ACCOUNTABILITY

OF

PUBLIC ENTERPRISES IN NIGERIA

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Dedicated to: Maimuna, Mahmud, Djamila, Sa'adiya and Farida

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IN NIGERIA

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Chapter I

INTRODUCTION

Robson (57) has pointed out that:

> "State intervention of a positive kind in the ownership, operation or regulation of industries and services is a vast movement of world wide dimension. It is found not only in the highly developed countries of the west, but also in the underdeveloped countries of Asia and Africa. It is the leading characteristic of communist regimes. It is also an important feature of all political democracies, whether they claim to be based avowedly on private enterprise or on a mixed economy. The scale of this movement is vast and its diversity bewildering, its political, economic and social significance unquestionable."

The world over, the establishment of public enterprises has become a general feature and a legitamate instrument of public policy of modern goverments. In the developing countries of Asia, Latin America and Africa, they have become a practical necessity as the means of achieving rapid economic development in a situation of scarce private investment capital. Defence and Strategic considerations have been paramount in the creation of public enterprises in the indistrialised western countries, while ideological considerations provide the main inspiration in socialist countries such as the U.S.S.R. The situation in Nigeria is similar to most developing countries and the Governments at both the Federal and State levels are involved in extensive participation in economic

activities. The second national development plan 1970/74 document clearly spelt out Government's policy as follows:-

> "Over the last three decades Statutory Corporations and state owned companies have become an increasing tool of public intervention in the development process. Their primary purpose is to stimulate and accelerate national economic development under conditions of capital scarcity and structural defects in private business organisations. There are also basic considerations arising from the dangers of leaving vital sectors of the national economy to the whims of the private sector often under the direct and remote control of foreign large scale industrial combines. Public enterprises are thus crucial in Nigeria's quest for true national economic independence and self reliance"(35).

The public enterprises at both federal and state levels have contributed immensely towards the development of the national economy and will no doubt continue to do so. The main areas in which they have made their mark are banking and insurance; air, rail and sea services; housing and housing materials; industry and commerce; agriculture; information and communication media; provision of industrial and domestic power; Hotel and tourism (46) However, whilst recognising the contributions they have made and are making, there is a vital need to enquire whether these enterprises are operated with a reasonable degree of efficiency, and also to harmonise the requirements of their autonomous existence outside the normal control machinery of Government with those of democratic

responsibility and public accountability. These are problems of the relationships between these enterprises and the legislature, the Government and the public (9), and the problems of internal management and organisation and responsiveness to change.

It is these problems of managerial accountability and of democratic responsibility which form the m ain subject of this study. However owing to the University regulations on the size of a master's dissertation detailed examination of the various forms of public enterprises will be infeasible and accordingly the study will be confined to:-

(a) Those enterprises which are expressly required by the statute or decree creating them to operate commercially so that their aggregate revenue covers their aggregate expenditure taking one year with another. For example, Sec.15 1(c) of the Nigeria Railway Corporation Act 1954 provides that "it shall be the duty of the corporation so to conduct its affairs as to ensure that as far as practicable the annual revenues of the corporation are taking one year with another sufficient to meet all charges properly chargeable to revenue" (34). Similar provisions are to be found in practically all the statutes and decrees creating other public corporations at both the Federal and State levels.

(b) Those enterprises set up under the Companies Act for the purpose of undertaking other commercial, industrial or trading activities and in which it

is feasible to operate on a profit making basis. These in the main relate to such areas where Government direction is less vital or less likely to lead to unprofitability or where the enterprise is operating in a competitive field.(71).

This therefore defines the scope of the study and also provides a working definition of the term "public enterprises" for the purposes of this study.

The Assumptions and Methodology of the Study

The underlying assumptions of this study are:-

(a) Public enterprises in developing countries particularly those enterprises engaged in commercial, industrial and trading activities should be run on a profit making basis. In making this assumption it is necessary to distinguish between profit as an owner orienteded concept and profit as an operational concept. The former is concerned with the creation of maximum wealth for the owners (shareholders) and its simultaneious distribution to them or retained for their account within the enterprise (64). Although the main corpus of economic theory still assumes this to be the overall objective of an enterprise, the concept has been under heavy attack during the past thirty years and is regarded by writers such as Solomon(65), Antony (2) and Cyert and March(10) as unrealistic, inappropriate and immoral. . Profit as an operational concept however, relates to the production or creation of new wealth and provides the criterion for economising the use of social resources. Of

course this argument assumes that the market system does take account of all social costs; that is to say that there is no discrepancy between "social product" and the "private product". This has been a point of dispute amongst economists since A.C. Pigou raised the issue in the early part of the twentieth century and touches on a complex set of issues which go well beyond the scope of this study. Nevertheless, profit as an operational concept is simply the quest for economic efficiency, and is acceptable as a rational objective to pursue even in a totally socialist economy. The Khozraschet principle (economic accountability) in the Soviet Union for example typifies the idea of profitability as an operational criterion. It implies that given an original input of resources, the enterprise should arrange its affairs so that the revenues from the sale of its products or services cover the full cost of their production including the provision for depreciation of fixed assets and interest on the capital employed(20).

From the above discussion it would seem that profit as an operational concept is the most appropriate to employ in the case of public enterprises, where in addition to their statutory obligation to operate commercially, they are also expected to take into account a vector of social goals which do not normally feature in the profit calculations of enterprises in the private sector.

(b) The second assumption relates to the use of private enterprise accounting as a tool of measurement and evaluation of performance as well as the internal management of the public

enterprises. In the private enterprise firm, accounting supplies much of the comprehensive and dependable information that management needs to control and administer the resources in its charge efficiently and productively. It also supplies the data needed by management to discharge its fiduciary responsibility to report to owners, creditors and others with bona fide interests in the affairs of the enterprise. If it is useful to private enterprise firms there is no reason to believe that public enterprises will be an exception.

(c) The third and final assumption is that accounting if meaningfully interrelated with other disciplines can improve the economic efficiency of the public enterprises through sound estimation procedures and proper financial control, as well as enhancing accountability.

The interrelationship concerns the application of such techniques as Planning Programme Budgeting System (PPBS). In the private enterprise, corporate planning provides a useful mechanism for the allocation of scarce resources among competing proposals and consistent with the goal of maximum profitability. PPBS is the counterpart of corporate planning as practiced in the public sector. The technique's main emphasis is in the accomplishment of the purpose for which funds are allocated within the overall objective of the enterprise. It is a rational management technique which seeks an integration of planning, programming, budgeting, control and accounting.

PPBS being economic planning oriented, assists managerial and economic decision making on how limited resources can be allocated to many competing uses. It can be conceived as both a decisional model and an accounting information sub-system the two being interdependent.

The methodology employed in this study consists first of an examination of the concept of accountability in Chapter II. In Chapter III the operation of Nigeria's public enterprises are evaluated, and the various managerial problems facing them identified. Chapter IV discusses the scope for improvement and suggests the development of a standardised accounting system for all public enterprises in Nigeria and the application of PPBS. In Chapter V there is a discussion on institutional reforms and suggestions made for the establishment of a Bureau of Public Enterprise and an Audit Commission.

