Challenges of Managing Local Government Finance in Nigeria

Maurice Ayodele Coker , John Anyabe Adams

Department of Political Science, University of Calabar, Calabar, Nigeria

Email of Corresponding author: coker_maurice@yahoo.com

Abstract

Since the 1976 Local Government Reforms that were undertaken to strengthen the local system in Nigeria, several challenges have cropped up, over the years, to impede the performance of local government councils in the discharge of their constitutionally assigned responsibilities. One of such challenges is the dwindling revenue base of local government councils. This paper focuses on how local government councils manage their finances against the background of lack of financial autonomy, corruption, and, undue interference in local affairs, especially in the areas of operation of joint state-local government accounts which gives the state government undue advantage over local governments. The objective of the study to improve understanding of the revenue status of local governments so that the public may appraise the financial challenges faced by the third-tier of government in Nigeria that have adversely affected the delivery of quality services to the rural populace. The methodology used in the study was descriptive qualitative analysis. The findings show that local governments in Nigeria have not been doing well due to lack of financial autonomy, undue meddlesomeness of state governments in local affairs, corruption among local government officials, etc. it is recommended that full financial autonomy should be granted local councils on matters statutorily assigned to them, the joint state-local government councils account system should be abrogated, and honest and transparent officials should be put at the helm of affairs in the local government councils to firm up the local government system in Nigeria.

Keywords: Local government reform; revenue base; financial management; budgeting; local government autonomy

1. Introduction

This paper attempts to examine the challenges of managing local government finance in Nigeria. This academic discourse has become imperative in view of the fact that in recent time, since 1976, the role of the local governments as a veritable instrument for rapid development of rural, and even the urban areas have taken a central stage albeit without a corresponding access to prerequisite financial resources to meet this expectation. Interestingly, the sources of funds for this tier of administrative authority have continued to dwindle over the years with the ascendancy of both the central and state as the key actors in the Nigerian political economy. The local government is relegated to the backstage. Adedokun (2012), clearly made this situation explicit by observing that “[T]he federal structure of Nigeria constraints local government’s ability to mobilize and use revenue to meet their obligation in a sustainable manner”. He notes further that

> One of the recurrent problems of the three-tier system in the country is the dwindling revenue generation as characterised by annual deficits and insufficient funds for meaningful growth and viable project development. Local governments are the nearest government to the people at the grassroots in Nigeria; they are strategically located to play a pivotal role in national development. (2012: 2)

Therefore, it behoves the students, scholars and other stakeholders of public administration to tarry, and ponder on how this meagre financial resource could be properly and effectively harnessed in order to enable local governments implement their constitutionally assigned functions and responsibilities. According to Ojo (2009) local governments have performed below expectations as a result of poor management.

In addition to the above, we shall discuss the approaches and instruments which the local government would adopt to enable them manage their funds efficiently. These include the use of the budget, rational approach, incremental approach, zero-based budgeting approach, planning, programming and budgeting system, audit alarm, and auditing approach. We believe that the adoption and application of these approaches will definitely enhance an efficient and effective management of finance in the local government councils with a view to delivering effective services to the people at the grassroots in Nigeria.

Undoubtedly, Finance and its prudent management are the bedrock of effective functioning of local government. It is against this backdrop that Tonwe (1995, cited in Ojo 2009: 37) argues that local government require finance to perform their statutory functions. The ability of the local government to do this is largely dependent on availability of fund, coupled with efficient management which constitutes the required catalyst necessary for timely execution and completion of their development projects. Tonwe (1995), however expresses some reservations. For instance, he notes:

> In recent time, lack of funds has often been attributed as the major problem which had hindered effective and successful execution and completion of many projects at the local government level. However, experience has shown the contrary that poor finance management, rather inadequate finance is the bane of local governments' inability to achieve substantial development in their domain (1995, Cited I Ojo, 2009: 37).

2. The concept and development of local government

Local government is a government at the grassroots level. According to Ojofeitimi, the word "local" connotes that councils are meant for small communities and the word "government" means that they have certain attributes of government. Thus, local government can therefore be defined as

> … a political sub-division of a nation (or in a federal system, a state) which is constituted by law and has substantial control of local affairs including the power to impose taxes or to demand labour for prescribed purposes…(Ojofeitimi, 2000: cited in Ojo, 2009: 37).

The governing body of local government councils like the state and central governments, are elected for a fixed tenure (in case of Caretaker committees; nominated or/ selected). It is expected that the federal, state and local governments have imbued in them some degree of administrative autonomy. However, in Nigeria, local government autonomy is a myth rather than reality. There are three separate standards to local autonomy – the amount of responsibility devolved, the size and elasticity or resources assigned, and the degree of discretion conferred (Ojo, 2009). The question is to what extent have these standards been observed in Nigeria's fiscal federalism since the 1976 local government reform?

