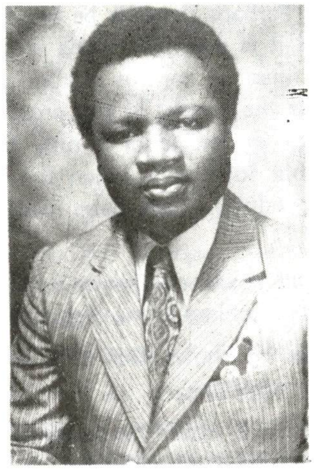
Financial Control In A Developing Government Agency

....Being a paper presented at the Senior Staff Seminar of the National Library of Nigeria by the Head of the Accounts Department, Mr. A. O. Odufuwa.



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Within the context of this paper, my broad conception of a government agency is any organization which is primarily funded from the government purse whether revenue-generating or non revenue-generating, and in so far as they have direct or indirect ministerial control. It is in this sense that a Library organization is considered a government agency. In effect, it would appear logical to say that he who plays the piper, dictates the tune. Since the relationship between such agency's board of management and the government is strictly one of Shareholder/Board of Director's relationship, it becomes imperative that the operations of the finances of the agency should be subjected to effective control in order to ensure satisfactory accountability to the remote Shareholders who happen to be the tax payers and the generality of the public and on whose behalf the business of the government is being conducted.

As of right, the Shareholders of a joint stock company demand periodic reports on progress made in their company and on the judicious application of funds representing their investments as placed at the disposal of the Board of Directors. The main distinguishing features between the operations of a commercial or joint stock company and a public utility enterprise is that while the former is business and profit oriented, the latter's substitution for this orientation is efficiency in service to the tax payers for whose benefit the operations' service is being conducted. This is not to say that there are no government agencies with some appreciable degree of profit motive, but usually the primary objective is service to the community. As a result of Government's financial involvement in these operating agencies however, certain operative control standards are usually imposed on their finance operations.

The underlying principle behind the management of government agencies or public Institutions is that a given task has to be accomplished or a service rendered efficiently and economically to the community by persons on whom such responsibility devolves with resources supplied for the purpose from public funds (local, state or federal Taxation). Public Authorities will, therefore, having public money to disburse for its services, be constituted on a democratic basis. Membership would have to be elected by the people, or nominated by elected bodies, and are usually subject to outside control as to their method of spending money. Thus it could be seen from the Nigeria's Public Administrative set-up, that a definite hierarchy of control is clear. In this circumstance, it is important to emphasize the fact that effective financial control system is an essential ingredient for the achievement of satisfactory accountability. Let us therefore proceed to examine in broad outline the basic concept of financial control in a government agency within the context of the above definitions.

BASIC CONCEPT OF FINANCIAL CONTROL:

Financial Control in any government agency is generally directed towards the attainment of pre-set objectives within available resources. This brand of control is concerned with stopping unauthorized things from happening by prior sanctions and post accounting, In effect, it is this kind of control which aims at ensuring regularity i.e. that accounts are kept correctly, that all spending is for authorised purposes and that the mix-application of funds, wastes and extravagance are prevented. Furthermore, it ensures that expenditure planning is based on the limitations imposed by direct funds allocations by the government and service operations are alligned within such constraints.

It is often said and agreed by financial analysts and experts that financial Management, is Management of the financial resource, or funds, in much the same way as say. Personnel management is management of the human resource, or labour. The term Funds' should however not be narrowly construed, because funds are put to use not only in the form of cash but also in the form of all other kinds of resources such as equipments and machines, land and buildings, and of course, men and materials to mention just a few in respect of all of which funds need necessarily be committed and used for the benefit of the organization. This being instrumental to the achievement of organizational objectives and goals.

In all these areas, certain broad principles of control have general applicability and it would be well to deal with them in the first instance, since it is not feasible within the limits of this paper, to examine in material detail, their application to each form of control. Perhaps it needs be emphasized that it is essential to the success of any financial control system operative for the benefit of any organization, that an individual is only held responsible for results when the following conditions have been made to prevail:

1. That he knows what he is expected to achieve in the organisation.
2. That he knows what he is actually achieving.
3. That it is within his power to regulate what is happening.