Chapter II

THE NATURE OF THE PROBLEM

The Concept of Accountability

The concept of accountability dates back to classical antiquity and throughout the history of organised society, institutional arrangements and procedures for effective accountability have been developed in response to political and economic developments. In the distant past the Hammurabi Laws provided the earliest known set of codes, which contained extensive considerations of obligations arising when persons have custody of property owned by others. (5). In modern times, the Company Laws of most countries provide the machinery for the managements of public companies to account to their shareholders for the manner in which they manage the resouces entrusted to them. In the public sector Governments have established various institutional procedures to ensure accountability of Government Departments and other Government Agencies.

The term accountability however, is one of those terms often used in governmental studies which suffer from imprecise or varying definitions. Like most short hand expressions, it is conveniently brief and familiar, but inconveniently loose and hence a source of considerable ambiguity. It is therefore necessary to establish at this early stage, what is intended by it in this study.

In a limited sense, accountability means to give a formal statement of financial transactions, yet as any dictionary will

confirm, to be accountable means to give reasons for and explanations of what one does. But as Normanton(40) has pointed out, a financial statement rarely provides explanation and seldom gives reasons, and the idea that accountability means more than this is widely held even if difficult to sustain.

L.J. Tivey(67), sees accountability as "an acknowledgement of responsibilities, involving the giving of information and explanation about past and present activities. It implies a position of stewardship or trusteeship on the part of the managers". He distinguishes it from control which he considers to be a "purposeful and positive activity by which definite lines of action are determined".(68)

Normantion(41) also sees accountability as a "liability to reveal, to explain and to justify what one does, how one discharges responsibilities assigned to him, financial or other, whose several origins may be political, constitutional, hierarchical or contractual".

This definition goes beyond the narrow concept of fiscal accountability and is concerned with managerial accountability for results of which the fiscal aspect is only a part. For the purposes of this study it is this broader concept of managerial accountability that will be considered.

In the private enterprise industry, the owner entrepreneur is a free agent within the law, and even when ownership and management are seperated, it is rare for accountability to the shareholders to have any great force. Most boards of directors like to distribute sufficient profits to maintain a healthy share price, but may not consider themselves accountable to the general body of shareholders for anything more. Indeed, as Rostow (60), and Kayser(32), have pointed out there is a growing tendency of boards of directors to become more and more like self-perpetuating oligarchies responsible to no one. They make donations to their alma metas, initiate takeovers and the like, mainly to secure their own interests, or at best, those of the 'company' at large. Tom Hadden(25) made similar observation when he pointed out that "modern managements think primarily in terms of company power and prestige and of their own position within the institutional hierarchy".

However, the presence of a quantifiable success criteria in the private enterprise - profits, growth, volume of sales, and the value of the shareholders' equity ensures that the results of the overall managerial objectives and the sub-objectives for each level of management can be assessed, and thus assist in the maintenance of the shareholders confidence in the management(74). Moreover there is a growing awareness amongst managements of private enterprise firms that in addition to their statutory responsibility to account to shareholders, there is the wider social dimension, concerning the interests of employees, customers, suppliers, the government and the society as a whole. At an increasing pace, managements are showing concrete evidence of their recognition of this aspect. There is

also the issue raised by Talcott Parsons (48), with respect to the legitimacy of organisations in society, a seemingly obvious matter likely to be taken for granted. Parsons argues that in any social system, the output of one aspect of that system will be consumed by other aspects of the system, and thus this output must be desired, and therefore legitimised. Legitimisation does not come only from those groups with whom the enterprise is in direct relationship such as shareholders, customers, suppliers and employees, but also from the acceptance of the society as a whole. Many organisations invest considerable resources in advertising efforts to convince present and potential customers of the legitimacy of their output. For example, firms in the tobacco industry have proclaimed that if it were absolutely proven that cigarette smoking causes cancer, they would stop manufacturing cigarettes. Survival - presumably a constant preoccupation of almost all organisations - depends not only on such mundane matters as efficiency and profit,but also upon the acceptance of the output and method of operation by significant sectors of the society as a whole(44)

In a govermment department, under a parliamentary system of government as in the case in Nigeria and most Commonwealth countries, accountability is secured through the responsible minister answering questions put to him in Parliament on all aspects of the departmental operations covering both strategic policy issues and detailed executive operations. The permanent secretary as the department's accounting officer is answerable to the Public Accounts Committee for the proper authorisation of expenditure and for the avoidance of waste and extravagance.

A public enterprise differs from private enterprise as well as

an ordinary government department. With respect to a private enterprise firm the difference is in the ownership and with a government department in respect of adminstrative control. It is the extension of the principle of delegation and the search for better accountability that has given rise to the idea of 'hiving off' some of the responsibilities of government departments to autonomous public agencies outside the normal governmental budgeting,accounting and control machinery.

The general sentiment in support of hiving off was expressed by Goodnow (23) writing at the beginning of the 20th century.

> "The fact is that there is a large part of administration which is unconnected with politics, which should therefore be relieved very largely, if not altogether, from the control of political bodies. It is unconnected with politics because it embraces fields of semi-scientific, quasi-judicial and quasi-business or commercial activity - work which has little if any influence on the expression of the free state will".

The Nigerian Government fully support this view as evidenced by the following criteria for the establishment of public enterprises:-

"(a) Normal government machinery does not lend itself to the speedy decisions so essential for commercial operations.

(b) The government system of accounts is designed to facilitate close expenditure control by the

legislature and not necessarily to promote operational efficiency.

(c) Commercial undertakings tend to generate an atmosphere of initiative and release greater energy on the part of the operational personnel.

(d) It is necessary to minimise political pressure and partisan influence in some senstitive social institutions in order to sustain public confidence in their policies and programmes" (36)

These conform very closely to what Bailey (4) has suggested as the principal reasons for hiving off such operations into autonomous self-financing entities namely:-

(a) The need for less control by the bureaucratic machinery of Government particularly in relation to long-term capital investment.

(b) Need for quicker decision making.

(c) Need to innovate.

(d) Need to seek out customers' demand and conduct market research.

If the assumption that a public enterprise differs from a private enterprise as well as an ordinary government department, is accepted, then the problems of its accountability must also be different.

There is for example considerable controversy as to whom are public enterprises accountable. Some writers have raised the issue as to whether the elected representatives are in the best position to guarantee accountability or whether for instance members of a Board of Directors of a public enterprise may not serve the same purpose equally well; particularly since the assets of a public enterprise are not the personal property of the elected representatives or any particular group for that matter but belong to the community as a whole. In this connection the point ought to be made that a public enterprise whether in the form of a public corporation or a limited company, from the very beginning is required to take into account certain social goals, and generally act as an instrument of public policy as evolved from time to time by the elected representatives. The directors of such entities are not subject to the same degree of survilliance or risks that attend their counterparts in the private enterprise, and given the ambiguities in the objectives of most public enterprises and the difficulties of establishing objective measurement criteria, there are obvious dangers in making the directors accountable to themselves. There is for example the danger that in such a situation not only is straight forward ineffiency and misuse of resources easier to perpetrate, but also corruption can take a much subtler form of distorting the intentions of the elected representatives and through them the will of the sovereign people. There is therefore a strong case for the directors to be made accountable to the elected representatives for the manner in which they run these enterprises as the price for the autonomy of separate existence outside the effective day to day control of the government machinery.