The most severe problem facing public institutions in Nigeria is the fiscal one, particularly in the local government (Akindele and Olaopa, 2002). They argued that this problem is caused by among others: dependence on statutory allocations from the state and federal governments, deliberate evasion by the local citizenry, and creation of nonviable local government areas, differences in the status of local governments in terms of rural-urban dimensions, and inadequate revenue and restricted fiscal jurisdiction.

We agree with Akindele and Olaopa's position that for financially-independent local government to exist, responsibilities and functions must be allocated in accordance with their taxing power and ability to generate funds internally. The Nigerian 1999 constitution attempts to do this by granting each tier stipulated powers in this regard. To them,

> [T]hese measures, coupled with a review of the revenue –sharing formula , the granting of fiscal autonomy and fiscal discipline as well as making local government responsive, responsible and accountable to the people will set local government free from the fiscal stress promoted and strengthened by the 1999 constitution (2002: 3).

One may ask at this juncture what fiscal federalism is. "Fiscal federalism refers to the allocation of tax-raising powers and expenditure responsibilities between levels of governments". For Sewell and Wallich; and, Latvack and Wallich, the objectives of fiscal relations among units in a federation are:

1. To ensure correspondence between sub-national expenditure responsibilities and their financial resources (including transfers from central government) so that functions assigned to sub-national governments can be effectively carried out;

2. to increase that autonomy of sub-national government by incorporating incentives for them to mobilize revenues of their own;

3. to ensure that the macroeconomic management policies of central government are not undermined or compromised;

4. to give expenditure discretion to sub-national government in appropriate areas in order to increase the efficiency of public spending and improve the accountability of sub-national officials to their constituents in the provision of sub-national services;

5. to incorporate intergovernmental transfers that are administratively simple, transparent and based on objective, Stable, non-negotiated criteria;

6. to minimize administrative costs and, thereby, economize on scarce criteria;

7. to provide 'equalization' payment to offset the differences on fiscal capacity among states and among local governments so as to ensure that poorer sub-national governments can offer a sufficient amount of key public services;

8. to incorporate mechanisms to support public infrastructure development and its appropriate financing;

9. to support the emergence of a governmental role that is consistent with market-oriented reform; and

10. to be consistent with nationally agreed income distributed goals.

Agreeably, Nigeria's fiscal federalism structure involves the allocation of expenditure and tax-raising powers among the three tiers of government. That is, it deals with financial relationship between and among existing tiers of governments. More fundamentally, it deals with the system of transfers or grants. The federal government shares its revenue with the state and local governments. Nigeria has embraced this system of transfers over the years. Almost every constitution-making process has sought information on what principles to utilize for the distribution of the national income since the period of colonial administration and the introduction of the Richard Constitution in 1946, the Phillipson Commission of 1946, the 1951 Macpherson Constitution, the Hicks-Phillipson Commission, the 1953 Chick's Commission, the 1958 Raisman Commission, 1963 Dina Commission and the 1964 Binns Commission.

During the period of military rule, these were followed in 1967, 1970, 1971, and 1975 by decrees on the same subject. Between 1977 and the present, time there have been increasing demand for more equitable distributional methods and formula. On a curious note, Nigeria is still in search of a formula that will be largely accepted by majority of Nigerians. For instance, we have had different revenue allocation since the return to democratic political dispensation. These include the Aboyade Commission of 1977, the 1980 Okigbo Commission, the Allocation of Revenue Act of 1981 and the 1984 Allocation of Revenue amendment decree. During this period, there tended to be an expression of high degree of dissatisfaction arising from the apparent militarization and unitarization of the fiscal relations and the existing revenue formula despite the changes that took place in this field in 1991 and 1992.

At this juncture it is imperative to review the origin and development of local administration in Nigeria. Local administration in Nigeria can be traced to the colonial era; precisely, with the enactment of the first local administration ordinance in 1916 (Ordinance No. 4) designed to evolve from Nigeria's old institutions the best suited form of rule based on the peoples' habits of thought, prestige and customs (Bello-Imam, 1990 cited in Adedokun 2012). Initially, these local administrations were adopted in the north eastern and western parts of Nigeria while the indirect rule was adopted in the rest of the north. In 1948, the Macpherson Constitution initiated far reaching changes; the regions introduced some reforms in their local administration in the 1950s which aimed at enhancing performance. The reform empowered the local administration to collect rates and levy pools and income taxes. However, according to Adedokun (2012) these local administrations lacked self-determination, hence their resources were inadequate. Comparatively, local authorities were partially successful in the North but unsuccessful in the Eastern and Western regions. Nevertheless, Adedeji (1970) blames the ineffectiveness of local administration on the following reasons:

(a) Lack of mission or lack of comprehensive functional role

(b) Lack of proper structure (i.e. the role of local governments in the development process was not known).