It is important to observe that if all these conditions do not exist 'paripassu', it may become unjustifiable and even ineffective to hold an individual responsible and the desired control would become impossible to achieve.

Two of the basic principles that is found common to all forms of financial control are "Internal Check" and "Internal Control'. They are briefly described as follows:

"INTERNAL CHECK": By Internal Check is meant the checks on day-to-day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or complementary to the work of another, the object being the prevention or early detection of erros or fraud .... on all transactions either individually or in groups, should involve surveillance by at least two persons, so far as possible, independent of each other".

"INTERNAL CONTROL": In a paper presented at a conference of the American Institute of Certified Public Accountants titled 'Systems-based Independent Audits' (1967) H.F. Stettler describes Internal Control in the following language: "Internal Control comprises the plan of an organization and all of the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies".

The third principle which could be considered as of general applicability is accountability - which in reality is the apex of all forms of financial [illegible]ol in government agencies and Departments and it permeates through all of them to all levels of management. In passing, let us see briefly what accountability entails.

ACCOUNTABILITY: Paul Einzig in his book titled 'The Control of the Purse' portrays accountability in the following manner: "Accountability in the narrower sense .... means that the executive has to submit accounts of completed public expenditure for inspection by the Parliament/Executive Council or by the Council's nominee like the Public Accounts Committee. In a broader sense, it means the responsibility of the Administration to the executive council for Public Expenditure. In this sense accountability means not only the submission of accounts for inspection but also executive council's right to criticise public expenditure and to apply sactions in case of unauthorised or excessive expenditure."

Whether in regard to cash, Stores or fixed assets, or in regard to revenue or expenditure, it is important to observe, as far as is practicable having regard to the nature and size of the organization and the resources available, certain basic features of Internal Check, Internal Control and Accountability some of the essentials of which can be enumerated as follows:

1. Duties of each member of staff should be set out in writing, together with the limits of authority in each case.
2. Precise procedures must exist for re-arrangement of duties in the event of a member of staff being absent.
3. Different persons should be made responsible for the Management, Custody and Record e.g. the Cashier and the Storekeeper who are responsible for custody of Cash and Stores respectively, should take no part in posting either the cash book or the Stores Ledger which are relevant to the resources which are in their custody. Similarly, Cash managed by the Accountant kept by the Cashier should be recorded by another independent staff of the Accounts Department on the receipt.
4. Frequent physical checks should be made to verify cash balances, stocks of stores, and fixed assets such as equipment, machines, motor vehicles etc.
5. The books should be kept properly, always written up to date and balanced at regular intervals.
6. All entries in the books should be made only from authorized documents.
7. There should be a daily check to ensure that all entries which ought to have been made have in fact been made, and the accuracy of the entries made should be proved daily.
8. Cash boxes, safes and secure store rooms should be made available, and arrangements made for security of buildings, machines and other office equipments.
9. All used documents should be filed methodically and retained for audit purposes, while unused forms and documents of value, e.g. cash receipt forms and cheque books, should be kept under lock and key.
10. All staff should take their annual holidays, unbroken, on an agreed roster;
11. Negotiable instruments such as Bills of Exchange and cheques should require the signature of more than one official.
12. Physical checks by different persons should be used to verify cash, stock and other fixed assets.
13. Wherever possible, checks from third party sources should be introduced and utilized e.g. bank certificates, creditors' statements, deposit certificates etc.
14. No one should be given work which involves greater responsibilities than his status within the organization allows.
15. Where-ever possible entries should be made only from original documents to avoid copying errors.

It is needless emphasizing however, that these various stages require appropriate level of manpower to effect its execution in a satisfactory manner.

DELINEATION OF SPECIFIC TECHNIQUES

There are various techniques which are of special value for effective financial management and control with particular reference to government agen cies. These may be categorized for purposes of analysis into seven broad groups:

1. Accounting Techniques
2. Budgeting Techniques
3. Costing Techniques
4. Data Handling Techniques
5. Auditing Techniques
6. Statistical Techniques
7. Managerial Techniques

It should be of interest to note that there is a fairly comprehensive list of techniques numbering about 82 in all falling within each of these categories and this makes it rather impracticable to treat all the seven categories in the course of a single paper. In view of this, it is proposed to select not more than 3 techniques for special mention and in broad outline only for the purpose of provoking some discussions thereon. These are (1) Accounting techniques (2) Costing techniques and (3) Auditing techniques.

