

# An Appraisal of Effective Financial Management of Local Government Funds: A Case of Ido-Osi Local Government Area, Nigeria

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## Abstract

This research work deal extensively on the appraisal of effective financial management of Local Government funds in Ido- Osi Local Government area. The population focus on local Government system in order to examine the level of financial management. Thus, the population sample is selected within Ido- Osi Local government area in Nigeria. Out of the sixteen local governments, sampling is selected randomly. Data were collected from both primary and secondary sources such as textbooks, Journal, government gazette while primary sources include questionnaire and personal interview. The responses to the questionnaire were analyzed by the application of Regression Coefficient in providing necessary conclusion and recommendation. Hence, this study revealed that there is an urgent need for local Government System in Nigeria to improve their financial control mechanism and to rationalize its expenditure patterns, in order to achieve optimum performance.

**Keywords:** Appraisal, Conceptualization, Effectiveness, Financial Management and Local Government Authority

## 1.1 INTRODUCTION AND STATEMENT OF THE RESEARCH PROBLEM

Naturally, human beings are bound to behave as they wish and this could lead to oppression of others. This necessitated the need for the government, so as to check the excess of the oppressors over the oppressed. The government is the machinery put in place to regulate the behaviors and conducts of people in any given society through enactment of law and adjudication of laws. In a federal system like Nigeria, there are three tiers of government namely the federal, State and Local government.

Local Government which is the focal point of this research was seen by Agagu (1997) as “government by popularly elected bodies charge with administration and executive duties in matters concerning the inhabitants of a particular district or place” This examination is not significantly different from the definition constructed by the United Nation and the white paper on the 1976 local government reforms in Nigeria.

There are numerous reasons that attributed for the establishment of local government system. Once, the complexity of the modern day government has made establishment of local administration expedients and the modern state are confronted with more political, economic and social problems than ever before. It is of this reason that constituted to the inability of government to singularly cope with the contemporary complex problems in many polities that Geoyega (1987:3) supported that local government; “Is a counter-veiling power to other government level and a power sharing device which helps to localize and confine problems that may arise out of the government process. In essence, decentralization informed by the need for efficient performance is a cogent motive for the establishment of local governments.

Besides enhancing administrative performance and efficiency of government, local government also brings government closer to the people.

Hence, the Nigeria Local Government were developed to aid the research of leadership and to make effective process of revenue allocation. Possible and convenient Administration in the Nigeria Local Governments is institutionalized to coordinate the financial activities of government policies. In pursuit of the institutional objectives, effective financial management planning and control must be accorded with great priority.

In Nigeria generally, there is a general thinking that there is high level of financial mismanagement in Nigeria Local Government in spite of huge amount received from federation account, local tax and other sources accruing to them. Thus, mismanagement has been identified as the beam to under utilization of funds generated and allocated from the federation account or state account (Consolidated Revenue Fund (CRF) and the Initial Grant Revenue (IGR). In spite of this, local government also has failed to meet up with his institutional objectives.

## 1.2 OBJECTIVES OF THE STUDY

The objective of this research work is to appraise the level of effective financial management of Local Government Funds in Nigeria, which are stated as follow;

- (i) examine the effectiveness of financial management of local government fund in the Nigeria

- local Government.
- (ii) See how effective is the control mechanism of financial management of local government in Nigeria is.
- (iii) proffer mechanism for ensuring adequate controls are maintained over local government expenditure.
- (iv) appraises the level of financial control system in operative in the local government.

### 1.3 LITERATURE REVIEW AND THEORETICAL FRAME WORK

Local government could be defined as a group of relative local communities within an identified geographical expression, involve in the management of their affairs in an organized fashion of self-government with some with some roles, functions and powers developed to team through statutory provision and relative degree of autonomy (Manu, 1998;1). Wraith (1972) looks at local government through the scientific lens, which he argues that local government is an “organism” something that cannot be contained for ever long in a particular set of status, rules and regulations but which constantly adapt itself new circumstances and relates to habits mode of life and surrounding”.