(c) Low quality of staff; and

(d) Low funding.

Accordingly, these local authorities could hardly perform their requisite responsibilities, and for this reason among others the local governments in the country underwent fundamental transformation, through the enactment of the 1976 local government reform, which for the first time, established a single-tier structure of local government as a substitute for the different structure in the various states. This paper is interested in the 1976 reform as it concerns the restructuring of the financial system. The reform instituted statutory allocation of revenue from the federation account with the intention of giving local government fixed proportions of both the federation account and each state's revenue (see Aboyade Revenue Commission of 1977 Report).

The National Assembly was empowered by the 1979 constitution to determine what proportion of the federation account, and from the revenue of a State to be allocated to the local governments. This allocation from the State was mandatory. Accordingly, in 1981, the National Assembly fixed these proportions at 10 per cent of federal account and 10 per cent of the total revenue of a state. In 1985, the state's proportion was reduced to 10 per cent of the internally-generated revenue; local government's allocation from the federation account was later adjusted to 20 per cent. This was increased to 35 per cent apparently because local governments are expected to take on larger developmental responsibilities. Presently, local government receive 20 per cent of the federation account. An allocation of 35 per cent from the proceeds of VAT was also added based on equity of states (50 per cent), population (35 per cent) and derivation (2 per cent).

It is against this backdrop that Azimazi Momoh Jimoh and Terhemba Daka recently observe that a fresh template that may fast-track development in the nation's third-tier and check the violation of its constitutional roles is currently being worked out by the House of Representatives. The new move is expected to give financial autonomy to the local government councils and enable them to discharge their constitutional responsibilities. In this regard, the House of Representatives has passed a bill to alter the provisions of the 1999 Constitution that provided for a joint account between states and local councils. Leading the debate on the general principles of the proposed amendment, the sponsor, Kyari Gujbawu, argued for a bill tagged "A bill for an Act to alter the provisions of the Constitution and to ensure efficient operations of the Local Government Councils in Nigeria for Social, Economic, and Political Development and for other matters connected therewith," the bill on the local councils, aimed among others at facilitating financial autonomy for them. While passing the bill and forwarding it to its Committee on Constitution Review, the House of Representatives urged lawmakers in the state Houses of Assembly to support the move to redeem the local councils from financial incapacitation. Clarifying the position of the House at a press conference later, the Chairman of the House Committee on Media and Public Affairs, Zakari Mohammed, said members of the House of Representatives resolved to give the bill an overwhelming support to save the situation faced by local councils and grant them financial autonomy for the improvement of rural areas. Mohammed said: "We also believe that by the time the process of altering the constitution in this direction is actualised, our colleagues in the State Houses of Assembly would give their consent to the urgent need to save the third tier of government. The House believes that developmental projects are better taken care of at the grassroots level, which local government councils represent. It is unfortunate that local government councils have become glorified parastatal in the hands of state governments. They further argued that:

> If local councils are empowered, there will be less pressure on the Federal Government, so we need to strengthen the local councils. You will have noticed that many state governors now prefer using caretaker committees contrary to law. It is illegal to operate caretaker committees. It is not constitutional; it is a rape of democracy. We hope that the state Houses of Assembly will this time be on the same page with us as far as developing the Nigerian nation is concerned because the majority of Nigerians live in the rural areas.

Mohammed Ango Abdullahi (PDP, Kaduna State) who sponsored the bill, said:

> The fourth schedule which aimed at including and not restricting the local governments in the economic planning of the state and Federal Governments as well as sub-section 4, which spelt out the financial autonomy of the local councils as well as audit of public accounts, were flouted by state governments.

He continued:

> The amendment will empower the Auditor- General of the Federation to audit the accounts of the local government councils and to make his report to the National Assembly on quarterly basis so that we can ensure that the monies allocated to them follow due process and are accounted for to show transparency and prudence in their expenditures in comparison to the sectors of the economy in their local government.

The bill sought to alter Section 7 of the constitution, which deals with how local government chairmen and councillors could be put in place; and other sections, including those of 85,162,197 and 313. Abdullahi noted that Section 7 of the constitution had given the state governors undue advantage over the third tier of government.

