ABSTRACT

Effective management of fund is a pre-requisite for the achievement of the aims and objectives of the 1976 local government reforms. For funds to be effectively and efficiently managed, the segments of the care and custody of fund as provided by the Revised Financial Memoranda1991 and 1994 must be strictly adhered to and this would ultimately lead to enhanced performance and sustenance of the Nigeria local governments. In recognition of this fact, the care and custody of funds in the Revised Financial memorandum were examined with respect to its practical application in the Nigeria local governments. Central to our findings is that these provisions of care and custody of funds were in principle not in practice and
this adversely affect local government performance in Nigeria. Recommendations were made on how to improve on the existing situations which we believe would ultimately transform local governments in Nigeria if adopted.
In nearly all Western industrialized countries, there are well developed mechanisms that guide the management of local government resources. These mechanisms are embedded in the financial regulations. In Nigeria, the mechanisms are embedded in the Revised Financial memoranda for Local Government 1991. The Financial Memorandum stipulate the generation and judicious management of funds for the benefit of the entire community. Local governments, being government at the grassroots level, have the sole responsibility of catering for the citizens at the local levels. As Okoli (1998) rightly pointed out, that Local governments exist to fill the gap which the national government is too remote to fill, it brings the national government closer to the people and makes its impact felt in all the nooks and crannies of the society. By implication, the national government through this medium caters for the grassroots. Local governments play vital roles in the development of the country. This third tier government is very vital in the political and economic field of a nation. Therefore, the aim of the provisions for the generation and management of fund in the Revised Financial Memorandum 1991 is to ensure adequate generation and proper management of fund so as to achieve the sole responsibilities of local governments. As Aborishade (1994) rightly observed, that the institution of local government is an embodiment of progress and is as old as anything one
can quickly consider essential in the political and economic field of a nation. The word local entails the involvement and participation of the grass root in the activities affecting daily lives of communities. It should be noted that these activities usually range from “absolute personal to extremely highly decentralized” (Oguonu; 2004). Whatever the case, these activities are usually streamlined, well structured and the application of bureaucracy prevails. Local governments were bestowed with many responsibilities and were equally bestowed with many sources of revenues to cope with these demands. Unfortunately, many local governments in Nigerian have taken this to be a filial responsibility. Many of the Nigeria local governments lack the basic social amenities like pipe borne water, good road, recreational facilities etc. In Nigeria, the care of most local governments fell under the domain of the development union, the age grade etc. For example in many local governments in the south eastern states, the needs of the grassroots were met by the unions like the development of health centres, pipe borne water, electricity and others. A typical example is in Udi Local Government where most of the basic facilities were provided by the development unions.

However, social and economic changes occurring recently have cast doubts on the continued viability of such arrangements by the unions. Such changes like inflation, increased family burden, unemployment, irregular
payment of salaries, all have effects on the entire society. These changes affected the spending limits of the unions. The members of the unions have their different families to provide for coupled with the rising cost of living things. It became inevitable that they may not usually respond to the call for development as was the case. The fear is that very soon, many local governments may be denied the basic social amenities since many in the south eastern states have turned down these responsibilities. There is therefore, need for a study on the generation and management of local government’s resources. These double responsibilities of local governments are crucial in the development of a nation. Local governments were bestowed with numerous sources of revenue to cope with their statutory responsibilities. Unfortunately many of them have failed woefully in the provision of basic social amenities and others. Local governments, thus have the responsibilities for the design, promotion and application of socio-economic development of the grass root. (Orewa 1986). Between 1999 to 2004 Local governments in Nigeria derived 1,409,341,767,586.85 from the Federal Government. Local governments still do not live up to the desired expectations. Many studies in Nigeria have linked the poor development record of local governments in Nigeria to inadequate funding and limited financial autonomy. For instance Elekwa (1996), Agbuzu (1985) and
DLakwa (1985) observed that local governments in Nigeria do not have substantial degree of financial autonomy to engage in any meaningful development. However, though important the quantum of funding is perhaps, not as crucial an issue, as the efficacious management of local governments’ resource. The purpose of this study therefore, is to examine the Revised Financial Memoranda and the Management of local government’s resources in Nigeria, with particular emphasis on the southeastern States. There has been wide body of literature on the revenue generation and fiscal administration in Nigeria. But little emphasis has been made to the Revised Financial Memoranda and the management of local governments’ resources. If the funds are managed judiciously and all the efforts of the Federal Government utilized, it will probably turn out well for the south eastern states especially now that the unions were no longer active. It, therefore, becomes imperative to find out the problems associated with the management of local government’s resources. This is because, results obtained will assist local governments in repositioning themselves, to combat these problems.
Management of Local Government Funds as Provided in the, Revised Financial Memoranda. 1991

