Oil Slump and the Imperative for Approaches to Financial Prudence in Governance in Nigeria

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Abstract
This study investigates the approaches to financial prudence in governance in Nigeria in the face of the slump in the price of oil at the international market. The general objective of the study was to determine the appropriate approaches to financial prudence in governance in Nigeria. Through a purposive means, 200 respondents were purposively selected in Enugu State. Findings showed that the appropriate approaches to financial prudence in governance in Nigeria are effective internal audit, proper budget process and better project implementation. Finding further showed that the financial prudence in governance can avoid waste of financial resources to a large extent. The researcher recommends among others that government should ensure financial prudence in all her dealings with a view to ensuring prudence utilization of financial resources.
Keywords: approach, governance, oil, finance and slump

1.Introduction

Nigeria is today faced with the reality of slump in the price of oil at the international market. The situation has constituted a threat to the economic advancement of the country because, it (Nigeria) depends largely on oil. Economic activities have so far been affected as many state governments cannot even pay workers salaries thus leading to a public outcry and in some cases outright protests from workers. Opposition politicians relied heavily on this financial crisis during campaigns in the 2015 general elections, a situation some analysts argued, saw the emergence of an opposition candidate as winner of the 2015 presidential elections. Oil slump as a concept describes the fall in the price of oil. The fall in oil price is not peculiar to only Nigeria but all oil producing nations. The Global Risk Insights (2015) lists the five countries most affected by the fall in oil price as Venezuela, Nigeria, Iraq, Russia and Iran in that order. Commenting on the impact of oil slump on Nigerian economy, global Risk Insights writes;

> Africa's largest economy is under increased pressure after the sudden drop in oil prices in the last eight months. This is the second blow for one of the continent's largest oil exporter's after the shale boom virtually brought to a halt its oil exports to the United States. The country's budget breakeven price of oil for 2015 is $122, according to Deutsche Bank estimates. Moreover, oil exports constitute more than 70 percent of Nigeria's budget income and 90 percent of its foreign exchange. As a result, the Nigerian naira has lost the fifth of its value against the US dollar since June 2014. In addition, security instability caused by the Boko Haram campaign in the predominantly Muslim-populated north of the country and the political turmoil ahead of the presidential elections expose bitter divisions along the ethnic and regional lines that could further destabilize the country.

The government of Nigeria since the beginning of the oil slump took different measures with a view to cushioning the effect of the national challenge. Popular among such approaches is the introduction of austerity measures, a fiscal consideration to cut public expenditure. (Enoghase 2014). Another step taken by the government was to seek external loans worth $5.7bn (#2.97tn) from development partners to finance infrastructure projects contained in the 2015 budget (Onuba 2015). As important as government measures could be, if finances are not properly managed, it will be difficult to achieve set objectives.

Effective financial management is very essential to government just the same way it is to companies and individuals. Wakiriba, Ngahu and Wagoki (2014) observes that financial resource is considered an important resource to many institutions and establishments. Warriba et al add further, "This means that it must be effectively and efficiently managed to bring about the needed change and results (p. 105)." In Nigeria however, the problem of effective financial management has lingered for sometimes now, thus constituting a problem to the development and progress of the country. Rason and Gayer (2010) corroboratively regret that even though effective financial management is very essential sometimes, those saddle with finance mismanage or misappropriate same. For this study, financial prudence refers to effective management of finance. It entails ensuring that available financial resources are properly managed. This study thus seeks to investigates approaches ti financial management in government in the era oil slump.

1.2 Statement of the problem

The fall in the price of oil at the international market presents a very big problem to the Nigerian government on how to effectively run government affairs and equally fulfil its social contract to the Nigerian people. The situation has been compounded by rising unemployment, poverty rate and corruption. Financial experts are in agreement that prudence in the utilization of available financial resources could go a long way in an ameliorating the precarious situation. However, what is not clear is the appropriate approaches to be adopted by the government in a financial prudence measures. The problem of this study posed as a question is what approaches should the Nigerian government adopt in ensuring financial prudence?

1.3 Objectives of the study

The general objective of this study is to find out appropriate approaches the Nigerian government should adopt in ensuring financial prudence. Specially, the study seeks answers to the following questions

1. To find out the relationship between internal audit financial prudence.
2. To examine the relationship between Proper Budget Process and financial prudence.
3. To ascertain the relationship between better project implementation and financial prudence
4. To investigate the extent financial prudence can avoid financial waste.

1.4 Research questions

This study seeks answers to the following questions

1. What is the relationship between internal audit financial prudence in government?
2. What is the relationship between proper budget process and financial prudence in government?
3. What is the relationship between better project implementation and financial prudence in government?
4. To what extent can financial prudence avoid financial waste in government?