By and large, public enterprises have more in common with the private enterprise in that many of their activities can be quantified using the same criteria discussed earlier in relation to private enterprise. The political dimension within which managers of public enterprise have to operate can be handled by a systematic distinction between the entrepreneurial goals and the non-entrepreneurial goals. (61) They differ vastly from the main stream of public service where as the Fulton Committee (18) points out the total management task consists of:-

(a) Formulation of policy under political direction

(b) Creating the machinery for implementation of policy

(c) Operation of the administrative machine

(d) Accountability to Parliament and the Public

The Purpose of Accountability

Robson (58), considers accountability not as a mere giving of information in vacuo, but in terms of its effect on the behaviour of those who are called upon to account. He suggests that the "most obvious and important influence which may be traced to accountability is in inducing or enhancing a sense of responsibility in those who are called upon to account. This indeed is its most valuable characteristic from an economic or social point of view".(59) Normanton (42) argues that it obliges managements, officials and politicians to "engage openly in a dialogue which calls into question what they are doing and sometimes the basis upon which the activity is founded".

It is now necessary to consider what is the most appropriate balance between accountability obligations and the autonomy of public enterprises.

Accountability versus Independence

The real issue seems to be the need to distinguish between the problems of accountability and those of independence whatever form of entity is being considered. These problems arise in all relationships between employer and employee, superior and subordinate in all organisations and anyone who performs any activity for an organisation meets them. The problem of accountability revolves around the question of how best can the organisation achieve its assigned objectives, whilst that of independence or autonomy relates to the degree of discretion the operators or managements have to feel that their efforts are worthwhile. The point of balance will vary with the type of accountable entity.

However, to the extent that public enterprises are instruments of public policy, there is a strong case for some measure of governmental control over their operations if only to ensure that the social goals they are intended to serve are not lost sight of. The writer fully endorses the following view expressed by Appleby (3).

> "True autonomy is out of the question. In a democratic government, government can always and should always be able to intervene in any matter really important to the government. Advocacy of autonomy simply highlights the need to educate responsible top organs of government in the ordinances of self-denial which would restrict their intervention to really important matters."

This should not however mean interference in the detailed administratio of these entities and treating them as if they were an integral part of the Civil Service as is rapidly becoming the pattern in Nigeria.

Chapter III

PROBLEMS OF NIGERIA'S PUBLIC ENTERPRISES

Problems of Managerial Effectiveness

A statement in the Second National Development Plan 1970/74 document underlines the Government's concern and disappointment over the poor performance of the public enterprises.

> "The difficulties and inefficiencies of many public enterprises in Nigeria are evidenced by the series of tribunals and Commissions of Inquiry which reported on their activities over the last decade at both Federal and State levels. Many of them were not responsive to the changing requirements of a growing and dynamic economy, and some do not possess the tools of translating into reality the hope of successful commercial operations".(37)

The same document also pointed out that "the complexities of objectives which public enterprises are enjoined to pursue and the vague style in which some of these objectives are couched are not really the explanation for their poor performance. The basic causes can be traced ultimately to the nature and character of management and the solution to these problems must be the systematic application of modern management skills"(38). An examination of the various reports of Commissions and Tribunals of Inquiry into the operations of these public enterprises shows that the basic causes can be summarised as follows:-

(a) Personnel problems arising from wrong staff policies, nepotism and political interference.

(b) Deficient pre investment studies and wrong location of industrial plants often motivated by political advantage.

(c) Defective accounting and budgetary systems.

These will now be considered one by one.

Personnel Problems

The major personnel problems of Nigeria's public enterprises arise from (a) Political interference and ethnic considerations (b) defective establishment control system.

Political Interference and ethnic considerations

A problem common to all public enterprises in Nigeria is their deliberate use by politicians as 'employment agencies', particularly during the civilian administration. Board members were drawn from the ranks of political party stalwarts who were either election casualties or simply party faithfulls. Even where the appointee was suitably qualified the appointment would be made in such circumstances as to leave no doubt in his mind about the relative merits of political acceptability and qualification(69). Top executives were appointed more because of their demonstrated loyalty to a political party rather than their qualification or experience and they in turn used their influence to direct appointments and

promotions below them even where no approved establishments existed.

The cumulative effect of all this have been poor leadership at the Board level and gross overstaffing in almost every public enterprise. For example, the Report of the Tribunal of Inquiry into the operations of the Nigerian Airways showed that in 1967 of the 2390 employees as many as 1062 were redundant(55).

Of course Hanson (26) has pointed out that in most developing countries public enterprises tend to be used as 'employment givers' and therefore the problem is not peculiar to Nigeria. But the harmful effects of such practices to the efficiency of these organisations are enormous. and have a devastating effect on the morale of the staff as evidenced by the following statement:-

> "It is not Nigerianisation as such that is at fault, but the injection and interplay of fissiparous and extraneous forces which placed qualified Nigerians in a spiritually depressing state of mind, and which otherwise bedevelled normal relationship to such an extent that there was hardly any esprit de corps among people who live and move and have their being in the corporation and whose co-operative efforts are therefore expected to sustain the Corporation(52).

There is yet no evidence to show that these malpractices have stopped even though the politicians are no longer in power, although the military administration has taken steps to curve these malpractices as will be shown later in this section.

Defective Establishment Control System

The establishment control system in most public enterprises in Nigeria follows closely the pattern in the civil service. It involves vetting of annual forecasts of staff numbers, authorisation of new posts including upgradings and promotion and an ad hoc examination of numbers and grades of posts. It is a negative control by overall limitation of increase and minute scrutiny of cases. This practice contributes to overstaffing just as much as the political interference, and the nepotic actions of the top executives. Recruitment and promotions in most enterprises were made on considerations other than merit and the following evidence of a witness at the Tribunal of Inquiry into the Nigerian Railway Corporation is equally true and applicable to most public enterprises in the country; and demonstrates the disgraceful misuse of office by officials:-

> "Where one man has all the powers and others must necessarily be powerless, and where one man can alone confer wealth and honour the others can only gain it by pleasing him. His pleasure therefore, becomes the only test of achievement; all vigour and all independence of life and thought are necessarily abandoned (53).

It is this kind of feeling that generates the belief amongst public enterprise employees that success is primarily the result of sheer luck, an ability to outwit others or the political patronage of some godfather, rather than systematic application of effort and creative energy.

Other personnel problems are shortage of trained and educated people at all levels, attitude of workers towards work in the public sector, quality of staff and several other minor ones each contributing its own share to the relative inefficiency of these enterprises.

It is for the purpose of removing these problems of appointments, promotions and discipline of staff in public enterprises that the Government recently accepted the recommendation of the Working Party on public enterprises and set up a body called the Statutory Corporations Service Commission. The new body was to:-

> "Supervise all categories of appointments, promotions and discipline for those organisations in the same way as the Public Service Commissions do for the Civil Services in the Federation"(50).

While the SCSC grappled with some of the personnel problems highlighted in the various commissions of inquiry into the operations of public enterprises, a set of new and totally unjustifiable management problems were created: the Chief Executives of these organisations lost disciplinary powers over their staff.. The implications of this for effective management control are obvious, and the new arrangement has been under heavy attack during the past six years. While the arguments for its creation are strong and compelling, the results of its operation have been devastating and ruinous. As Hanson points out "the application of the normal civil service system of recruitment, grading, promotion, dismissal and discipline to public enterprises is obviously inimical to efficiency because public enterprises differ in their modus operandi from an ordinary Government department"(27).