Some systems of care and custody of local government funds are designed in the Revised Financial Memoranda 1991 to guide local governments in the management of their finances. Some of the systems of care and custody of funds are reviewed here under.

Section 1.5 of the Revised Financial Memoranda states that the Executive Committee will meet at least once a week to consider all matters referred to it and all statements and reports which the committee will require should be brought before it;

i. The monthly reconciliation of accounts showing the position at the end of the previous month.

ii. Secondly, the bank reconciliation statement as at the end of the previous month.

iii. Thirdly, the register of audit correspondence and a statement made in dealing with any outstanding matters raised by the auditor general.

iv. Reports by the treasurer on any of the matters referred to in the Financial Memorandum 1.4 or any failure to reconcile departmental records with those of the treasury.
Section 1.3 specifies the duties and responsibilities of the treasurer. The section authorizes the treasurer to be the chief accounts officer and head of the Finance Department of a Local Government. The treasurer, as the chief accounts officer, shall be in attendance at executive committee meetings and other committees to provide advice concerning the financial implication of the proposed policies.

Section 1.14 also empowers the treasurer to be responsible for ensuring that there is strict compliance with financial memoranda in the Finance and other departments of the local government.

Secondly, that the accounting system as laid down in the financial memoranda be complied with by all the Departments in local governments.

Section 1.8 authorizes the Finance Department to be responsible for the:

i. The care and custody of the local government Funds, whether in cash or held in the local government Bank account.

ii. Seeing that all revenues due to the local governments are collected promptly and properly paid into the local government Funds.

iii. Dealing promptly with queries arising from inspections or audits and keeping records of such queries showing how they were cleared.
iv. All commitments and liabilities are recorded immediately they are incurred in the Departmental Vote Expenditure Account and that the payment and expenditure control arrangements as set out in Financial Memoranda, chapters 13 and 14 are faithfully followed and adequate provision is retained to meet all outstanding liabilities.

Furthermore section 5.2 states that the cash book and the control of the receipts and payment of monies shall be the responsibility of an official of the treasury to be designated as the cashier.

It is important to note that section 5.3 stipulates that in no circumstance shall the treasurer himself hold the office of cashier. Further, the work of handling money and keeping the cashbook must be kept separate from other accounting work and the cashier must not be required to act as an accountant as well as undertaking his cashier’s position.

Moreover, section 7.1 requires the receipt book register on form LGT 24 to be kept by the treasury to record the receipt of all revenue earning books, the issuance of such books to the officials of local government, the ultimate returns of the books to the treasury and their final deposit.

However section 7.12 noted that all revenue earning books unused, used, partly used or obsolete must be safeguarded from theft or misuse and
kept in a secure place under lock and key. The books should be stored tidily in numerical order and each of the four categories of books (unused, used, partly used and obsolete) kept in a separate groups.

Section 7.13 provides that the treasurer must ensure that checks of stocks of revenue earning books are carried out periodically and not less frequently than once in every two-month-period. Moreover, the officers carrying out the check will insert the date and his signature in column 10 of the Receipt Book Register.

