

## **Impact of Global Economic Meltdown on Financial Accountability under Democratic Dispensation in Nigeria**

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### **Abstract**

*This paper examined the impact of global economic meltdown on financial accountability under democratic dispensation in Nigeria. Using a Multiple Regression Analysis, the results shows that there is a positive relationship between global economic meltdown and financial accountability under democratic dispensation in Nigeria. It was therefore recommended that government should shift emphasis from absolute reliance on mono-product economy and ensure that emphasis is given to agro-allied sector of the economy. In addition, there should be adequate compliance with International Financial Reporting Standard (IFRS) and International Public Sector Accounting Standard (IPSAS) in order to ensure internationally compliance with financial reporting statement preparation. This will ensure improvement in convergent harmonization in International Accounting and Reporting.*

**Keyword:** *Global, Economic, Meltdown, Financial, Accountability, and Democratic*

### **1. Introduction**

The result of recent research has shown changes and growth in the areas of social, economic, political, technology and environment. These changes have significantly impacted on the world economy, thus the real to examine the impact of global economic meltdown, or global financial crisis and its effect on financial accountability under democratic dispensation in Nigeria. The global financial meltdown necessitated the convergent harmonization in financial reporting as well as adoption of International Public Sector Accounting Standard (IPSAS) in public sector. The compliance with International Financial Reporting Standard (IFRS) most especially for quoted companies on the New York Stock Exchange Market is an issue of convergent harmonization. Closely related to the above reforms is the composition of economics summit group that advices government on implementation and monitoring of various policies in the economy so that the effect of the global financial crisis will be minimized. Despite these reforms, and advises, standard of living of average, Nigerian has not improved, and this has continued to be hinged on financial accountability in both public and private sector. Thus, the main objective of this paper is to examine the impact of global economic meltdown on financial accountability under democratic dispensation in Nigeria.

## **2. Conceptual Issues: Financial Accountability and Economic Meltdown**

### *2.1 Financial Accountability: Meaning, Types and Importance.*

According to wikipedia, accountability is a concept in ethics and governance with several meanings, it is often used synonymously with such concept as responsibility, answerability, blameworthiness, liability and other terms associated with the expectation of account-giving. As an aspect of governance, it has been central to discussions related to problems in the public sector, non-profit and private (Corporate) Worlds.

In leadership roles, accountability is the acknowledgement and assumption of responsibility for actions, products decision and policies including the administration, governance, and implementation within the scope of the role or employment position and encompassing the obligation to report explain and be answerable for resulting consequences.

According to Hornby (2000) "Finance is usually to give financial advice, assistance, and support, to be in financial difficulties. From the foregoing, it would be seen that finance deals with management of money or anything involving monetary transactions.

The extract from above shows that financial accountability usually involve ability to give explanation or stewardship to the management or people or country as a whole in respect of money or any other economic resources and assets. Therefore, the term stewardship accounting is very important in the process of explaining the issue of financial accountability.

Discussing the types of accountability, Johnson (1993) opined that public accountability means those who are charged with drafting and or carrying out policies are obliged to give explanation to their electorate, the electorate being, a composite groups that include, clients, employees and tax payers, public accountability may be defined as ability to reveal whatever one does.

According to wikipedia, political accountability is the accountability of the government, civil servant and politicians to the public and to legislative bodies such as a congress or a parliament.

Administrative accountability on the other hand is the internal rules and norms as well as some independent commission, are mechanisms to hold civil servant within the administration of government accountable (Onochie 2006, Roberts, 1985; Vakil, 1997, and Wynne, 2002).

On the important of financial accountability, David and Archibald (1993) opined that "legislation and enforcement vary among jurisdiction as do accounting practices. These legislation and enforcement encourage competitiveness, and consequently, used in comparing financial statement. Legislature decisions also impact obligation on financial institutions and the terms of liability, which enhances their financial accountability. Financial accountability also encourages uniform practices in the economy. Thus, importance of financial accountability is significantly noticed and felt by the utilization and application of uniform accounting practices which ensures globalization and convergent harmonization; by the same token, adequate financial accountability worldwide. This is because there is no financial accountability without adequate stewardship accounting.