There is evidence that the Government have realised the potential and actual harm that such an arrangement could do to the efficiency of public enterprises and although not publicly advertising this by abolishing the SCSC, the current practice is to make new public enterprises outside the control of the SCSC. Examples are the new National Oil Corporation and the Iron and Steel Authority. If the public enterprises in Nigeria are to operate as commercial businesses, this arrangement must be totally abolished.

Deficient pre-investment Studies and Wrong Location of Industrial Plants

The history of Nigeria's public enterprises is replete with cases of poor pre-investment and feasibility studies coupled with wrong decisions on the location of industrial plants. The commission of Inquiry into the activities of the Northern Nigeria Development Corporation for example concluded that:-

> "The Corporation has failed to carry out adequate investigation and appraisal of prospects before making submissions to the Board for approval and before entering into financial commitments."(75)

The number of projects that have failed either because of inadequate feasibility study or wrong location or at times both are uncountable. In many cases the failure of an enterprise is due largely to lack of competent and detailed pre investment study. At times the only study undertaken is that performed by an interested foreign machine pedlar whose primary interest is to sell equipment rather

than the success of the enterprise. To sell the equipment he has to put up such rosy prospects for the enterprise which deliberately ignore some vital considerations. The recent case of a Lebanese 'entrepreneur' who succeeded in pursuading three governments to establish textile factories is a case in point. After construction work had started on these textile factories at Zaria, Bussa and Ado Ekiti, it was discovered that this 'entrepreneur' was a fraud and his total worth was £100 in a Nigerian bank! He had transfered all the contributions he had received from the Governments to an agent outside the country and could not possibly have completed work on any of the projects.

Two widely publicised cases of wrong location are the ceramic and glass factories in the former Easter Region of Nigeria, and the Cement Company of Northern Nigeria in Sokoto (70) (76). But there are several other cases of unsuccessful projects, because of wrong location. Since these are essentially the result of political decisions the only feasible solution lies in change of attitude by the decision makers.

Defective Accounting and Budgeting System

The accounting systems in Nigeria's public enterprises vary in quality and sophistication, but generally there is a tendency towards a mixture of Government and private enterprise accounting with emphasis on custodianship and expenditure control. A possible explanation for this might be due to the fact that most of them started as Government departments and subsequently converted into either a public corporation or a state owned company. A firm

of Chartered Accountants reporting on one of these enterprises complained that:-

> "We would like the accounting staff of the corporation to adopt the commercial mentality to their work, whether that is possible knowing the history behind the corporation, we cannot predict"(54).

There is usually a complicated system of checks and counter checks which tend to hamper the efficiency, and timeliness of the system. Top management become involved with vast and totally unnecessary routine paper work without improving the efficacy, financial control or accountability. The following statement is an example of the state of affairs.

> "Because the Accounts Department as organised at present has proved ineffective and the Chief Accountant is engrossed in day to day administrative work of a routine nature with a considerable back-log of work to catch up with, we recommend the appointment of a suitably qualified person as Financial Adviser to help streamline the accounting and financial control system of the corporation"(56).

Like the accounting system, the budgeting procedures are very similar to those used in Government. Annual estimates are prepared on the appropriation system, from proposals submitted by heads of functional areas, and once approved spending can proceed within the

limits of approved allocations. Another Commission of Inquiry complained that:-

> "The budgetary system is archaic and out of step with modern budgetary practice and control. An up to date budgetary system is clearly a pre-requisite of efficiency in every aspect of the company's functions"(51).

The above are only the main causes but there are several others. Under the military regime for example, there has developed a regime of general usurpation of powers in which the top civil servants have tended to usurp the authority of the erstwhile elected representatives and merged it with their normal areas of competence and operation. They appoint themselves as chairmen of public enterprises falling within their ministerial responsibilities and attempt to run them as if such enterprises were an integral part of their ministries, thereby negating the whole concept of the autonomy of these entities. In addition the boards of most public enterprises consist largely of civil servants drawn from several interested ministries. The combination of civil service directors with the permanent secretary of the sponsoring ministry as the chairman tantamount in practice to converting public enterprises to no more than departments within ministries. The question that has remained unanswered is to whom is the Permanent Secretary/Chairman accountable? If to himself as the head of the sponsoring ministry or to his minister (commissioner) then, the whole concept underlying the creation of public enterprises as autonomous entities has been negated and the present arrangement is simply a variant of direct ministerial control. Another important issue connected with this recent development is the fact that in most

cases such persons are already overburdened with lots of other important assignments that are desperately vying for their attention. It is not uncommon to find a permanent secretary acting as chairman of three or four public enterprises and a director of another half dozen enterprises over and above his duties as a permanent secretary. Inevitably in such a situation, something has to give, and this unfortunately has meant the neglect of institutions like public enterprises and as Adamu Ciroma (9) rightly observed "they have become inefficient or have been diverted from their original objectives and suffer from loss of identity".

This recent development is not helping the efficiency of these enterprises nor enhance the degree of public accountability. There are also problems of widespread financial dishonesty and corruption practiced with almost total immunity by practically all levels of personnel in some of these organisations. There are problems of the quality of the goods and services produced and/or distributed by these entities, discourtesies to customers and general lack of discipline. To quote from the National Development Plan document again these enterprises "being mostly monopolies the worst of both worlds are thus compunded, since they do not enjoy the competitive benefits of private enterprise operations and suffer from poor managerial effectiveness"(39). Many of these enterprises particularly the large utility undertakings are reluctant to delegate authority resulting in over-centralisation and consequent inefficiency. The size and complexities of such entities like the Nigerian Railway Corporation and the National Electric Power Authority operating on a country wide basis over a vast land area and in the face of inadequate communication facilities make for remoteness between

management and men, and contribute immensely to inefficiency.

But by far the most serious aspect is the tendency of those who have acquired a status in the organisational heirachy to appear reluctant to accept the principle of accountability and adopt an attitude which de-emphasises the importance of being accountable. This presumably stems from the general belief that being accountable is tantamount to a reduction of their power and authority. Whilst this reluctance to accept the principle of accountability is in no way peculiar to Nigeria, the extent of the resistance is more pronounced than in countries with developed managerial professions. And this makes the case for the application of modern management skills in Nigeria's public enterprises even stronger.

Problems of Democratic Responsibility

Discussions so far have dealt with the problems of managerial accountability in Nigeria's public enterprises, but there is an equally important aspect concerning the relationship between these enterprises and the legislature and the public. Whilst the legislature is not a disinterested party in the managerial effectiveness of these entities, traditionally the interest of the legislature is in fiscal accountability. Responsibility for this in Nigeria is vested in the Public Accounts Committee. Under the civilian administration, this is a joint committee of the two houses of Parliament: at the Federal level the House of Representatives and the Senate and at the State level the Houses of Assembly and Chiefs. Under the military administration this committee is appointed by the Head of State at the Federal level and State Governors at the State level,

usually composed of suitably qualified persons of high standing in the society. The committee's work is heavily dependent upon the reports of the external auditors of these entities just as it relies on the Report of the Director of Audit when it considers government departments. The following extract from the minutes of evidence spells out the procedure.