While Kolawole (1973) sees local government from a political or democratic point of view. He posited that “local government is a tier of government which in physical terms closest to the citizenry and it is saddle with the responsibility of guaranteeing the political, social and economic development of its area and people”. Finance according to Bello-Immam (1990) described it as a “thread which runs rounds the whole sphere of local government or on the alternative finance determines the success or failure of any government” it is quite unfortunate that many local government fail to meet up with its institutional objectives and people at the grassroots and are being denied of their yarning and aspirations because finance was not effectively managed at the local tiers of Government in Nigeria.

According to Ejikeme Nonso (2012), argue that Finance is a necessity for the existence of any organization or institution, no doubt. Local governments are autonomous units within a federation with certain statutory rights and responsibilities, an agent of decentralization and democratic stability; therefore, the place of finance in local government administration is really crucial. Indeed, the study of the Nigerian local government system has become a fundamental issue, especially because of its financial challenges. Various constitutions have surfaced in Nigeria’s political history and these constitutions have helped to shape the status of local government in the country. In 1979, the constitution recognized the local government as an independent third tier of government in the country and vested with the power to generate its own revenue internally.

And there was yet another principal aspect of revenue generation for the Nigerian local government: it bothered on the fact that in all federal arrangements the national resources are shared among the central, state and local governments.

Moreover, different regimes have devised different revenue allocation formulae in Nigeria’s political history. Between 1976 and 1992 the revenue allocation by the federal government to the local government increased from 10% to 20% of the federation account; and 10% of the internally generated revenue of the state was to accrue to the local government too (Bello-imam, 2007). Constitutionally, local governments are further empowered to generate revenue internally through the following means: levying of taxes, such as poll tax, property tax, user fees, benefit charges, and others.

However, in the Nigeria context local government is seen as “government at the local level exercise via representative council established by law to exercise specific power within defined areas. These power give the council substantial control over local affair as well as the staff and institutional and financial power to initiate and direct the provision of service and to determine, implement project as to complement the activities of the state and federal government in their areas and to ensure, through devaluation of function to his council and through the active participation of people and their traditional institutions, that local initiatives and responses to local needs and conditions are maximized “source, Local government reform.(1976;1) government printer; Kaduna).

Whereas, Adamolekun (1983;71) summarized the above definition as contained in three principal element which the term contains.

- (a) Legal personality
- (b) Specified powers to perform a range of functions.
- (c) Substantial autonomy especially in financial and staff matters.

### FUNCTIONS AND SOURCES OF FUND TO THE NIGERIA LOCAL GOVERNMENT AUTHORITIES IN NIGERIA

It is an obvious fact, that no central governments can satisfactory conduct administration from the capital through the civil servants based at the headquarters without some form of decentralization.

Hence, one of the vital purposes of having local government is to provide a means of running varied

service depending on the peculiarities and special needs of the particular local government area.

The governments determine and assign specific function to local government. In the exercise of such powers, however the government is guided by the principle that, the functions of local government bodies should centre on:

- (a) Those activities which required detailed knowledge for effective performance.
- (b) Those activities in which success depends on the responsiveness and full participation of local communities.
- (c) Those activities which are of personal nature that is requiring provisions, close to where individuals affected lives and in which significant use of discretion of understanding of individuals need.

It is in this basis of the principles that “Fourth Schedule” of 1990 Nigeria constitutions spells out the following main function of local government.

- (a) Formulating of economy planning and development of skill for local government area.
- (b) Collection of rates and issuance of radio television license.
- (c) Establishment and maintenance of cemeteries and home for destitute.
- (d) Licensing of bicycles, trunks, canoes, wheelbarrows and cars.
- (e) Establishment, maintenance and regulation of slaughter houses, slaughter slap market Motor Park and public commerce’s.
- (f) Construction and maintenances of road, streets, street lights, parks, gardens, open space or such public facilities as many be prescribed from time by the state House of assembly.
- (g) Naming Roads Street and numbering of houses.
- (h) Provisions and maintenances of sewage and refuge disposal.
- (i) Registration of birth, death and marriage
- (j) Control and regulation of;
  - (i) Outdoor advertising landings
  - (ii) Movement and keeping of pets of animals
  - (iii) Shop and kiosk
  - (iv) Restaurants, bakery and other places for sales of food to the public.
- (k) Licensing, regulation and control of the sales of liquor.
- (l) Provision of recreational, provision and maintenance of facilities like amusement park for relative purposes.
- (m) Provision of transport services
- (n) Maintenance of primary education funding administering the exact byelaws.
- (o) Maintenance of primary education funding administering the exact byelaws.
- (p) Provision of water for the use of the people so as to forestall water before in the local area.

