of 85%. Consequently, a similar measure as above should apply to it.

4.24 **LG4 (NUMAN LOCAL GOVERNMENT)**

This Local government scored a weighted percentage score D of only 54.73% which is far below the Critical D. Consequently, it ought to be queried and also advised to fully implement all the section of FM satisfactorily.

4.25 LG5 - 7 (MAYO BELWA, HONG AND MUBI LOCAL GOVERNMENTS)

As clearly revealed in tables 9 (e) - 9 (g), all the remaining LGs, 5 - 7 also scored below 85% weighted % percentage score. In otherwords, they all failed the Critical D-test. Therefore, they ought to be quarried and be advised to fully implement all the sections of FM satisfactorily.

4.26 TABLE 10

COMPARATIVE WEIGHTED PERCENTAGE SCORE (D)

<u>LG</u>	<u>NAME</u>	<u>WEIGHTED PERCENTAGE SCORE (D)</u>
1.	GUYUK	47.26
2.	YOLA	58.52
3.	DEMSA	63.82
4.	NUMAN	54.73
5.	MAYO BELWA	41.16
6.	HONG	39.6
7.	MUBI	60.61

Tables 9 (a) - 9 (g) represented a comparative percentage scores and weighted percentage scores of all the Local governments in the sample. The tables clearly revealed the degree of compliance of every Local government with each of the six sections of FM.

4.27 TABLE 11SUMMARY OF COMPLIANCE OF SAMPLE LGS WITH DIFFERENT SECTIONS OF FM (d-scores)

<u>FM SECTION</u>	<u>LG1</u>	<u>LG2</u>	<u>LG3</u>	<u>LG4</u>	<u>LG5</u>	<u>LG6</u>	<u>LG7</u>	<u>TOTAL</u>	<u>OVERALL COMPLIANCE</u>
ESTIMATES	<u>7.14</u>	<u>8.56</u>	<u>8.56</u>	<u>10.5</u>	<u>7.86</u>	<u>7.86</u>	<u>7.86</u>	<u>58.34</u>	55.6%
	15.0	15.0	15.0	15.0	15.0	15.0	15.0	105.0	
REVENUE	<u>7.50</u>	<u>3.75</u>	<u>5.63</u>	<u>7.50</u>	<u>5.63</u>	<u>5.63</u>	<u>5.63</u>	<u>41.27</u>	34.3%
	15.0	15.0	15.0	15.0	15.0	15.0	15.0	105.0	
EXPENDITURE	<u>9.24</u>	<u>9.25</u>	<u>21.69</u>	<u>9.24</u>	<u>6.16</u>	<u>4.60</u>	<u>15.38</u>	<u>75.56</u>	53.9%
	20.0	20.0	20.0	20.0	20.0	20.0	20.0	140.0	
BOOKS OF RECORD AND ACCOUNTS	<u>8.94</u>	<u>21.69</u>	<u>16.00</u>	<u>16.00</u>	<u>9.57</u>	<u>9.57</u>	<u>19.80</u>	<u>101.57</u>	48.4%
	30.0	30.0	30.0	30.0	30.0	30.0	30.0	210.0	
STORES	<u>4.44</u>	<u>7.78</u>	<u>4.44</u>	<u>4.44</u>	<u>4.44</u>	<u>4.44</u>	<u>4.44</u>	<u>34.42</u>	49.2%
	10.0	10.0	10.0	10.0	10.0	10.0	10.0	70.0	
AUDIT	<u>10.00</u>	<u>7.50</u>	<u>7.50</u>	<u>7.50</u>	<u>7.50</u>	<u>7.50</u>	<u>55.00</u>	<u>55.00</u>	78.5%
	10.0	10.0	10.0	10.0	10.0	10.0	10.0	70.0	

4.28 TABLE 12

OVERALL COMPLIANCE OF SAMPLE OF LOCAL GOVERNMENTS WITH ALL SECTIONS OF FM (D - SCORES)

	<u>NAME</u>	<u>D-SCORE</u>
1	MUBI	<u>60.61</u> 100.00
2.	HONG	<u>39.60</u> 100.00
3.	YOLA	<u>58.52</u> 100.00
4.	DEMSA	<u>63.82</u> 100.00
5.	NUMAN	<u>54.73</u> 100.00
6.	MAYO BELWA	<u>41.16</u> 100.00
7.	GUYUK	<u>47.26</u> 100.00

$$\begin{aligned} \Sigma D &= \frac{366.70}{700.00} \\ &= 0.52 \\ &\text{or } \underline{52\%} \end{aligned}$$