> "For the benefit of those who are serving for the first time on this committee, I will outline the procedure we normally follow. When the officer who is appearing before us has taken his seat we deal with the paragraphs of the Auditors' report on which further information is needed one by one. When members have made all their observations and these hav been answered and where necessary assurance has been obtained that effective action has been taken to prevent a recurrence of an irregularity, I'll ask the Auditor if he is satisfied. But once again I would remind members that the Auditor is present in the capacity of an adviser only and it is really the duty of the committee to accept or reject the explanation given!"(49)

Members' questions have usually centred around such peripheral issues as overspending of votes, under collection of revenue, missing vouchers and other minor breaches of the financial regulations. Questions concerning the efficinecy of the organisations, and the value obtained for the expenditure are hardly raised.

The Government has already recognised the need for establishing

a separate Parliamentary Standing Committee for Corporation Accounts (77) with terms of reference very similar to the Select Committee on Nationalised Industries in Britain. What seems needed is not simply another parliamentary committee to keep officials in their places by means of a miticulous financial discipline but a body capable of assessing and evaluating the operational efficiency of these organisations. Chapter V discusses the institutional reforms necessary to ensure effective managerial and fiscal accountability of these enterprises.

Chapter IV

SCOPE FOR IMPROVEMENTS

ACCOUNTING AND INFORMATION SYSTEM

Seiler (62) has pointed out that a "national economy is no more than the total of a number of individual entities and the aggregate financial condition of a nation's enterprises should determine the overall health of its economy". In situations such as obtains in Nigeria, where the state is the biggest entrepreneur each time a production, pricing, or investment decision is made by a public enterprise, without adequate knowledge of its consequences, the probability of misdirected effort, wasted resources and economic loss is inceased. Thus economic stability is heavily dependent upon the aggregate managerial ability available within the economic structure and not necessarily the availability of natural resources which is often singled out as being the most crucial economic factor for growth(63). This is not to say that the supply of investment capital is an unimportant factor, particularly in developing countries, but simply to emphasise the roles of trained management and entrepreneurship in economic development. Indeed Hirschman (28) has argued that even underdeveloped nations have untapped sources of capital <u>if</u> the entrepreneurship and managerial elements are available to gather it and put it to work.

It is precisely at this point that the effect of inadequate systems of information processing come into focus, for entrepreneurship and managerial talents cannot be maximised without a foundation of information upon which to base business decision. Without the availability of a reliable system of getting financial data the

entrepreneurial and managerial efforts are at best halting and inefficient, and scarce capital may flow into those enterprises less likely to succeed, as was discussed in the preceding chapter.

The dynamic process of developing a less developed economy as is the case in Nigeria requires an effective and comprehensive methodology and practice of accountancy for both the microeconomic and macroeconomic purposes. It is the writer's view that central to many of the entrepreneurial and economicproblems of Nigeria's public enterprises is the absence of a clearly defined and economically appropriate system of accounting.

Faced with the problem of inadequate numbers of professionally qualified accounting staff to develop sound accounting systems in each of the public enterprises, the answer will be the early development of a standardised accounting system for all public enterprises in the country. According to the annual report of the Nigerian Institute of Chartered Accountants(33) as at 31st December 1972, there were only 489 accountants registered as members, and possibly another 120 Cost and Management accountants and members of the Chartered Institute of Municipal Treasurers.

The adoption of a standardised system of accounting would alleviate many of these problems and make it possible to: reliably compare financial statements; adequately measure enterprise and industry efficiency and performance; develop effective enterprise budgets; facilitate better investment decisions and carry out adequate project appraisal.

Those who oppose standardisation usually argue that it represents a straight jacket for the accountant, unrealistic, static and a control

instrument. None of these arguments is strictly correct. A properly concieved and designed system will be flexible enough to cover the requirements of every conceivable entity and provide scope for initiative.

Enthoven (12) has defined the aim of standardised accounting as the "systematic accumulation, measurement, processing and reporting of accounting information for entities in a society in accordance with uniform criteria for micro and macro-economic objectives". The motivating factor in those countries that have adopted standardised accounting, e.g. Germany, France, USSR to mention only a few has according to Karl Kafer (31) been the desire for more reliable information upon which to base comparison, and interpretations of accounting and economic reports; and greater consistency in the application of accounting information for planning, decision making and control purposes.

Standardisation can be categorised according to degree of uniformity into three varieties:-

(a) Uniform application of accounting standards, practices and conventions

This involves acceptance of uniform accounting and auditing concepts, principles, rules, reporting procedures and even company legislation. Each entity is free to develop its own accounting policies e.g. valuation procedures of fixed assets, inventories research and development costs. As the International Accounting Standards Committee (29) has pointed out

"there is no single list of accepted policies to which users may refer and the diverse accounting policies that are presently available for adoption can produce significantly different sets of financial statements based on the same events and conditions".

Generally speaking, accounting policies are not regularly and fully disclosed in all financial statements and considerable variation in format, clarity and completeness of disclosure exist among enterprises whether private or public. The following list compiled by the International Accounting Standards Committee (30) shows the areas in which the scope of differing policies exist.

General

Consolidation policy.

Conversion or translation of foreign accounts including the disposition of exchange gains and losses.

Overall valuation policy (e.g. historical cost, current purchasing power, replacement value).

Liquidation values if the going concern assumption does not apply.

Accounting for events subsequent to the balance sheet date.

Leases, hire purchase, or instalment transactions and related interest.

Taxes.

Long term contracts.

Franchises.

Assets and the basis of their valuation

Inventories (stock and work in progress) and related cost of goods sold.

Depreciable assets and depreciation.

Growing crops.

Land held for development and related development.

Investments both those that are controlled or imfluenced and other investments and changes in investment.

Intangible assets, including research and development, patents and trademarks, and goodwill.

Liabilities and Provision

Warranties

Options

Commitments and contingencies

Pension costs and retirement plans

Serverance and redundancy payments

Profits and Losses

Methods of revenue recognition, and distrinction between capital and revenue expenditure.

Maintenance, repairs and improvements

Gains and losses on disposal of property

Reserve Accounting, statutory or otherwise, including indirect charges and credits to surplus accounts.

Financial statements provide information needed by a variety of users for making evaluation and financial decisions. The users are not likely to make reliable judgements on these matters unless the financial statements clearly disclose the accounting policies which have been adopted in preparing them. If the performance of Nigeria's public enterprises is to be evaluated objectively, there is a strong case for uniformity in the areas indicated above.

Enthoven (13) has suggested that in designing a Standardised System of Accounts there is a need to distinguish between the external and the internal needs. He points out that the internal requirements for standardisation need not be stringent in regard to uniformity so that managements have scope for initiative. The system discussed above concerns the external standardisation needs and now the second variety of standardisation relating to internal (management) needs will be discussed.

Uniform Accounts Classification

This form of standardisation reflects uniform layout of accounts and procedures for classification and allocation of data. It can be applied nationally or to specific sectors and industries. During the past two years the National Universities Commission has been developing a uniform classification of accounts for all Nigerian Universities in order to facilitate comparison of costs and evaluate performance, and a similar arrangement for all public enterprises will be useful for the same purpose.

Furthermore, the experimentation of standardisation in this area, with public enterprises will provide the Government with useful experience to consider the introduction of the third form of standardisation.