Section 14 (2-8) provides the following:

i. No payment shall be made unless authorized funds are available

ii. Each payment must be supported by a properly authorized payment voucher prepared on one of the forms referred to below

<table>
<thead>
<tr>
<th>Forms No</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>LGT 45</td>
<td>General Payments</td>
</tr>
<tr>
<td>LGT 46</td>
<td>Salaries</td>
</tr>
<tr>
<td>LGT 48</td>
<td>Pensions</td>
</tr>
<tr>
<td>LGT 49</td>
<td>Traveling allowances.</td>
</tr>
</tbody>
</table>

iii. A payment voucher shall be prepared as follows:

a. It must be made out in favour of the person to whom the fund is actually due.
b. It must be capable of being checked without reference to other documents.

c. It must be clearly worded and give full particulars of payment. Etc.

iv. Each voucher shall show the head or subhead of expenditure to be charged.

v. Alterations to payment voucher must be signed in full by the official authorizing payment; vouchers with extensive alterations may be rejected at the discretion of the treasurer, etc.

Section 14 (8) also requires the payment voucher to be authorized by the officer controlling the vote; or the person to whom an authority to incur expenditure (A.I.E) has been issued.

Section 14 (9) on the one hand proves that the signature of the official authorizing the payment certifies the correctness of all the details on the voucher. He will therefore be held liable for any payment in excess of approved votes, which are unreasonable or are found to be irregular in any other respect.

Again, section 19.4 states that all receipt of money (cash or cheque) shall be entered in the cash column on the receipt side (i.e. the debit side) of the cash book strictly in the order that the transactions occur.
Section 19.6 also stipulates that a treasury receipt shall be issued in respect of every payment into the treasury or direct to the local government’s bank account. The treasury receipt number must be shown against the relevant Cash Book entry.

In addition, section 39.3 requires the internal auditor to carry out all audit queries and sanctions not irrespective of who is involved. Below are some of the areas the internal auditor is required to carry out audit queries:

i. Irregularities resulting in losses to local government due to either fraudulent activities of the functionaries to their negligence or incompetence.

ii. Payment through false certificate of completion.

iii. Poor quality work (building, new roads, etc)

iv. Shortage or losses of stores by storekeeper.

v. Assets paid for but not collected.

vi. Payment of ghost workers

vii. Failure to collect local government revenues and also failure to account for local government revenues

viii. Overpayment of salaries and allowances to staff. etc.

Furthermore, in section 3.2 of the Revised Financial Memoranda, the local government executive committee shall issue a circular calling for the
preparation by local governments of the estimates for the succeeding financial year. The call circular shall:

1. Contain such general guideline to be followed by departments in the preparation of their annual estimates as reflected in the local government Policy and priorities with regards to the discharge of functions and provisions of services at the local levels.

2. Stress such procedural and timing matters and matters relating to the objectives and contents of estimates as considered appropriate by the executive committee.

The above section helps in the control of revenues and estimates hence the guideline and timing to be adopted by the Department in preparing the annual estimates are reflected in the section.

Section 3.2 and 3.12 of the Revised Financial Memoranda discuss local governments annual revenue and estimates and their approach at length. It is expedient for management to control results with the estimates and this can only be achieved through budgetary control found in these sections of the financial memoranda.

These are some of the systems designed for the management of local governments’ fund in Nigeria local governments. It is therefore, surprising to note that despite all these mechanisms designed to ensure effective and
efficient management of local governments’ funds, that the issue of management of funds is still topical in Nigeria local governments. We discovered that, presently local governments in Nigeria cannot provide basic necessities of life to the citizenry and the blame is often laid on the paucity of fund. It is important to mention, that mismanagement of funds contributes immensely to poor performance.

Based on this therefore, the gap in this literature can be closed by exploring, all these measures contained in the Revised Financial Memoranda for management of funds. There is still much to be desired from the services provided by the local governments in Nigeria. Local governments, however, blame inadequacy of funds as a major problem for poor performance. It is not very correct to say that lack of quantum of funds is a sufficient explanation for the poor performance of local governments. However, a cursory look at the resources bestowed upon local governments statutorily, between 1999 – 2004 does not show that local governments are poorly funded as purported. The point here is that the proper management of these funds is as important as, and perhaps even more important than the level of funding in explaining the performance of local governments. Poor management of funds arising from irregularities as well as lack of integrity of local government officials contributes to this state. Oguonu (2004) is of
the view that these human related factors negatively affect development at the local government levels, which is the bedrock for “genuine national development”.