## SOURCES OF LOCAL GOVERNMENT FINANCE

Ajayi (2003: 31-35) defined two principal sources of finance to local government, these are:

### A. INTERNAL SOURCES REVENUE

- (a) **Taxes:** Local government establishes status that empowers the councils to collect taxes from employed adults in the locality. This form of tax is normally called community poll tax.
- (b) **Rates:** The 1999 constitution of the federal republic “fourth schedule” for instances, empower local government to control and regulate certain activities within their domain, in exercising this power, each council imposes sources fees on the operation of specific economic activities and provision of services. Fees and charge on this wide range of activities are called rates. Include:
  - (i) **Licenses fees:** Under this item, we have various sub- heads:
    - General licenses:** This include charges such as bicycle license and hand pushed, truck fees, hackney permit fees, liquor license palm wine tapper/sellers squatters and hawkers permit fees.
  - (ii) **Food Control:** Which includes such charges as food selling license fees etc?
  - (iii) **Social charges:** They include marriage registration fees, entertainment, drumming and temporary road closure and both creation permit fees. It’s also contains naming of street registration fees, radio/television license fees etc.
  - (iv) **Health Charges:** This sub-head contains the following items: impounding of animal fines, birth and death registration fees, displeasing and maturity .E.T.C

### (B) EXTERNAL SOURCES OF REVENUE:

- (a) **Statutory allocations:** this is revenue accruing to local government from either state or federal government account; councils are entitled to a certain percentage of the federation account (presently 20%). State government is also required by law to provide funds for the local government within each state.

The 1999 Nigeria constitution categorically makes statutory allocation to local governments very clear. According to section 7(6a - -b) of the constitution: “the national assembly shall make provisions for statutory allocation of public revenue to local government council with the state.

- (b) **Grants:** Local government are entitle to a grant from both the state and federal governments, so as to

assist the council in their services delivery. Grants are different from statutory allocations. While statutory share of the federation account are mandatory on the part of the state and federal government, grants from them to the council are voluntary

#### 1.4 RESEARCH METHODOLOGY

The current research work focused on the appraisal of effective financial management of local government funds, using Ido-Osi Local Government Area in Ekiti State Nigeria as a case study. This focuses mainly on the methods of data gathering used in this research work, Research design, study population, sample and sampling technique, data collection tool, Reliability of research instrument; validity of research instrument; method of data collection and method of data analyses.

#### RESEARCH INSTRUMENTS

In dealing with the instrument to be used in collecting research information for this research work, Due consideration is given to the peculiar nature of the research's topic and condition that cause effective financial management of local government fund in Nigeria.

The tools used in this research to collect data are set of structured questionnaire and one-on-one interview

#### TEST FOR RELIABILITY OF THE MODEL

##### Reliability Statistics

Cronbach's Alpha	N of Items
.988	10

The reliability test for the model used for this research work was carried out using the cronbach's Alpha statistic. The cronbach's Alpha statistic (0.988). this shows that the collected data and analysis carried out for the purpose of this research is 98.8% reliable. This implies that the information gather was 98.8% reliable. Thus, for the appraising the effectiveness of the budget performance in the local government in Nigeria.

#### REGRESSION MODEL

##### Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	-.072	.542	-1.133	.895
	INDEPENDENT	.998	.044		

The fitted regression model for this research work is given as

$$\text{FINANCIAL MANAGEMENT} = 0072 + 0.988X$$

The result showed that a positive linear relationship exist between the local government variable and the explanatory financial management variable . it was also discover from the model that one percentage increase or change in the independent variable will lead to 99.8 percentage / change in the dependent variable.