National Plan of Accounts

This form of standardisation encompasses not only the classification chart discussed above but also the quantitative and

qualitative aspects regarding the identification, collection, measurement, processing and reporting of data nationally applied. This form of standardisation ensures a greater systematisation of accounting activities and its greatest exponent is the Soviet Union where according to Campbell (8) it is effectively used for: social accounting and economic planning; measurement of investment return and productivity; and the taxation and financing of enterprises. Admittedly the Soviet system is much more applicable to countries with centrally planned and controlled economies but a variant of it as practiced in France could serve a most useful purpose in Nigeria. The essentials of the French system are: (a) uniform accounting terminology;(b) uniform classification of accounts; (c) a standardised method of documentation; and (d) general rules of valuation. These elements are fully covered by the discussions above under standardised application of accounting fundamentals and adoption of unified classification of accounts. Enthoven (14) observed that the French system proved extremely useful for social accounting (National Income Accts) and public administration including taxation. He pointed out that it also had great benefit: "(a) for macro and micro economic planning; (b) to industries and industrial associations in making necessary economic analyses and forecasts; (c) for structural analyses, and in measuring and comparing industrial productivity; and (d) tends to enhance the efficient administration of enterprises as well as correcting deficient accounting practices".(15)

However, for the purposes of this study, it is suggested that standardisation of the first and second variety discussed above are necessary as the quickest means of raising the standard of accounting documentation in these enterprises, as well as providing an objective

measure of performance. With respect to the practical implementation of the proposal it is suggested that a Special Committee similar to the Decimal Currency Commission be appointed to undertake the task of designing an appropriate system. The Nigerian Institute of Chartered Accountants should be fully represented on such a commission. When the system is designed and implemented, the responsibility for its continuous review and updating should rest in the Bureau of Public Enterprises discussed in Chapter V.

The development of a Standardised Accounting System for Nigeria's public enterprises will greatly facilitate the application of Planning, Programme, Budgeting System (PPBS) since as Enthoven (16) has pointed out PPBS model demands a high degree of standardisation in accounting data.

The Concept and Application of PPBS

The basic concept of Planning Programme Budgeting System (PPBS) is accountability - a situation in which an organisation is made accountable for the production of goods and services and for their distribution. The technique shifts emphasis from systems input as is the case with traditional budgeting to systems output. In this way, the technique seeks an integration of planning, programming budgeting control and accounting in relation to accomplishments. The organisation becomes guided in its operation by the question, what is our mission? The execution of the mission then forms the basis for the evaluation of its success or failure.

A programme and performance approach to budgeting is based principally on the use in budget administration of three sets of interrelated considerations: (a) development of meaningful programmes and activities for each accountable unit; (b) alignment of the accounting classification with the budget classifaction; (c) establishment of work measures for each accountable unit to facilitate evaluation of performance. Jesse Burkhead (7) has defined programme budgeting as one:-

> "which presents the purposes and objectives for which funds are requested, the costs of the programmes proposed for achieving these objectives and the quantitative data measuring the accomplishments and work performed under each programme".

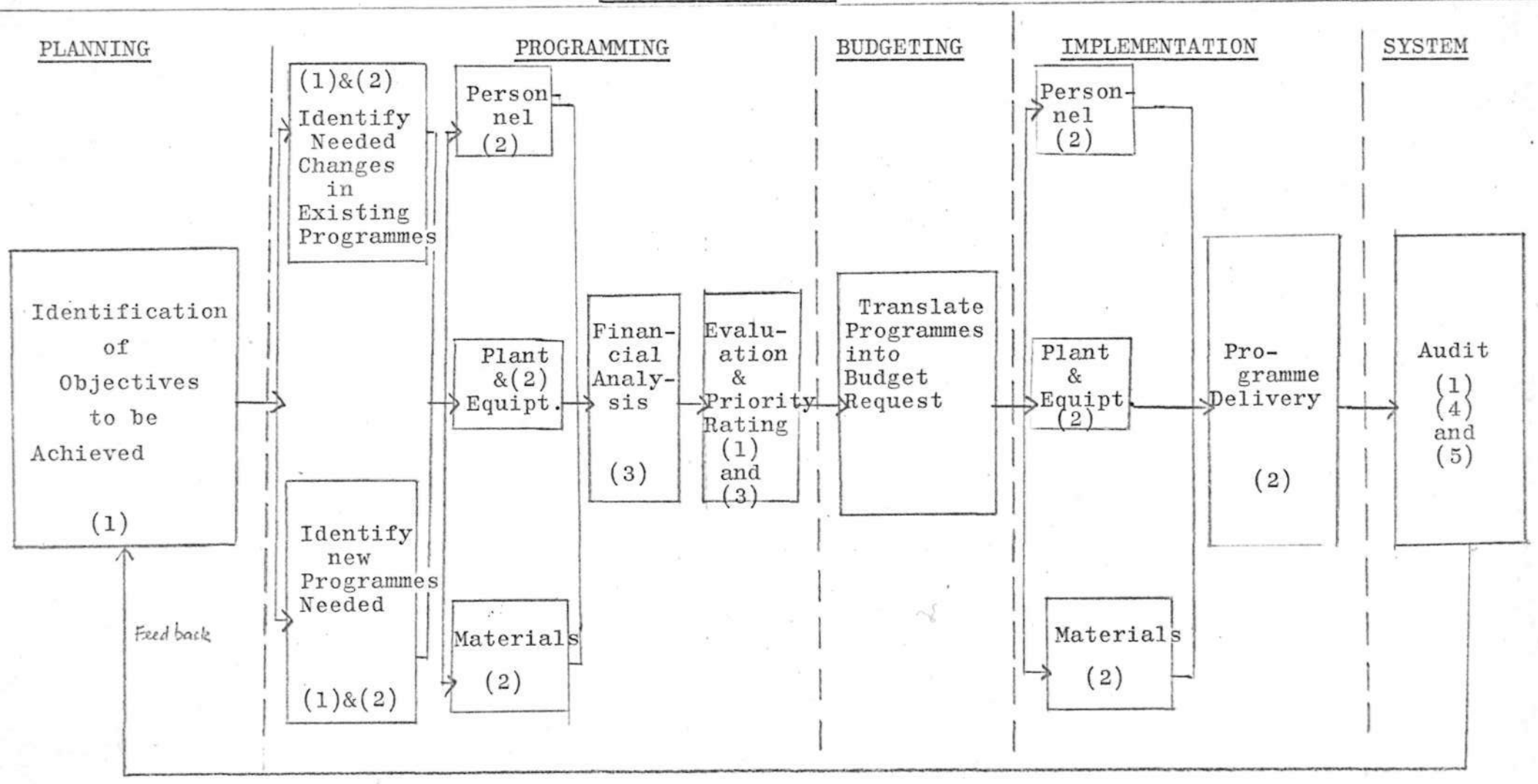
A programme is defined as "a package which encompasses each and everyone of the organisation's effort to achieve a particular objective or set of allied objectives". (24) An activity on the other hand is defined as "an identifiable service, operation or process within a programme"(6) with an intended end result within the overall objectives of a programme and capable of being costed. The accounting system of the organisation should be closely geared to the scheme of budget classification so that a direct relationship can be established between programmes and their costs, particularly since "the purpose of doing something and the cost of doing it are the twin considerations which are indivisible and indispensable".(72)

The flow chart on page 40 illustrates how PPBS will operate in a typical public enterprise. It shows the various stages in the budget process including Audit and the final feedback process. The roles of the numbered positions will be as follows:-

The Board of Directors should be responsible for establishing the short and longer term objectives of the enterprise and the basic strategies by which they are to be attained. It will consider and approve programmes proposed by the executive management including recurrent and capital expenditure estimates. It should also evolve objective criteria for the assessment of performance taking into account the governments' attitude of regarding all industrial and commercial public enterprises as commercial businesses.