**Hypotheses**

H1. The management of local government resources in Nigeria tends to follow closely the provisions of the Revised Financial Memoranda.

H2. Irregularities in the management of local governments fund tends to lead to poor management and consequently result in poor performance of local governments.

**Research Methodology**

Data for the study were generated from local government officials in their working environment and the structured interview. The target population for the study consisted of six (6) Local governments in Anambra State.

A purposive sampling technique was used in choosing local governments and the respondents to be used in the study from three senatorial districts. Six local governments, two from each of the three districts in Anambra state were sampled. The reason behind the use of the purposive sampling technique was to enable the researcher pick two Local governments from each district (urban and local) that are familiar to the
researcher and also to make for comparison. Thirty respondents were chosen from each local governments giving a total of 180 respondents.

The method of data collection was the use of structured questionnaire and interview. We chose the interview as the chief technique of data collection because of the obvious advantage they offer us. The questionnaires were designed on the bases of the research problems. Research assistants from the local governments were trained and the questionnaires were administered to the subjects through their help.

The questionnaire were distributed as shown below

Table 1 Questionnaires distribution.

<table>
<thead>
<tr>
<th>Local Government</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Onitsha North LG</td>
<td>30</td>
</tr>
<tr>
<td>Orumba North LG</td>
<td>30</td>
</tr>
<tr>
<td>Awka south LG</td>
<td>30</td>
</tr>
<tr>
<td>Anaocha L G Neni</td>
<td>30</td>
</tr>
<tr>
<td>Onitsha south LG</td>
<td>30</td>
</tr>
<tr>
<td>Anambra East LG</td>
<td>30</td>
</tr>
</tbody>
</table>

The questionnaires were collected by the researcher and trained assistants after completion of the questionnaires by the subjects. Out of 180 questionnaires distributed, 168 were completely filled and returned and 12 were returned unfilled by the subjects.

In analyzing the data, the one way analysis of variance was used. The hypotheses were tested using inferential statistics involving t test at 0.05 level of significance.
Results:

A one way Anova was used to determine if there is any variation in the provisions in the Revised Financial Memoranda and the management of local governments’ resources in Nigeria. The result of the Anova showed that resources were not managed according to the procedure stipulated by the financial memoranda 1991. The F calculated value among the different local governments in adhering to the policies governing the management of resources is 1.182 and this is significant at .320, therefore it is not significant at .05. The null hypotheses is rejected indicating that there is significant different among local governments in adhering to the rules of the Revised Financial Memoranda and the management of local government resources.

The second research question is adhering to the polices governing the management of irregularities in the local government system was tested. The F calculated value for difference in adherence of different local governments is .360 and this is significant at .871, therefore, it is not significant at .05. The null hypothesis is rejected. The management of irregularities among the local governments in the southeastern states is very poor indicating that there is a variation between the management and that of the Revised Financial Memoranda.
The third research question on cash disbursement was tested. The F calculated value for the differences in adherence of different Local Governments is .000. This means that it is significant at .05. The same thing applies to reconciliation of cash, the F calculated value is 13.130 and it is significant at .000, therefore it is significant at .05. The null hypotheses, of no significance difference in adhering to reconciliation and disbursement of cash procedure is rejected. This means that the different local governments, although they do not adhere to the policy of cash disbursement and reconciliation differ significantly on this.

The result of the analysis could be supported with the documents collected from some of the local governments in Anambra State.

Report of cash survey and inspection audit for the period 9\textsuperscript{th} – 28\textsuperscript{th} Dec. 2004.