The overall picture of compliance of sample Local governments with different sections of FM given by the values of d-scores could be seen in table 10 above and summarised in order of magnitude as follows:

- i. Compliance of sample LGs with Audit section of FM = 78.5%
- ii. Compliance of sample LGs with Estimate of FM = 55.6%

- iii. Compliance of sample LGs with Expenditure of FM = 53.9%
- iv. Compliance of sample LGs with Stores of FM = 49.2%
- v. Compliance of sample LGs with Books of record and
Accounts of FM = 48.4%
- vi. Compliance of sample LGs with Revenue
section of FM = 34.3%

4.29 The Revenue Section of FM

The importance of the Revenue section of FM cannot be overemphasised. The statutory instructions regarding all revenues accruing to a Local government and which the Treasurer and Revenue officers ought to implement and observe have been expressed in this section of the FM. For example, according to Osisioma, there are: "Monthly checks which the Treasurer carried out to ensure that there is proper custody of public funds. Besides, the Memoranda require the preparation of daily abstracts on form LGT 73A, of Revenue and Expenditure of Local government"⁴⁷

In view of the importance of the Revenue section of FM each Local government was allocated a weight of up to 15 out of 100 for evaluation purposes. If all the seven Local governments in the sample complied fully with the section, they would have scored a total of 105 (i.e. 7X15). However, it was disappointing that they only scored a total of 41.27 out of 105. This arrived at a low compliance value of

34.3%. The implication of this was that there was poor control of revenue in all the Local governments. Their failure to strictly comply with the provisions of FM could result in leaving many loop-holes for the perpetration of fraud and financial mismanagement. Such poor compliance with FM could result from negligence, poor staffing or poor quality of staff.

4.30 **The Estimate Section of FM**

For the purpose of financial control, the terms estimate and budget mean the same thing. According to Watoseninyi, Budgetary control refers to " the control exercised over the generation, use and maintenance of financial resources, with a view to ensuring proper management accountability for financial resources generated or used, through the instrumentality of the budget".⁴⁸ The estimate section, therefore, must be regarded as a very important section of the FM providing the instrument of control of both revenue and expenditure of Local government. If a Local government failed to comply fully with this section, it might be conducting its financial affairs in contravention of the statute. This section was also allocated a weight of 15 out of 100 per Local government. If all the seven Local governments in the sample, complied fully with the section, then they would score a combined total of 105 marks (7 X 15). However, the findings revealed that they only scored a combined total of 58.34. When evaluated, the compliance of all the seven Local governments with the estimate

section of FM came to only 55.6% which was not impressive.

4.31. The Expenditure Section of FM

In view of the importance of this section which regulates disbursement and control of payments and has many sub-heads, a weight of 20 out of 100 was allocated to it. Just as the case with the estimate section, the Local governments' compliance with the expenditure section was low. Their combined score was evaluated at 53.9% compliance. The implication was that the sample Local governments have been negligent in implementing and observing the guidelines and procedures stipulated in the expenditure section of the FM. Consequently, there might be cases of misappropriation of funds or even waste.

4.32 Books of Records and Accounts Section of FM

In every organisation, books of records and accounts form the life-line of its operations and transactions. It has become important and necessary to maintain proper books of records of assets and liabilities of the Local governments. This section contained numerous types of books of records which must be kept accurately and a series of book-keeping and accounting routines. These included the journals, cashbook, general ledger, daily abstract of revenue and expenditure register of assets, monthly, summaries, reconciliations trial balance, and, financial statements. In view of the importance and complexity of this section it was allocated a weight of up to 30 out of 100.

However, the evaluation above revealed that out of the combined total of 210 for the seven Local governments they scored only a combined total of 101.57 giving their combined compliance with the Accounts section of the FM of 48.4%. This implied that the level of maintaining books of records and of carrying out statutory accounting routines and their reliability was very low.

4.33 The Store Section of FM

Similar to the other sections the store section of the FM did not present an impressive rate of compliance. All the seven Local governments had a combined compliance score of 49.2% which was below average.

The implication was that all the Local governments had been negligent in ensuring that stores ledgers and other records were properly kept and periodically up-dated. Consequently, there might be lapses in keeping custody of and safeguarding assets belonging to the Local governments.

4.34 The Audit Section of FM

Out of all the sections of the FM, the above analysis in Table 10, revealed that the Audit section scored the highest degree of combined compliance of 78.5% by the seven Local governments under study.