Accountable Units. An accountable unit is a unit of organisation for which output could be measured against costs or other criterion and where individual managers could be held personally responsible for their performance. Garret (22) defines an accountable manager as one to whom specific authority over part of an organisation's resources has been delegated, and who is required to answer for the results he has obtained from the deployment of those resources. This implies the greatest possible delegation of authority aimed at developing a management style that speedily identifies changes in the local environment and reacts swiftly with minimum of bureaucratic rules and regulations. It is necessary therefore for enterprises to abandon the tendency towards over centralisation discussed in Chapter III and decentralise as a first step in the application of a PPBS system. Each accountable unit should be responsible for initiating proposals in the light of the broad objectives laid down

A PPBS FLOW CHART



Key to numbers (1) Board of Directors (2) Accountable Unit (3) Budget and Planning Office
(4) Internal Audit (5) External Auditors

by the Board for the organisation as a whole and endeavour to implement them efficiently. The proposals should identify changes in existing programmes as well as new programmes needed broken down between personnel, materials and equipments needed and expressed in monetary terms.

Budget and Planning Office. A budget and planning office should be established in each enterprise to be responsible for co-ordinating the budgeting and planning functions of the enterprise as a whole. Such an office can either be an arm of the Finance and Accounts Department or be part of the Chief Executive's office, but wherever it is established, the officer in charge of the unit should have direct access to the Chief Executive. The unit should be responsible for evaluating departmental or unit proposals and translating them into budget requests. Since "costs are not entities which are established by natural law" there must be a dialogue between the office and the units making the proposals so that realistic budgets are developed. To overcome the kinds of problems discussed in Chapter III, the budget and planning office must examine departmental proposals in relation to relative priorities and justification of the activities of the unit and thus the staff needed. The results obtained should be compared with the targets, and appropriate action taken in respect of any variances.

Internal Audit Unit. A strong internal audit unit is necessary to superintend adherence to standardised accounts classification and ensure the observance of financial regulations; and generally improving financial discipline throughout the enterprise. These

can be achieved through a system of prepayment checks and a strong internal check system. A strong and effective internal audit unit will greatly reduce the work of the external auditors.

External Auditors. The external auditors' role should not be limited to routine audit directed to ensuring as required by law that in their opinion the accounts show a true and fair view of the state of affairs on the date of the accounts. They must extend their work to cover administrative efficiency. More will be said about this aspect in the next chapter.

However, successful application of the PPBS technique in any enterprise depends on the existence of a number of factors and facilities and chief amongst these are the existence of a sound accounting system and financial discipline (73). The suggested standardisation of accounting systems discussed in the first section of this chapter will provide the foundation for such a system, and the tightening of internal checks and control system will strengthen financial discipline.

Chapter V

INSTITUTIONAL REFORMS

Discussions in the preceding chapters have shown that the balance of accountability of public enterprises in Nigeria has in varying degrees become lost and a fundamental reassessment is necessary. As O'Connel (47) points out the principle of public accountability has not operated in Nigeria with the same spirit underlying its working in say Britain - the country responsible for developing the existing institutional framework in Nigeria during the colonial era.

As a general rule Government equity interest in all public enterprises is held by the Ministry of Finance Incorporated - a national holding company, but the actual supervision of the enterprises is normally the responsibility of the appropriate sponsoring ministry. The tasks of the ministry are broadly to:-

(a) Determine the broad strategy for the entire industry - the strategy for a particular enterprise being part of the overall strategy. For example the Ministry of Transport is responsible for the development of an integrated transport policy and the separate strategies developed for such enterprises as the Nigerian Railway Corporation, the Nigerian Airways and the Nigerian National Shipping Line will be part of the overall national transport strategy.

(b) In the light of the strategy developed, to lay down specific objectives which may be financial, social or economic for the particular enterprise.

(c) Keep itself informed on the progress made towards the achievement of the specific objectives and generally monitoring the performance of the enterprise under its control.

(d) Scrutinise capital expenditure proposals.

To discharge these functions effectively obviously means that the supervising ministry has to maintain a dynamic interest in the affairs of the enterprise: communicating to the enterprise the framework of policies relevant to it and obtaining a feedback on what takes place in the enterprise. This is normally done through representation on the board of directors of the enterprise and occasional reports from the enterprise as may be specified from time to time by the supervising ministry.

But as has been shown in Chapter III, this arrangement has created new problems of loss of independence, difficulties in communication and feedback because the ministerial representatives do not seem to report to anyone. If the public enterprises are to carry out the functions assigned to them efficiently they must enjoy freedom of action, and there must be a continuous feedback between them and the supervising agency.

Establishment of a Bureau of Public Enterprises

As pointed out above, there are four main areas of ministerial responsibility over a public enterprise. The first two relate to policy and the remaining two are concerned with monitoring of

performance and generally ensuring that the policies laid down are being adhered to. It has also been shown that in the process of discharging these ministerial obligations the autonomy of the public enterprises has been virtually put aside and that this arrangement has not helped with managerial accountability or fiscal accountability to the legislature.

A possible solution to this problem is the creation of a Bureau of Public Enterprises to be charged with the responsibility for monitoring the performance of Public Enterprises including the scrutinising of capital expenditure proposals. The ministry should retain the constitutional responsibility of policy formulation, but should not be involved with the management of the enterprises under it as is the case at present.

The Bureau of Public Enterprises should be located in the Cabinet Office and its membership to be composed of:-

(a) A part-time Chairman to be appointed by the Head of State in respect of Federal Government enterprises, and State Governors in respect of State Government enterprises. The appointment should be for five years initially, but renewable.

(b) Permanent Secretaries of the Ministries of Finance, Economic Planning and Trade and Industry should be ex officio members. The Permanent Secretary of a sponsoring ministry should be in attendance when the affairs of a public enterprise under his ministry are being discussed.

(c) Six members from outside the Civil Service with specialist knowledge in Economics, Accounting, Law, Engineering, Sociology and Public Administration to be appointed as in (a) above.

(d) A full time Secretary who should also be the Chief Executive of a well and suitably staffed Secretariat.

Suggested Terms of Reference

To take dynamic interest in the operations of public enterprises and to evaluate their performance on the basis of the following criteria:

(i) Policy objectives (ii) Wider social goals which the policy objectives support (iii) Inter-institutional linkages from the point of view of systems maintenance, input acquisition, and output disposal and (iv) the consequences of action on other aspects of social, political and economic life of the society (17). For public enterprises of the type covered by this study the annual financial results should also be an additional criterion.

(2) Continuous review of the objectives for which public enterprises were established to ensure that they keep in tune with the changing needs of the economy.

(3) Ensure that public enterprises are being managed in accordance with sound business principles and prudent commercial practices through provision of guidance on budgeting, accounting and administrative procedures.

(4) Prepare and submit an annual report to the Head of State in respect of Federal enterprises and State Governors in respect of State enterprises. Such reports should be widely publicised.