3. Role of local government

Local governments in Nigeria have enormous responsibilities to perform. These include the mobilization of local resources, promoting social and economic improvement and development as well as national integration. In addition, they are expected to carry out regional policies with respect to agriculture and selected industries, thereby helping to ameliorate unemployment (Obinna, 1988). Ojo (2009) added that local governments at work also revolve round revenue generation, budgeting, development planning, provision of services and community mobilization.

- Collection of rates, radio and television licenses;
- Establishment and maintenance of cemeteries;
- Licensing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheel barrows and carts;
- Construction and maintenance of roads, streets, street lights, drains and other public highways;
- Naming of roads and streets and numbering of houses;
- Provision and maintenance of public conveniences, sewages and refuse disposal;
- Registration of all births, deaths and marriages;
- The provision and maintenance of primary, adult and vocational education;
- The provision and maintenance of health services amongst others;
- Formulation of economic planning and development schemes for the local government area;
- Establishment, maintenance and regulation of slaughter houses, slaughter slabs, markets, motor parks and public conveniences;
- Assessment of privately owned houses or tenements for the purpose of levying such rates as may be prescribes by the Houses of Assembly of a state;
- Control and regulation of:
  - outdoor advertising and hoarding;
  - movement and keeping of pets of all descriptions;
  - shops and kiosks;
  - cooked food sold to the public;
  - laundries;
- licensing, regulation and control of the sale of liquor;

- participation in:
- provision and maintenance of health services;
- Any other functions that may be conferred by the state House of assembly.

According to Ojo (2009)

[T]he above-itemized functions of local government are broad, demanding, critical and crucial for ensuring the overall growth and development of various local areas. These developmental imperatives further reinforce the case for viable and efficient financial management for local governments (Ojo, 2009: 39).

4. Financial management

Ojo (2009) posits that the funds of local government councils are managed by the key officers of respective councils. Financial management has to do with the efficient use of funds. It is a method of showing and ascertaining the financial position of government or business over a period of time. According to him financial management can be perceived to consist of a cycle of activities as shown in Figure 1 below. The aim of this cycle of activities is to ensure that resources are allocated and monitored in such a manner that they have the greatest beneficial impact on the overall service objectives (Lawson, 1999 cited in Ojo 2009: 39).

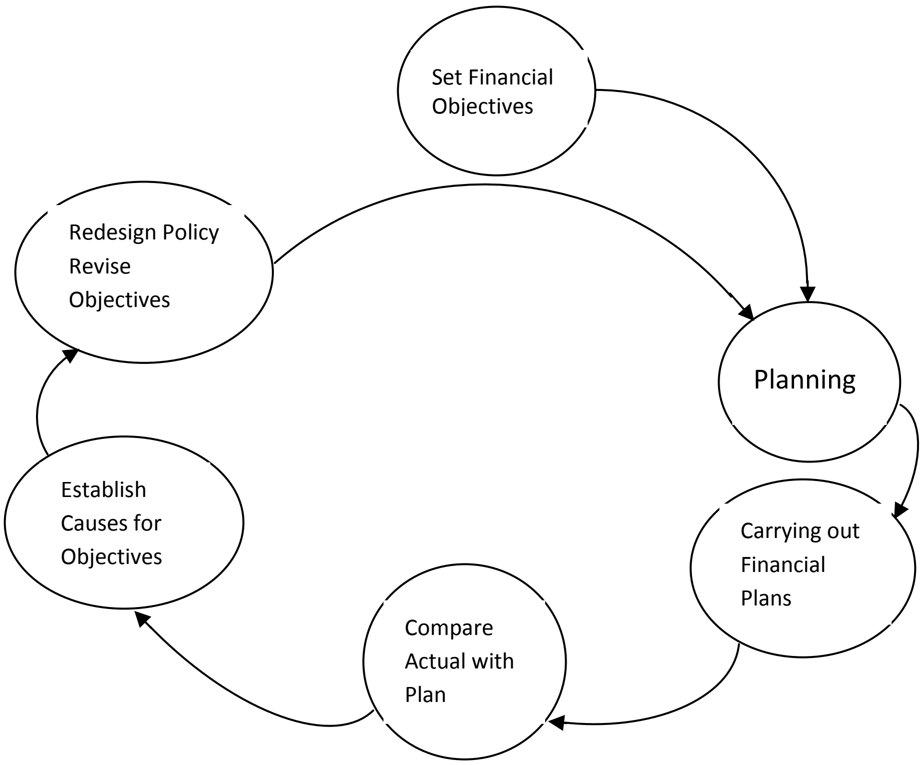

Fig 1 The Financial Management Cycle

Source: Adapted from Omopariola, O., "Financial management in Nigeria local government", *The Nigerian Journal of Local Government Studies,* Vol 1, 1983

Ojo (2009) maintains that in order to perform finance functions efficiently, the financial managers of the local government have to:

1. Set the financial objectives of the local government.
2. Prepare plans of action and select policies for achieving the objective.