Notwithstanding this outcome, there was still room for improvement of the Local governments to ensure that this section was fully complied with. The Audit unit was considered "as an instrument used for ensuring prudent financial management whereby financial accounts are duly checked for correctness and compliance with constituted applicable rules"⁴⁹ If so, we would expect the auditors to check whether or not a Local government has implemented the provisions of FM and whether or not the instructions were complied with. The ineffectiveness of the auditors to do so could be due to shortage of qualified audit staff.

4.35 Overall compliance of sample Local Governments with all sections of FM

As revealed in Table 11 above, the overall compliance of all the seven Local governments with all sections of FM was evaluated at 52%. This was far below expectation. To score a pass mark set in this research, the Local governments must score equal to or over the Critical D of 85%. The implication of their low score was that their Treasurers have been negligent in ensuring full compliance with the statutory provisions of FM and this might have left some room for misappropriation of funds and waste or the perpetration of fraud. These elements so indicated might be ascertained by another study.

4.36 **TABLE 13****RANKING OF LGs IN ORDER OF THEIR OVERALL COMPLIANCE (D) SCORES**

<u>POSITION</u>	<u>LG.NO</u>	<u>NAME</u>	<u>D-SCORE%</u>	<u>PASS CRITICAL D-TEST</u>	<u>REMARK</u>
1st	3	Demsa	63.82	No	Issue Query
2nd	7	Mubi	60.61	No	Issue Query
3rd	2	Yola	58.52	No	Issue Query
4th	4	Numan	54.73	No	Issue Query
5th	1	Guyuk	47.26	No	Issue Query
6th	5	Mayo Belwa	41.16	No	Issue Query
7th	6	Hong	39.60	No	Issue Query

Finally, table 13 showed at a glance, the ranking of all the Local governments in the sample in order of their overall (total)weighted percentage scores, D. If such a table could be prepared annually it would serve the following purposes:

- i. The State government would see at a glance which of the Local governments failed to fully comply with statutory provisions contained in FM.
- ii. Such information would provide a basis for appropriate sanction on defaulting Local governments.
- iii. Publication of such information would generate keen competition between Local governments as none of them would like to appear low in rank among the others.
- iv. It would lead to greater and stricter compliance with FM and, therefore, provide more effective foundation for efficient financial control system in the Local governments.

CHAPTER 5

5.00 SUMMARY AND CONCLUSION

5.10 Summary

This study was carried out to determine the extent of compliance of Adamawa State Local governments with the Statutory Guidelines and instructions contained in the Financial Memoranda provided by the Federal government. The Financial Memoranda contained the guideline, rules and regulations governing financial management of Local governments in Nigeria.

From the reports received by government and those published in journals, newspapers and including studies carried out by several authors mentioned in chapters one and three of this thesis, it was clear that financial management in the Local governments in Nigeria left much to be desired. This was inspite of several reforms that have been carried out by Government and also inspite of the statutory regulations provided for them in the FM. Faced with this problem, it was thought that the first step towards improvement of the system was to ascertain the extent of their compliance with the provisions of FM. Unless Local governments fully implement and strictly observe nealy all of the provisions of FM, whatever measures adopted to improve their financial management would be like beating about the bush.

The study divided FM into five sections and allocated weights to each section according to their importance, number and complexity of instructions they contained. A sampe of seven Local governments out of sixteen was drawn for the purpose of detail study. Questionnaire was administered and oral interviews were conducted to collect data. The data was grouped and analysed using tables and statistical model. Each Local government was subjected to a critical D-test. To obtain a pass, a Local government must have a compliance score of not less thand 85%. The study revealed that none of the samples Local governments passed.

Also, when the compliance with all the sections of FM was computed for the entire Local governments in the sample they scored a combined total of 52%.

5.20 **Conclusion**

Based on results of the sample Local governments in chapter four above, this study concluded that:

- a. the compliance of Adamawa State Local governments with the statutory provisions of FM was low and therefore unsatisfactory and,
- b. consequently there would be loop-hole for lapses in their financial control system.