Effective communication which is an important aspect of financial accountability is an essential element of any crisis management plan. Financial accountability encourages corporations during crisis management to: be opened and honest with media and customers alike; recast quickly; utilize only one spoke person; armed themselves with the facts; stay on message; do not lie or mislead the media. ( see

Oyesiku, 2009; Laughlin, 1990; Mayston, 1993; Olowookere, 1996). The public or investigating agencies establish and maintain contact with other important group.

### *2.2 Economic Meltdown: Meaning, Causes and Effect*

According to Alade (2008), “current global financial crisis is not necessarily a new phenomenon. A striking feature of the current financial meltdown has its origin from the international financial epicenter in contrast to past financial crisis that originated mostly from emerging financial hubs outside the US and Continental Europe”.

Economic meltdown is seen as large currency depreciation, a huge swings in current account balances with substantial and persistent declines in the real output of an economy (Alade, 2008).

According to Oyesiku (2009) “economic recession does not just occur, certain factors are responsible. For instance, when the Dollar collapse, there was a growing concern for the United States to attract foreign capital in order to enhance both private and public investment. In fact, between the years 1985 to 1987, the United States Dollar-fell by 49 percent against major currencies treasury bonds that increased by 2 percent. In general, the fall in dollar greatly affects the United States Corporation Bonds and 50 percent of these bonds, are actually held by foreign investors.

Besides, housing bubble is another cause of the economic meltdown when interest rate on mortgage rised by 20 percent in the USA, this stop people from buying house which in turn boost the housing bubble. On the other hands, when the prices of houses drop, it deflated household wealth, meaning that people have less equity in their homes. This eventually led to reduction in mortgage activities and thus results to collapse in mortgage investment sector.

The effect of economic meltdown cannot be underestimated, for instance, a rise in the price of crude oil, is directly proportional to the prices of other by-products. This is harmful to the economy due to its resultant effects on factors of production. Most industries largely depend on crude oil and its by products. This increase in price of this would undermine business and consumer confidence (Oyesiku, 2009; Sampson, 2008 and Spargenberg, 2002).

Moreover, inflation is also another effect of economic meltdown. Inflation affect prices of production, producers tend to increase the price of their products to make up for the increase in oil prices in order to make the same profit that they were making before the meltdown. High inflation rate makes existing bonds unattractive so new ones have to be offered and they are offered at a higher rate (Oyesiku, 2009; Banton, 2000; Burgess, 2000 and Emmanuel, 2001).

### *2.3 Financial Accountability and Economic Meltdown in Nigeria*

The Central Bank of Nigeria and other regulatory agencies has been trying to ensure that the impact of the meltdown does not significantly affect the economic growth and development through the various reforms of the government. Key among these reforms are due process, e-payment, rebranding and reform in oil and gas, manufacturing agricultural, education, health, transport, communication and financial.

One of the major steps taken by the federal government to ensure amelioration and application of financial accountability on economic meltdown is the composition of economic summit group that advices government on implementation and monitoring of various policies in the country so that the effect of the global financial crisis will be minimized on the economy..

Further to above, is the reform in the banking sector most especially the entrenchment of corporate governance by the banking industry that ensures adequate risk management among the commercial banks and the provision of surveillance on the banking sector. The CBN also categorized the banking sector into national, international and regional banks. This is necessary to ensure adequate capital adequacy and the application of uniform financial year end among the commercial banks in Nigeria.

Moreover, the reform in the Security and Exchange Commission (SEC) was to ensure that the impact of the global economic meltdown does not significantly affect the quoted companies on the Nigeria Stock Exchange. The reform was carried out in order to ameliorate the fall in the price of shares of quoted companies in Nigeria.

The federal government and the private stakeholders also invested massively on capacity training of their staff, most especially the accounting professionals, in order to harmonize the International Financial Reporting Standard (IFRS) and International Public Sector Accounting Standards (IPSAS). This effort was made to ensure that the professional accountants in both public and private sectors were able to implement and comply with internationally acceptable financial reporting system by the year 2012.