3. Develop financial plans and incorporate these into the overall plans of the local government.
4. Check the achievement of the objectives and evaluate deviations from the plan.
5. Establish causes for deviations.
6. Take corrective action and/or redesign policy or revise the objectives to start a new cycle as illustrated in figure 1 above.

5. Techniques and tools for achieving efficient management of local government finance

A number of approaches for efficient finance management are available, however the approach to be adopted is dependent on a number of factors such as the peculiar nature of the project, its environment, purpose and the public if is meant to serve (Nwankwo, 2004) according to Ojo this is because it a "wrong" or "unpopular" approach is adapted for a particular project, it can mar the project completely. The different approaches that can be adapted for efficient financial management at the local government level include the following:

The use of the budget

A budget (from old French *bougette*, purse) is a financial plan and a list of all planned revenues and expenses. It is a plan for saving, borrowing and spending. The public budget generally reflects the policy of the government toward the economy. It is a forecast of government revenues and expenditures for the ensuing fiscal year, which may or may not correspond with the calendar year. It is the key instrument for the expression and execution of government economic policy. Public budgets have wide implications for the national economy. Through budgets governments exercise their allocative, stabilization and distributive functions. They are therefore political as well as economic documents and are product s of the political processes by which competing interests in any nation achieve agreement. According to Aronson and Schwartz (1981), the extent of the budget amounts and the operating programmes on which they are based is the dividing line between the private and public sectors. They argue that the budget stipulates which goods and services are to be supplied to the public by the authorities and which are to be supplied by the private sector. The decision on who is to supply what? and, who is to receive what? should be a reflection of the community's values, preferences, and priorities. Therefore the budget is a political document through which money is appropriated according to value judgements, and the budget process is a political process that takes place within a political arena (Gildenhuys, 1997). Local government is one of these political arenas.

Thornhill (1984) summarizes the most important features of a public budget as follows:

- The budget, after its approval by the legislative authority, is enforceable.
- The results of most of the objectives to be realized by the budget are quantifiable.
- The budget brings together a variety of considerations.
- As the objectives of action taken by public institutions differ widely from those of private organizations, the processes for determining the content of a public budget are therefore unique.
- Authorities do not always adapt their expenditures to fit their available revenues.

Therefore, one may agree that a public budget is an instrument at the disposal of the legislative authority, which enables it guide the economic, social, political and other activities of a community in a certain direction in order to realize predetermined goals and objectives, the result of which are not always quantifiable. It contains all the measures needed to subordinate the executive authority to the legislature as the representatives of the tax payers and voters.

The budgetary process takes on four distinct activities; namely: budget preparation, budget authorization, budget execution and budget monitoring and evaluation. In many governmental arrangements, the agencies or bodies responsible for each of these activities are distinct, with varying degrees of autonomy and interdependence (Adamolekun, 1983).

At the local government level, the council chairman is ultimately responsible for budget preparation with inputs from the supervisory councillors and local bodies and agencies. It is then approved by the local legislature. In addition, the State Governor's office gives the prepared budget final approval after thorough scrutiny.

Ojo has observed that getting final approval often is not easy as it is characterised by too much scrutiny and delayed sanctions by state government functionaries. In most cases political party exigencies overtakes economic considerations. In fact, State's Governors often midwife such budgets, simply because they have joint accounts with the local governments. However, upon approval, the budget is returned to the local government council through the department of local government. The approved budget then gives authority to the council to raise revenue and incur expenditure in the financial year.

It will be rewarding at this point to summarize the functions of the budget as identified by Gidenhuys (1997) as follows:

i. The budget is policy statement declaring specific goals and objectives a public authority wishes to achieve by means of expenditure concerned. It is public policy expressed in monetary terms. As a policy document, it contains a definition of both the quantity and quality of the envisaged delivery.
ii. It distributes wealth.
iii. For the administrative authority, it is a work programme on which each department can base its own operational work plan. In fact, the budget demands that the structure of objectives, the activity schedule, the resource schedule, and the financial schedule are clearly expounded in the budget document.
iv. The budget serves as a source of information for everyone concerned; the information contained in the draft budget document is necessary for its consideration, and, after approval, serves as the most important source of information to the administrative authority for executing its functions.
v. It serves as coordinating instrument by which government activities can be integrated, because it is supposed to contain all the information on the policies, objectives and activities of the government in one document.
vi. It is a control instrument to be used by the legislative authority over the executive authority and by the executive authority over the administrative authority and even for internal control within a single component of the administrative authority. Two types of administrative control are important in this regard, namely: *a priori* control and *ex post* control.