#### TEST FOR SIGNIFICANT OF THE PARAMETER

The test for the significant of the parameter estimate for this research work was carried out using the standard error test. The rule thumb is that if the half of the coefficient of the parameter estimate is greater than the standard error of the variable, then , such a parameter is significant. Thus, it was revealed from the analysis that half of the coefficient of the X 0.044. hence, the parameter estimate is statistically significant and is a desirable variable for appraising the effectiveness of the budget and income level of the local government in Nigeria.

#### TEST FOR THE SIGNIFICANT OF THE MODEL

##### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.965 <sup>a</sup>	.932	.930	1.25231

The test for the model significant is done using the (R<sup>2</sup>) OR r- square value. This is the proportion of variation in the dependent variable that can be explained by the explanatory variable. However, the result of the analysis showed that R<sup>2</sup> (0.932). this implies that 93.2 percent variation or change in the local government variable can be explained by the financial management or explanatory variable.

TESST FOR THE OVERALL SIGNIFICANT OF THE MODEL

ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	812.005	1	812.005	517.764	.000 <sup>b</sup>
	Residual	59.595	38	1.568		
	Total	871.600	39			

a. Dependent Variable: Local Government

b. Predictors: (Constant), Financial Management

A test for the overall significant of the model fitted is carried out using the probability of the F- statistic. The rule is that if the probability of F- statistic is less than the probability of the error margin allowed in the estimation, such a model is statistically significant. Thus, the result revealed that the probability of the error margin (0.05) allowed in the estimation. Therefore, the entire model is statistically significant and is appropriate for the appraising the effectiveness of budget and income of the local government in Nigeria.

### 1.5 DISCUSSION OF RESEARCH FINDINGS

This research work is undergo to examine and look critically the impart and effectiveness of financial management of local government in Nigeria using Ido – OSI local Government area as a case Study.

The questionnaire revealed that:

Rapid development could be achieved if and only effective financial management of local government fund is being enhance with a great priority.

- Effective financial management of fund can only be enhanced at local government level if there are standard and quality internal audit unit put in place.
- It is mostly believed that budget is the most important decision and control measure in attained financial management.
- Both staff and people are not very satisfied with the state of financial management at local government level.
- Financial control measure bring used at local government level has fairly assisted in grassroots growth and development.

Thus, according to the findings of this study; that effective financial management fund at local government is the responsibility of all and sundry. That is the executives, legislature and employed staff and the entire local community at large.

### 1.6 CONCLUSION AND RECOMMENDATIONS

In the foregoing analysis, since introduction is to be made to express the fundamental importance of the subject matter, that is An appraisal of effective financial management of local government funds: government area of Ekiti state.

Without missing words, the research conducted revealed that any local government without effective financial management incorporated in their accounting system, will be prone to series of problems. Thus, with references to local government in Nigeria, the simple fact is that rapid development will be achieved if effective financial management is in place in order to control series of financial fraud and misappropriation towards aiding grassroots development.

In conclusion the aim of this research work has been achieved since local government financial system has been analyzed with details and indept knowledge. The methods used for executing this project were adequate and proper which makes the research work usage by local authority and most importantly the society at large, so as to have a sound knowledge of what it entails and important of having a very effective financial management of fund at the local government in Nigeria.

### 1.7 RECOMMENDATIONS

This study realizes that no local government can perform creditably without effective financial management.

In view of the preceding, there is a need to improve the financial control and mechanism of the local governments and also to rationalize its expenditure patterns, in order to at least achieve reasonable performance.

- i. That it is important that adequate resources be available to local government councils to discharge their constitutional responsibilities.
- ii. That local government should see financial planning and control as important aspect towards effective financial management.
- iii. That local government council should see financial budget as an indispensable measures for ensuring effective management and to put in place a standby budgetary monitoring and budget plan, for proper

- and effective budget implementation.
- iv. That standard internal and external audit will definitely combat or reduce the rate of mismanagement of funds.

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