The cash specification arising from the above cash survey is as analysed here under:

\begin{table}[h]
\begin{tabular}{l|l}
\hline
\textbf{Note} & \textbf{Value} \\
\hline
1. 500 notes X 87 pieces & 43,500.00 \\
2. 200 notes X 375 pieces & 75,000.00 \\
& 100 notes X 335 pieces & 33,500.00 \\
& 50 notes X 476 pieces & 23,800.00 \\
\hline
\end{tabular}
\end{table}
<table>
<thead>
<tr>
<th>Date</th>
<th>Name</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>22/3/2004</td>
<td>Okechukwu Okongwu</td>
<td>1000.00</td>
</tr>
<tr>
<td>31/3/2004</td>
<td>Okechukwu Okongwu</td>
<td>18160.00</td>
</tr>
<tr>
<td>24/3/2004</td>
<td>do</td>
<td>1000.00</td>
</tr>
<tr>
<td>5/4/2004</td>
<td>do</td>
<td>2500.00</td>
</tr>
<tr>
<td>19/3/2004</td>
<td>do</td>
<td>7000.00</td>
</tr>
<tr>
<td>31/3/2004</td>
<td>Mrs. Ezenyunulu</td>
<td>2000.00</td>
</tr>
<tr>
<td>21/4/2000</td>
<td>Uche Orji</td>
<td>1000.00</td>
</tr>
<tr>
<td>21/4/2000</td>
<td>Celina Unaka</td>
<td>1000.00</td>
</tr>
<tr>
<td>5/3/2004</td>
<td>- do -</td>
<td>3000.00</td>
</tr>
<tr>
<td>18/12/2003</td>
<td>Uche Orji</td>
<td>4000.00</td>
</tr>
<tr>
<td>20/2/2004</td>
<td>Mgbemena</td>
<td>500.00</td>
</tr>
<tr>
<td>5/3/2004</td>
<td>Justina Nwofli</td>
<td>8000.00</td>
</tr>
<tr>
<td>5/3/2004</td>
<td>Uche Orji</td>
<td>1000.00</td>
</tr>
<tr>
<td>5/3/2000</td>
<td>Okeke Eunice</td>
<td>2000.00</td>
</tr>
<tr>
<td>8/4/2000</td>
<td>Chris Ezeaku (Hos)</td>
<td>2500.00</td>
</tr>
</tbody>
</table>
Okeke S.C. (P.A)  2600.00

B) Unclaimed Salaries  65 210.00
Cheque not lodged into bank  58,800.00

\[ \text{\textbf{420,930.00}} \]

The total sum of 102,160 granted to the above 16 beneficiaries as 1.0.U’s is too enormous. Moreover, no single authority was produced in favour of the 1.0.U’s granted. It must be noted that 1.0.U is for a very short period of time not exceeding 7 days. Unfortunately, some of them have exceeded a period of 4 months and that of Mr Okeke and Orji had exceeded 3 years. This reveals that local government functionaries do not follow closely the provisions in the Revised Financial Memoranda.

In addition, the external auditor observed withdrawals of huge sum of money amounting to N350,000.00. This was buttressed by the disclosure in the Bank statement of Guardian Express Bank PLC in Account with Onitsha North Local Government, Account No CA is –00851911 for the period 01/10/2004. As contained in the bank statement (the acting treasurer made a cash withdrawal of N350,000 without a cheque slip attached to it. The N350,000 was described as charge for withdrawal without cheque book by the bank. The date for this charge was 21/04/2002. It was observed during the audit inspection that this amount was not entered anywhere in the
cash book. This shows irregularity in the management of local government resources. It must be noted that the Revised financial memoranda is explicit on the duties of the treasurer when it said that the treasurer must not be the cashier of the treasurer. Financial Memoranda 1.18, Section 5.3 went further to say that in no circumstance shall the treasurer himself hold the office of the cashier. Further still, Fm 14.3 says “Each payment must be supported by a properly authorized payment voucher prepared on the authorized fund. This was violated by the treasurer highlighting non adherence to the rules of management of funds.

Furthermore, we also discovered, from the documents that revenues were not accounted for. The audit report of Anambra East Local government Council revealed that the sum of N3500.00 collected as market toll and detailed hereunder was not accounted for. The receipts Nos are 000919 – 000950 and 001401 – 001450 for the amount N3000 and N5000 respectively. Again, in the audit report, we discovered many cases of irregular management of funds.

For instance in the audit inspection of Anambra East Local Government council, the total sum of N92,650.00 received in the treasury with the under listed treasury receipt were not posted into the cashbook
This suggests weakness in the management of funds. Again, contrary to Revised financial memoranda 7.12 all categories of revenue earning books in the store of Anambra East Local Government Council were not arranged tidily in serial/numerical order. Rather, they were scattered all over the store in such manner that exposed the books to theft and misuse.