5.1 Rules and norms for public budgeting

The extent to which public budgeting is likely to achieve set goals and objectives is largely dependent on strict adherence to the rules and norms for public budget making process. According to Mikesell (1991), these are:

1) *Comprehensiveness*. The budget should include all receipts and outlays of the government. The single process would thus include all activities of the government.
2) *Unity.* All spending and revenue-collecting parts should be related to each other. Consistent evaluation criteria should be applied to any expenditure, regardless of the government area.
3) *Exclusiveness*. Only financial matters should be in the budget.
4) *Specification.* The budget should be executed as it is enacted. Cavalier changes should not be made during the budget year.
5) *Annuality.* The budget should be prepared every year for the next year of agency existence.
6) *Accuracy.* Forecasts should be as reasonable as possible and the document should be internally consistent.
7) *Clarity.* The budget should describe what is proposed in understandable fashion. The document, in an effort to encompass all, should not bury policy intent in the line-item detail.
8) *Publicity.* The budget in a representative democracy should not be secret.

5.2 Rational approach

The rational approach is usually applied where effective and efficient allocation of resources is needed. This approach is generally known as "The Modern Financial Resources Allocation and Control Model" within the financial management circle. The rational approach encompasses the following steps:

- Determination of available resources;
- Determination of objectives for which the resources will be allocated;
- Determination of the alternative courses of action for the achievement of objectives;
- *1999 Constitution of the Federal Republic of Nigeria.* Government Printers Press, Abuja
- Evaluation of the alternative courses of action for the achievement of objective(s);
- Establishment of decision criteria;
- Allocation of resources;
- Establishment of control measures and feedback mechanism necessary or required for performance evaluation;
- Adjustment of future plans and objective for purposes of future allocation.

5.3 Incremental approach

The incremental approach to financial management involves introduction of gradual changes or adjustment in the allocation and control of financial resources of an organization in order to achieve the desired objectives. Once a system of financial management and control are adopted, only minor or gradual changes or adjustments are required in order to put the system into perfect working condition (Nwankwo, 2004).

Incremental approach takes as its starting the current year's budget and arrives at next year's budget by a series of adjustment to this. The adjustment process is sometimes referred to as rolling forward an existing budget. Incremental method has some advantages. It is a relatively straight forward process; only marginal changes to the existing budget needs to be understood and agreed, thereby minimizing the amount of time that needs be spent on budget preparation. Again, it is less expensive and not only easy to operate but it allows some degree of flexibility and discretion in the use of management of funds.

5.4 Zero-Based budgeting (ZBB)

This approach involves preparing a comprehensive budget anew, that is from a zero base. The interesting feature of the zero-based budget is that each year an organization should begin its budgetary process with a clean slate. In order words, ZBB prepares something "fresh". It starts from zero or from scratch. The construction of a new budget for each service from the basic principles is referred to zero-based budgeting. This approach has the effect of focusing attention on such issues as waste, unnecessary performance, leasing versus purchasing of equipment and so on.

In zero-based budgeting, individual cost centre mangers are asked to estimate the cost of providing various levels of services, which are then passed up through the organizational hierarchy. At each level in the hierarchy, managers are asked to decide upon the order of the decision packages as a way of ensuring that spending is linked to priorities (Rose & Lawton, 1999).

One of the major strengths of ZBB is that there is a specific link between budget and activity. The budget process involves specifying objectives and considering cost-effective methods of achieving these objectives. In this way, ZBB eliminate waste, extravagancy, mismanagement of finance of a local government. Nevertheless, its drawback as a finance management tool is that it is time demanding; it takes lots of time to construct a budget from zero each year.

5.5 Planning-Programming and Budgeting System (PPBS)

This approach has three main features, namely: planning, programming and budgeting. It places emphasis upon a programmatic approach to both planning and budgeting. PPBS is an approach to budgeting which is intended to provide a system that relates expenditure at each stage of the budget to the purposes of that expenditures. According to Ojo (2009) application of this approach as a finance management tool allows for weighing the alternatives, analysing the cost and benefits of any project or programme before the commitment of financial resources to the project. It is a rewarding approach in that it looks beyond the immediate future as well as focuses on the long-term effects of activities. It negative aspect, include high cost involved in information gathering which is not usually readily available , and it is time consuming.