5.30. **Recommendations**

In view of the fore-going background analysis and conclusion, this study has recommended the following:-

1. That Adamawa State government should adopt the above evaluation method and criteria for assessing their Local governments, i.e., D - Score model

$$D = \frac{n}{\sum_{i=1}^{d_i}} > 0$$

and the critical D-test, criteria where:

critical D \leq 84 Query

critical D \geq 85 Pass

2. That Adamawa State government should assess the Local governments at the end of every fiscal year using the above recommended criteria.
3. That Adamawa State should publish and gazette the assessment results every year to generate keen competition between the Local governments and also for accountability and public awareness.
4. That Adamawa State government should employ the service of management consultants to organise workshops, seminars and conferences for local government officials on:
 - a. the statutory provisions of FM,
 - b. D-Score assessment method formulated above and,
 - c. the Critical D-criterion.
5. That Adamawa State government should legislate on the sanctions to be imposed on a Treasurer whose Local government failed the critical D-test.
6. That the Federal government should adopt recommendations 1-5 above accordingly.
7. That further research be carried out to focus on the loop-holes and lapses in Local government financial management

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APPENDIX I
LIST OF LOCAL GOVERNMENTS IN
ADAMAWA STATE IN 1993

1.	MADAGALI	LOCAL	GOVERNMENT
2.	MICHIKA	LOCAL	GOVERNMENT
3.	MUBI	LOCAL	GOVERNMENT
4.	MAIHA	LOCAL	GOVERNMENT
5.	HONG	LOCAL	GOVERNMENT
6.	GOMBI	LOCAL	GOVERNMENT
7.	SONG	LOCAL	GOVERNMENT
8.	YOLA	LOCAL	GOVERNMENT
9.	FOFURE	LOCAL	GOVERNMENT
10.	MAYO BELWA	LOCAL	GOVERNMENT
11.	GANYE	LOCAL	GOVERNMENT
12.	JADA	LOCAL	GOVERNMENT
13.	NUMAN	LOCAL	GOVERNMENT
14.	DEMSA	LOCAL	GOVERNMENT
15.	GUYUK	LOCAL	GOVERNMENT
16.	SHELLENG	LOCAL	GOVERNMENT

APPENDIX II

QUESTIONNAIRE

The questionnaire was designed to assist in determining the extent of compliance of Adamawa State Local governments with the statutory provisions of Financial Memoranda. The Questionnaire was prepared in statement form. Respondents have been requested to simply write a "YES" or "NO" against each statement below. Your cooperation would be highly appreciated as the outcome of the questionnaire would count towards the success of the thesis which is a requirement for the award of a Master of Science Honours Degree. Against each statement write "YES" or "NO". The following was a summary of the questionnaire which was administered.

I. Estimates

1. No expenditure in excess of the approved estimated amount is incurred unless approved by the Local Government Council.
2. Estimates are coded in compliance with Section 2 of Fm as regards.
 - Recurrent Revenue Estimate.
 - Recurrent Expenditure Estimate
 - Capital Receipt Estimate.
 - Capital Expenditure Estimate.
3. Annual estimate are prepared on prescribed forms.
4. LGT 1 Financial Statement.
5. LGT 2 Summary of Estimates of Recurrent Revenue.
6. LGT 3 Summary of Estimates of Recurrent Expenditure.
7. LGT 4 Summary of Estimates of Capital Expenditure.

The following detailed estimates are prepared:

8. LGT 6 Estimates of Recurrent Revenue.
9. LGT 7 Estimates of Recurrent Expenditure (Personnel Costs).
10. LGT 7 (a) Estimates of Recurrent Expenditure (Overhead costs).
11. LGT 8 Estimates of Capital Receipts.
12. LGT 9 Estimates of Capital Expenditure.

Preparation of Annual Estimates

13. Local Government Executive Committee's Call Circulars reach each department by 1st June.
14. Treasurer issued Treasurer's Call Letter latest 10th June.
15. Departmental estimate proposal forwarded to Treasurer by 10th July.
16. Treasurer's summary of Departmental Estimate Proposals submitted to the Executive Committee latest 31st July.
17. To accompany the consolidated estimate proposals Treasurer submits the following reports:
 - i. Transactions for the year of estimate.
 - ii. Effects of Transactions for the year of estimate on overall financial position.
18. Executive Committee's recommended annual estimate proposal submitted to the Council by 31st August.
19. Council considers draft estimates and report of the Executive Committee latest 15th December.

20. Copies of Council's approved annual estimates forwarded to the Governor latest 31st December.
21. Approved Annual Estimate implemented with effect from the 1st day of the related financial year.

Supplementary Estimates and Re-allocations of voted monies

22. Supplementary Estimates are approved by the Council.
23. Register of Authorities to incur supplementary expenditure including re-allocations of voted monies kept by the Treasurer on Form LGT 11A.