(5) Generally act as a 'cushion' between the public enterprise and the sponsoring ministry; so that the former can exercise initiative and freedom of action while meeting the requirements of the latter. This can be achieved by keeping the sponsoring ministry informed of the performance of all public enterprises under its jurisdiction, and drawing the attention of public enterprises to areas of lapse.

This arrangement will do away with the present tendency of having Civil Service directors on boards of public enterprises, and also remove the problem of permanent secretaries installing themselves as Chairmen. The directors of public enterprises could then henceforth be selected from outside the civil service taking into account their qualifications and personal qualities. Their performance will be judged strictly on the success of the enterprise evaluated on the basis of the criteria discussed above.

As and when the country returns to civilian rule, there will be a need to appoint a minister in the Cabinet Office who will be responsible for answering questions raised in parliament on the report of the Bureau. Individual ministers responsible for public enterprises should still be responsible for answering questions specifically affecting such enterprises in respect of ministerial directives issued.

Establishment of an Audit Commission

The second institutional reform that is being suggested is the establishment of an Audit Commission to carry out an efficiency cum proprietory audit by examining the financial and other records of all public enterprises. The present government policy with respect to the external auditing of public enterprises is that:-

"(a) Only reputable firms of professional accountants with at least three full-time partners should qualify to undertake the audit of the accounts of public enterprises.

(b) Auditors are required to furnish two types of reports as follows:-

(i) A report for publication which should show the broad financial position of the enterprise and any very substantial points to which it is considered necessary to draw the attention of the public.

(ii) 'Domestic Report' which should incorporate the auditors' detailed observations and recommendations on all aspects of their assignments. This report should be placed before the Legislatures' Standing Committee on Corporations Accounts."(78)

This statement is a clear evidence of the earnestness of the Government to ensure an effective audit of all public enterprises, but the real issue is whether the techniques employed by professional practicing firms of accountants suit the requirements of a public enterprise. The fundamental idea in commercial auditing practices is the prevention of fraud either within the organisation or by false representation of facts to the shareholders, and the application of generally accepted accounting principles in the documentation of financial data. The auditor is not concerned with administrative efficiency since generally he is interested in "maintaining the best possible relations and do nothing to alienate the client who pays his fees".(43)

The ideal arrangement is to adopt the system in force in the United States of America, where the General Accounting Office (GAO) carries out on behalf of the Congress a comprehensive audit of all public corporations in accordance with a formula which takes into account both the needs of commercial corporate transactions and the wider public interest for efficiency.(44) But in a situation such as obtains in Nigeria, in which public enterprises form the largest proportion of the clientale for private practicing accounting firms this may not be appropriate. However, a compromise which combines the effectiveness of the G.A.O. procedures without putting practicing accounting firms out of work will be to empower the suggested Audit

Commission to appint suitably qualified private professional audit firms to carry out the audit of all public enterprises on the basis of a standard procedure to be drawn up by the commission. The auditors should be responsible to the commission and report to it with copies to the enterprises concerned. This arrangement will make the external auditors more independent and since under the existing arrangement the responsibility for "the appointment of external auditors"(79) is vested in the Cabinet, no fresh amendments to the statutes or articles and memorandum of association of public enterprises will be necessary.

The Audit Commission should be established in the Cabinet Office and its membership comprised of:-

(a) A Chairman who in the case of Federal enterprises should be the Federal Director General of Audit and in the case of State enterprises, the State Director - Generals of Audit.

(b) Six members suitably qualified to be appointed by the Head of State in respect of Federal enterprises and by State Governors in respect of State enterprises Such appointments should last five years but renewable

(c) A full-time Secretary who should be the Chief Executive of the Secretariat.

The Commissions' Terms of Reference should be:-

(a) Responsible for conducting an efficiency cum

proprietary audit of all public enterprises either by its own staff or by engaging the services of suitable professional accounting firms on the basis of a uniform procedure to be formulated by the commission.

(b) Reviewing the accounting and budgetary procedures in all public enterprises to ensure that they conform to the highest standards and provide meaningful information for decision making.

(c) To prepare and present an annual report to the Parliamentary Standing Committee on Corporation Accounts.

The difference between the work of the Audit Commission and the Bureau of Public Enterprises in evaluating efficiency of public enterprises is that in the case of the former it will have access to all the records of the enterprise, whilst in the case of the latter, the evaluation will be based on the annual reports and accounts, and such other statistics as they may require to be produced by the enterprise. The Audit will assess transactions whilst the Bureau will carry out statistical analysis.

Chapter VI

CONCLUSION

In recent years public enterprises in Nigeria have come under considerable public criticism over the way they operate, resulting in series of fact finding investigations particularly since the military intervention in 1966. Under the Civilian Administration "parliamentary practice and party political power play were such that the performance of the public enterprises received little more than superficial parliamentary attention often expressed in vague ministerial platitudes designed more to confuse than enlighten the public".(1)

The world over there seems to be a general disagreement regarding the way in which public enterprises, however constituted, should operate. At one extreme there are those who argue that they should serve social rather than commercial purposes on the grounds of naive pseudo-socialist nations that accounting and economic operations are somehow unimportant(45). This view is supported by the formal recognition in micro-economic theory that public ownership is justified only where there is a natural monopoly or where the existence of economic or social external effects are sufficiently important to make micro-profitability a misleading criterion. At the other extreme there are those who argue that if Government goes into business, it must observe business methods and operate commercially. This is even more important in developing countries where government intervention is a question of practical necessity: intervention considered necessary in order to combat the problem of scarce private investment capital and to correct structural anomalies

in the economy. In such a situation the need for the successful commercial operation of public enterprises can hardly be over-emphasised. This indeed seems to be the view taken by the Nigerian Government as evidenced by the following statement.

> "Public considerations may demand that public enterprises should undertake certain functions of social service character as a result of which their profit making capacity will be affected in varying degress according to the nature and extent of the social services they provide. In the event, Government will provide subsidies on production of evidence that all appropriate measures have been taken to reduce waste and improve the organisational and technical competence of the enterprise. But in the main the Government must look upon all public enterprises as 'commercial business' and will use their annual financial results as an important basis for judging their performance."(66)

Experience elsewhere, particularly in the more developed countries, has shown that the controversies about the performance of public enterprises cannot be meaningfully resolved until concepts such as "social service", "commercial operation" and "profitability" have been clarified. In Chapter I of this study, it was argued that in developing economies such as Nigeria's, public enterprises, though acting as instruments of public policy, must also operate profitably in order to contribute towards their own capital needs. To do so, it will be necessary to (a) draw clear lines between the

social and commercial elements of an enterprise's operations and (b) restrict social obligations to matters covered by specific ministerial directives. In addition to this, the Government must agree with the enterprises in advance, on a practicable and acceptable level of return to be achieved on lines similar to what obtains in the United Kingdom (19).

Given these conditions, the development of a sound and economically meaningful accounting information system and its interrelationship with the technique of programme budgeting as discussed in Chapter IV, would significantly reduce the effect of the kinds of problems identified in Chapter III and enhance the efficiency of these enterprises. The suggested institutional reforms discussed in Chapter V are designed to replace the existing system of ministerial supervision and the commercial audit, traditionally concerned with the prevention of fraud and ensuring accounting correctness as required by law. The proposed Bureau of Public Enterprises will tackle the problems of managerial accountabilit through evaluation and analysis of operations and the Audit Commission will ensure better fiscal accountability to Parliament.

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