5.6 Audit alarm

Alarm audit is a precautionary method of alerting the appropriate authority or the public about illegal financial transactions or misappropriations that may lead to loss of funds or revenue meant for a project. Audit alarm can be raised by a member of the executive or the general public. This is usually done at any time an irregularity is noticed in the management of funds meant for public use. Whenever audit alarm is raised, it usually attracts full-scale audit-exercise to ascertain the magnitude of the fraud or irregularity. This method serves as a warning to those entrusted with the responsibility of the finances. The regular audit method complements the good efforts of audit alarm. Audit is more or less a practice which may be called a technique for ensuring a more effective internal check on financial management. There should be a regular and independent examination of the books of the accounts by appointed qualified auditors to ensure that the statement of account as recorded represents a true and fair-view of all the transactions during the period under investigation. Indeed, regular auditing of councils accounst would ensure sanity, prudence and probity in the use and management of finances.

6. Challenges of managing local government finance

From the foregoing it has become an easy task to identify some of the challenges of managing local government finance in Nigeria. These include the following:

1. Local government authority in Nigeria lacks the requisite financial autonomy desirable and necessary for effective management of their financial resources. The much touted local government autonomy envisaged by the theory and practise of fiscal federalism in Nigeria is more or less a political gimmick. That is precisely why it is a myth rather than reality. However, this paper has highlighted the effort of the House of Representatives to redress this anomalous situation. The question is will the Senate complement their effort as soon as possible?
2. Lack of qualified staff to management the books of the local governments: It is common knowledge that some staff members of local government councils are not recruited solely on the basis of the possession of requisite knowledge and experience. Political considerations and patronage in most cases take over their recruitment policies.
3. Since some officials of the councils are so recruited, they operate on the basis of absolute and often misplaced loyalty to their benefactors. There are instances where they collaborate with their "collaborators" to loot the local government treasuries.
4. Local government accounts are not properly kept and monies meant for the local authorities accounted properly for. In fact, monthly subventions from the federation account are viewed by most council Chairmen and Councillors as part of their share of the "national cake". Consequently, no body raises any audit alarm so long as the money goes round every month.
5. This situation is worsened by most state governors who see local government as extension of their political and administrative domain. In fact, since the governors and other top party leaders, in most cases "put them in office", the governors believe that Chairmen of local government councils owe them a duty to 'deliver' whatever their monthly subvention are to them to partake in how they are appropriated. We have cases where deductions are mandatorily made from local government accounts in the name of taking their own share of 'counterpart-funding' by the state governments to 'fund' their own projects. In some cases such deductions end up in either the ruling party purse or groups or individual private pockets
6. The condition that local government budget be placed before the executive and state Houses of Assembly gives room for horse trading in terms of the provision of projects among the leadership of the House or the Executive. For instance, local government executive and legislative houses must dance to the whims and caprices of not only the chief executive of state, but also that of the state parliaments. In such cases, where lies the financial autonomy of the local government? Again, where lies the essence of our federal character which, among others, provide that every community is imbued with inalienable right to determine their future, in terms of their pace of development. It is the considered opinion of this paper that

since the State as a distinctive component like the local government of the federal republic of Nigeria do not have to lay their budgets before the Presidency and National Assembly for vetting and approval, the local government should as a matter of urgent national interest commend the effort of the Federal House of Representative to abrogate the State-local government account.

7. Corruption has taken the central stage in most local governments. This tendency is obviously a national malady. Most internally generated revenues do not go the local government account. It is viewed by patrons of ruling parties and their clients as political reward for 'faithfully enabling the party to win or remain in office. The sources of these revenues are regarded as "Cash Point" for daily reimbursement of 'operators'. At the end of the day, the local governments are worst off financially. Little wonder, they now depend on the federal and state governments for funds to at least, pay the monthly salaries and wages of their workers. It may not off the mark to suggest what most local governments do in recent is merely source for money to pay their workers salaries and wages. All other developmental projects and programmes are put on hold 'until the financial condition of the council improves', the local authorities would refrain.
8. There is lack of transparency and accountability. Council's funds are viewed as government funds. Account books are falsified, and funds embezzled with reckless abandon. Nobody is held accountable and audit reports have become politicised and are of less utility to enforce transparency and accountability in the local council areas in the country.

7. Conclusion

Finance is very important in the running of organizations or governments. Local governments have a number of functions to carry out. Consequently, their finances need to be efficiently managed and judiciously utilized.

Financial management is about efficiency matters. It is about affective use of available financial resources, it is about financial alertness. Efficient financial management is necessary for successful execution of projects and delivery of quality services at the local level.

Efficiency in financial management in any organization is always achieved through organizational determination to pursue excellent performance. It entails self-discipline on the part of top, middle, and low level managers in the organization. In this paper we have defined the concept local government, the meaning and approaches and tool and techniques of financial management.