SECTION II Revenue

Control of Receipt and other Revenue Earning Books

1. Receipt Book register on form LGT 24 is kept.
2. Receipt Book distribution register is kept.
3. Auditor-General's Certificate issued after completion of each audit stating which exhausted or obsolete revenue earning books are no longer required for audit and may be destroyed.
4. Board of survey appointed annually to check stock of revenue earning books in store against the Receipt Book Register and recommended those to be destroyed.
5. Annual Tax Census carried out.
6. Community Tax payers Record Book kept.
7. Local government submits "Firs Tax Return" to Governor latest 31st January.
8. Community Rate Payers Record Book kept.

SECTION III Expenditure

Control of Expenditure

1. Departmental Expenditure Vote Book kept.
2. Register of Bills or Invoices received kept by officer maintaining

Departmental Vote Expenditure Book.

3. Monthly Balancing and Reconciliations of Departmental Vote Expenditure Book done.
4. Payment Vouchers are duly authorised.
5. Register of unreceipted vouchers kept.
6. Imprest cash book kept by imprest holder.
7. All imprest are automatically retired at the end of financial year.

The following checks are carried out in the Treasury:

8. Posting of all PVs to Cash Book and casting checked every month.
9. Register of Outstanding Vouchers checked every week.

Staff Matters

10. Personal Emoluments Register kept.
11. Monthly summary of Personal Advance balances prepared.
12. Every month Treasurer submits summary of Personal Advance Ledger to Executive Committee.
13. Grand Total of General Schedule of Advance Accounts is reconciled with total advances shown in Statement of Assets and Liabilities as at 31st December.

IV Books of Records and Accounts are kept in the Treasury

1. Cash Book.
2. The Journal (Summary of Adjustments).
3. Daily Abstracts of Revenue and Expenditure.
4. Monthly Abstracts of Revenue and Expenditure.
5. Monthly Summary.
6. Main Ledger.
7. Trial Balance.

Finance Department maintains the following accounting statements:

8. Monthly Trial Balance.

9. Monthly Reconciliation of Accounts.
10. Annual Financial Statement.
11. Monthly Bank Reconciliation Statement.
12. Capital Expenditure Register is kept.
13. Monthly check of Cash Book is done.

Records for Control of Cash kept in Treasury

The following records are kept in Treasury:

14. Strongroom Register.
15. Strongroom Keyholders Register.
16. Register of Cheque Books.
17. Till Books.
18. Receipt Book Register.
19. Receipt Book Distribution Register.
20. Postal Remittance Register.
21. Revenue Collectors Chart.
22. Tax Register.
23. Treasury Departmental Records.
24. Register of unreceipted vouchers.
25. Personal Emoluments Register.
26. Register of Authority to incur Supplementary Expenditure (AIE).
27. Departmental Votes Reconciliation Chart.
28. Capital Expenditure Register.
29. Inventory of Local government Assets.
30. Register of Audit Correspondence.
31. Accounting Statements and Files.
32. Register of Recurring Revenue.
33. Register of Bills Issued.
34. Register of Bills Received.
35. Job Cost Book.
36. Time Book.
37. Departmental Vote Account (DVA).

38. Imprest Cash Book.
39. Revenue Collectors Cash Book.
40. Unallocated Stores Records.
41. Allocated Stores Records.
42. Record of Contract and Jobbing Orders.

INVESTMENT.

43. Investment Ledger is kept.
- Monthly and Other Checks done in respect of:
44. Revenue Collectors Accounts.
 45. Revenue Collectors Chart.
 46. Revenue Earning Books.

ANNUAL ACCOUNTS.

47. Annual Accounts are balanced latest 30th June after financial year.

SECTION V Stores

1. Stores Ledger is kept.
2. Stores Receipt Voucher is kept.
3. Stores Requisition Voucher is kept.
4. Stores Issue Voucher is kept.
5. Monthly summary of stores received and issued is done.
6. Monthly summary of stores balances is made.
7. Monthly Reconciliation of stores records and Treasury Accounts Records is done.
8. All stores are inspected at least twice a year by Board of Survey.
9. Motor Vehicle Log Book is kept by each driver.

SECTION VI AUDIT

1. Internal Audit Unit is set up in the Local government in accordance with the provisions S. 40.1 of FM.
2. Audit Programme is prepared by Internal Auditor.
3. Prepayment Audit is done.
4. Local government is audited annually by independent auditors.