Moreover, various types of revenue earning books totaling 609, listed below were found not entered in the stock register according to the type and in numerical sequence, in breach of financial memoranda 7.1 these and more cases abound.

<table>
<thead>
<tr>
<th>S/N</th>
<th>Type of Receipt Books</th>
<th>No. of Booklers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Toll Tickets</td>
<td>410</td>
</tr>
<tr>
<td>2</td>
<td>Market Stallage</td>
<td>21</td>
</tr>
<tr>
<td>3</td>
<td>Rate Tickets</td>
<td>178</td>
</tr>
<tr>
<td></td>
<td></td>
<td>609</td>
</tr>
</tbody>
</table>
In addition, the toll ticket and market stallage tickets were not individually numbered. Hence it was not possible to determine the number of tickets in each booklet.

**Source:** Anambra East Local Government Audit Report 2004.

However, there are many cases of mismanagement of resources in the audit report collected from some local governments in Anambra State.

We therefore, discover that the problem confronting local governments in the south eastern states is not necessarily poor funding as purported by many, but poor management of these resources. This has resulted in local governments in the south eastern states not living up to the desired expectation despite the enormous sources of revenue, bestowed upon them. There is, therefore, need for local governments in Nigeria to comply with the rules in the Revised Financial Memoranda. The federal and state governments should enact a law to guide the compliance of the Revised Financial Memoranda and also ensure that all local government officials have the Revised Financial Memoranda. There is also need for sanctions to be placed on all offending officers to ensure compliance. This should be holistic from the chairman down to the junior workers as half measure yields no result but failure. Compliance with the rules of the Revised Financial
Memoranda (CRFM) 1991 and 1994 will assist in the achievement of the aims of the 1976 local government reform and other subsequent reforms.

Furthermore the art and act of training and supervision should be instituted in the Nigeria local governments. Workers newly employed should be properly oriented on the rules in the Revised Financial Memoranda and the reasons for compliance. Workshops, conferences and retreat should be organized on the subject “compliance with the rules of the Revised Financial Memoranda 1991 and 1994” occasionally. This, we believe will go a long way in inculcating in the workers the principles guiding the care and custody of funds in the local government system.

In addition, the two tiers of governments should adopt a Change of Attitude Mechanism (CAM) by investigating the affairs of the local governments on a regular basis ensuring that they comply strictly to the rules of the Revised Financial Memoranda. If funds are judiciously managed according to the rules in the Revised Financial Memoranda, no doubt, the problem of poor funding will be a thing of the past and local governments in Nigeria will take up their statutory responsibilities without complaint. The result will be felt in all the nooks and crannies of the states. Moreover, employment of honest, qualified and sincere personnel, we believe too, will determine the extent to which these rules are complied with. We therefore
encourage local governments to employ men of integrity with good records to handle finances in the local governments.

We also advocate for the introduction and implementation of the Due Process mechanism in the local governments. Local government is the government at the grassroots levels and therefore is a very important tier of government. The Due Process Mechanism should start from this very important tier of government. We discovered that this mechanism was not adhered to in the award of contracts and this led to embezzlement of government resources by local government functionaries.

Furthermore, we advise that the chairmen of local governments be career officials, not political office holders. Past records should also be considered in appointing chairmen, principal officers and those that work in the Finance section. This therefore, suggests that men of integrity should be employed based on past records not on godfatherism, to ensure proper management and utilization of resources.

However, areas of specialization should be given full attention and consideration in employment of workers. This will create avenue for staff to exhibit their skill. The issue of areas of specialization has been a thorn in the flesh for years now. Unfortunately staff are usually employed based on son of the soil syndrome in the local government systems.
Adoption of the rules of the Revised Financial Memoranda and other measures outlined above will contribute immensely in the provision of basic social amenities, hence these resources that were carted away will be judiciously used in catering for the needs of the society.

References


Anambra east Local Government Audit Report.

Anambra North Local Government Audit Report.