However, the efforts of local governments' executives to attain some financial autonomy in running their councils are being discountenance by the intervention of state governments in local affairs. It is a common practice for state governments to appropriate a substantial portion of finance meant for local government. More often than not such behaviours are transforming into a fierce struggle for supremacy between the local and state governments. It is obvious that such scenarios have tended to result in the state governments depriving affected local governments of the requisite funds which are truly theirs for effective management of their local government areas.

8. The way forward

First and foremost appropriate actions should be taken to fix the above-mentioned predicaments. These include:

1. Search for honest and credible leadership. Without honest and transparent leaders being put in place at the local government level, embezzlement of public fund is likely to continue to thrive unabated.
2. The financial autonomy of local government must be guaranteed by the provisions of the constitution.
3. Joint state-local government accounts must be abrogated immediately in line with the present thinking of the members of the House of Representatives, the Senate should, as matter of priority, consider and pass the bill to enable the President give assent to it.
4. Local governments must be given all the political powers to enable them formulate and implement programmes of socioeconomic and political development as desired by the local populace whom they owe their service to.

5. Qualified accounting personnel should be appointed into local government councils. The politics of clientelism and prebendalism should be discouraged. Staff should be appointed on the basis of knowledge and experience (merit). Also, hard work and achievements in taking the local government to higher level of performance should be adequately compensated.
6. Audit alarm should be given its proper place in the local government settings. Any acts or commissions of fraud should be exposed immediately a whistle is blown in that direction. Anti-corruption and other related offences agencies must be kept abreast of such development. Periodic internal and external audit programmes should be carried out in order to ascertain the state of finances in the local government through a budget year.
7. Accounts books must be well secured and properly kept. Any attempt to print and issue fake receipts should be nipped in the bud. Any local government official in any attempt to short-change the council by declaring incomplete account should be arrested and summarily dealt with in accordance to the law.
8. All sources of internally generated revenue should be properly identified, and sound methods of revenue collection, guided by financial regulation and General Orders should be handled by local government pensionable staff. A situation where ‘touts' are recruited by political “god-fathers” to man their “Cash Points” and where these tout remit very inconsequential revenues to the local authorities must be stopped. The local government council we are aware have honest and well trained and pensionable revenue personnel. Such staff should be used productively, as they have something at stake in the sustainability of the councils.
9. Finally the budgetary process must be strictly followed and efforts should made to faithfully implement the provisions of the budgets.

References

Adamolekun, L., *Public Administration: A Nigerian and Comparative Perspective,* Lagos: Longman Nigeria Ltd, 1983.

Adedokun, A., Local Government Tax Mobilization and Utilization in Nigeria: Problem and Prospects: http://visar.csustan.edu/aaba/Adedokun.pdf Accessed on 20/02/2012

Akindele, S. T., Olaopa, O. R. (2002). “Fiscal Federalism and Local Government Finance in Nigeria”. *upan008121.pdf(application/pdf O…* Assessed on 10 March 2012.

Aronson, J. R. and Eli Schwartz, (eds): *Management Policies in Local Government Finance* (Washington DC international City management Association, 1981

Edosa, E., “Financial Management for Local Government in Nigeria”, *Nigerian Journal of Policy Development,* Vol.2 (June), 2003.

Gildenhuys, J.S.H., *Public Financial Management* , Second edition, (Pretoria: J. L. van Schaik publishers, 1997.Nwankwo, B. C., “Effective Financial Management Approach for Provision of Social Services at the Third Tier Level of Government In Nigeria”, *Nigerian Journal Of Public Administration and Local Government,* Vol. XII, No. 1, 2004

Obinna, E., *Local Government Financing,* Obosi: pacific Publishers, 1988

Ojo, O., “Efficient Management for Local Governments: the Nigerian Experience”, *Buletinul, Universitajii Petrol* – gaze din Ploiesti Vol. LXI No 2/2009: 36 -44

Ojofeitimi, T., “Managing At the Grassroots: Local Government and Rural Development in the 21st Century”, Lagos: Centre for management Development, 2000.

Omopariola, O., “Financial Management in the Nigerian Local Government”, the Nigerian Journal of Local Government Studies, Vol. No. 1, 1983.

Rose, A., Lawton, A., *Public Service Management*. Harlow: Pearson Education Limited, 1999

Sewell, D., Wallich, C. (1996),” Fiscal decentralization and intergovernmental finance in the Republic of Albania”, Washington DC: World Bank No. 1384, Policy Research Working Paper Series from The World Bank *Econpapers:fiscal decentralization and intergovernmental finances…http://econpapers.repec.org/paper/wbkbrwps/1384.htm*

1999 Constitution of the Federal Republic of Nigeria. Government Printers Press, Abuja