Accounting Techniques

In the management of the financial affairs of any government organization, it is of paramount importance to give appropriate recognition to the control aspect of operating funds through the employment of a sound accounting system relevant to the organization's area of specialty. Thus, it would be found that the bulk of the techniques to be treated under this heading form part of the routine duties and functions of most government Accountants and is therefore a common knowledge to all of them. Accounting concept here involves essentially, the management and control of cash in its true sense and cash locked up in physical assets. It's operations are carried out in an Accounts Department which has the exclusive responsibility for monitoring the movement of funds/cash committed during the course of an agency's activities. Let us therefore consider briefly, some of the special characteristics of the accounting techniques:

1. Stock Control: Bottlenecks coupled with the inability to effect immediate supplies of needed stores items are regular features of stores operations in many organizations. The situation is often that there is stock run-out' or non-availability from local suppliers at the time they are needed. Such situation is better avoided by the maintenance of regular minimum and maximum stock levels and re-order levels to ensure prompt orderings and replenishment of the stores items constantly in demand.

Furthermore, stock control would give effect to sound purchasing, receiving and storage procedures; and effective control over issues, perpectual inventories and continuous stock-taking etc. In effect, for stock control to be efficiently planned and effectively enforced, different levels are to be fixed for each type of materials showing basically the levels below which stock should not be allowed to fall, the level above which they should not be allowed to rise, and the level at which the re-ordering process should be initiated. These stages would be determined in the light of the Store-Keepers' experience in the organization. The position could be illustrated graphically.

Historically, the control of stock by accounting methods has received less attention than the control of cash. Cash is much more amendable to accounting discipline because a cumulative total of two or more cash items can enjoy financial or economic significance. It is possible to add together two or three holdings ot cash or bank balances belonging to an organization, and the total has immediate significance in that it indicates the total money holdings under its control at a particular point in time. Stock presents difficulty if an attempt is made to apply similar methods to it. Adding together two or more items of stock lacks signficance unless all items included in the total are identical in every respect or can be expressed in common terms such as weight or money. It has some significance if they are similar, but this declines as the summary is extended to a population of objects which have less and less in common.

<u>Assets Control</u>: This form of control would have to establish authorization procedures in respect of fixed assets, ensure an efficient maintenance of the fixed assets and or plant registers - preventive and curative maintenance, disposal of unserviceable assets and replacement procedures; asset or machine utilization report etc.

It is important to have a clear definition of authority as to who may authorize the movement of the assets from one place to another. Many organizations do not maintain the plant or assets register and where they do, they are neither kept up to date nor endorsed with all relevant information pertaining to the respective assets. A plant register is basically a control register containing purely memorandum records of the assets. It contains the relevant information about the suppliers, date of purchase, value, where located for use and other important features. The National Library of Nigeria maintains a Kalamazoo system of register for its own assets with a loose leaf ledger for each asset.

It may be pointed out that the recording of assets in financial books and their supporting subsidiary records is in itself a protective device. The existence of a record draws attention to the fact that there should be a corresponding asset. An entry in the plant register represents some kind of physical asset. The plant register in this sense would supply details and permit identification. The fact behind the records are always more significant than the records themselves. Periodically, the detailed balances in the plant register should be reconciled with the financial records. This is important especially at the close of every financial year when the final accounts are to be published. The exercise should be supplemented by a physical verification of the existence of each asset recorded in the register with a balance that is included in the above reconciliation. This exercise may be carried out by the accounting unit of the organization as often as convenient especially if the organization operates distant branches. The Accounting procedure for the disposal of unserviceable assets in the National Library is as follows: A transfer is made from the appropriate asset account into the assets disposable account which would eventually be credited with the proceeds of the sale. This action is usually taken following the decision of a board of survey on the boarded items of fixed assets. The practice in the National Library is that a list of unserviceable assets is made accompanied by a recommendation for boarding. The items are thereby examined by a constitued board of survey which must include a member from the Federal Ministry of Works and Survey. The Board at its meeting examines and ascertains the extent of the unserviceability of the assets placed before it.

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