Other areas that benefited from the reforms include education, manufacturing, transportation, budget implementation, infrastructure facilities, most especially electricity, etc. This was also carried out to enhance a sustainable financial reform to reduce the effect of the economic meltdown.

### 3. Methodology

This research adopt a simple regression analysis, using data specifically on statutory allocation internally generated revenue and external and internal loan obtained from the Kwara State Financial Statement for the period ended 31<sup>st</sup> December, 2009.

#### 3.1 Model Specification

Since there are many variables that effect global economic meltdown and financial accountability under any democratic dispensation, variables such as statutory allocation, internally generated revenue, as well as external and internal loan are presented as a function of the global economic meltdown and financial accountability.

The basis of the model is to find out whether there is any significant relationship between global economic meltdown and financial accountability. Thus, the model is stated as follows:

$$\text{GEM} = f(\text{Stat, Igr, exIL, -----K}) \quad (i)$$

Where:

GEM = Global Economic Meltdown

Stat = Statutory Allocation, the share of state government from federation account according to Federal Revenue sharing formula.

Igr = Internally generated revenue – is the revenue generated internally from various sources by the state government.

ExIL = External and Internal Loan – is the money borrowed from international and local financial institutions.

To estimate the model, a multiple regression analysis is used in order to reflect the explanatory nature of the variables. Two major evaluation criteria were used. (i) the a-priori expectation criteria based on the signs magnitudes of the coefficients of the variables under investigation, and (ii) statistical criteria based on statistical theory also known as First Order Least Square (OLS) Consisting of R-Square ( $R^2$ ), F-Statistic and t-test.  $R^2$  is concerned with the overall explanatory power of the regression analysis, F-statistic is used to test the overall significance of the regression analysis and the t-test is used to test the significance contribution of the independent variables on the dependent variables (Oyeniya, 1997).

**3.2 Table 1: Multiple Regression Results of Global Economic Meltdown and Financial Accountability**

Explanation of Variables	Coefficients and t-values
Intercept	0.941
(t)	(-3.61)
Stat	(0.158)
(t)	(0.220)
lgr	0.940
(t)	(0.63)
exlL	0.266
(t)	(0.67)
A – $R^2$	0.94
$R^2$	0.98
F	73.55

Source: Author’s Computation, 2011 Significant at 0.05 Level t-values in parentices

**3.3 Discussions of Result**

Table 1 above describes the regression analysis at 5 percent-level of the result. A glance at the table shows that it has an  $R^2$  0.98 which means that 98 percent of the explanatory variables is explained by the dependent variable while the error term takes care of the remaining 2 percent.

Besides, the calculated F-statistic of 73.55 is more than the table F-statistics of 2.34 values at 0.05 percent. The result also shows that the statutory allocation, internally generated revenue and external and internal loan have positive signs, which satisfies our a-priori expectation. Thus are statistically significant at 5 percent level.

**4. Conclusion and Recommendations**

From the above statistical analysis, using multiple linear regression analysis, it could be shown that global economic meltdown has imparted on the level of financial accountability under democratic dispensation in Nigeria. In other words, the financial management of government statutory allocation internally generated and external and internal loan could result in economic meltdown of the state. Thus, the study recommends, accounting principle of integrity, transparency and honesty for country to enjoy

development. Beside, good governance must be put in place where the elected must deliver on their mandate.

Furthermore, government must deliberately promote compliance with acceptable ethical conduct and address allegation of corrupt practices and abuse of office without fear or favour.

Government should shift emphasis on absolute reliance on mono-product economy based on revenue from oil which has constituted major inlet into federation account. Emphasis should be on agro-based economy, which has been our major source of revenue before the discovery of oil pre and post independent era.

In addition, in order to ensure adequate international and globalize compliance financial reporting and accountability; there should be compliance with International Financial Reporting Standard (IFRS) and International Public Sector Accounting Standard (IPSAS) at all levels of government in Nigeria so that the aim of democratic governance, adequate financial accountability in a globalize economy would be attained under this nascent democratic dispensation in Nigeria.

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