1.5 Research Hypothesis

This study tested the following hypothesis at 0.05 level of significance.

Ho_1: There is no significant relationship between internal audit financial prudence in government

Ho_2: There is no significant relationship between proper budget process and financial prudence in government

Ho_3: There is no significant relationship between better project implementation and financial prudence in government

2.Theoretical Framework: Theory of Financial Control

This study finds expression in the theory of financial control . It states that existing and possible functions of financial tools for organizations are most essential and that payments, financial instruments, accounting, control models, economic calculations, and related considerations, both within and outside of the organization, ought to be discussed in regard to inner characteristics but also possible effects. It is noted that establishing the relationships between various activities and financial processes, from a financial control point of view, is a general and basic issue (Ostman, 2009). The theory of financial controls for organizations places a natural focus on the firms such that they are viewed from several latitudinal areas. The first regards the human beings' functions of what is accomplished through organizations, their activities and output. The second is about the structure of the organization and activities, and of transactions that various parties have with each other. The third area covers the control systems in the sense of recurring procedures and methods that are employed to relate present and future functions to resources both externally and internally. The aforementioned financial control tools are argued to be crucial from an individual organization's perspective and also for larger economic systems. The fourth and last area illustrates the specific processes of individual organizations for certain issues. The theory further states that structure and financial control system works together .Commenting further on the theory Ostman writes "There are global value chains, from resources to output that are in use. These chains change with time. Uncertainty and unpredictability prevail for the present state and for possible changes; to some extent it is possible to estimate risks of the future (p,4)." The relevance of this statement to the current study is that, available government resources have global value chain and should be properly managed. Though the theory lays more emphasis on organizations, the current study adopts it to provide insights on why governments at all level should be prudent with available financial resources so that the fall in oil price does not tell too much on the populace. It behoves the government to properly control financial resources with a view to ensuring that funds are spent for the purposes they are meant for.

3. Literature review

Prudence management of financial resources is a key component in ensuring that government at all levels meet up with their obligation to the populace. Boex Muga (2009) corroboratively note "In order for the public sector to efficiently deliver public services and achieve its policy objectives, it is critical that public finances are managed well." Financial prudence is a very essential component to contemporary society. It helps not only the government but also individuals in their day to day activities. Pillai, Carlo and D' Sauza (2010) observe that financial prudence is an important attribute of personal discipline. Commenting further, the researchers write:

> financial prudence is described as the acceptance of a degree of caution in the exercise of judgement needed when making required estimates under conditions of uncertainty... it refers to making well the practice of making well informed financial decisions and ensuring that expenditure is never in excess of earning (p.3)

The comment above gives insight into the concept of financial management and its relevance.

4 Review of Empirical Studies

In this segment of the paper, the researcher reviewed relevant empirical studies that are related to the current one either in content or design. First is a study by Boex and Muga (2009) on "What determines the quality of local financial management? The case of Tanzania." The researchers used data from local government authorities in Tanzania in order to explore the relationship between local financial management performance on one hand, and local management practices, local governance, and other local characteristics on the other hand. The researchers found that while the exact local management practices that matter for the quality of local financial management in Tanzania vary depending on how financial management performance is measured, councils with better financial management practices such as stronger internal audits, better planning and budget processes, and better project implementation practices achieve better local financial management outcomes. In addition, the result revealed that local political conditions and other local circumstances such as the poverty level and the urbanization rate also play an important role in determining local financial management performance in Tanzania. This study is relevant to the current one because it examined financial management in relation to performance, however, the researchers failed to investigate the extent financial prudence can avoid financial waste The current study will look into this missing gap.

Furthermore, Githuku (2013) in a study on "Factors influencing effective financial management systems in government sector- a case of Kitui Central Ministerial Departments in Kenya," was considered for review. The purpose of the study was to establish the factors that influence the effective financial management system in government sectors in Kenya. Relevant literature was reviewed especially in regard to the financial reporting system, the budget preparation and execution and the accounting policy that are adopted. The research design was a descriptive research design, which involved measurement, classification, analysis comparison and interpretation of data. The population of the study comprised thirty (30) ministerial departments with a total number of three hundred and one (301) officers. The researcher administered questionnaires to a sample of Ninety (90) respondents. Both qualitative and quantitative statistics were used to analyze the data. The researcher found that 75.3% of the respondents felt that the public are not involved in the formulation of budgets as well as during the project proposals writing. Also 66.7% of the respondents had the view that the public had no access to the financial reports of the Government Fiscal Management both in terms of expenditures and budgets. Based on this findings, the researcher recommended that to overcome some of the challenges encountered, the legal framework should be accompanied by clear financial regulation and accounting instructions, improvement of public access to fiscal information and adoption of accrual system of accounting to conform to the International Public Sector Accounting Standards. The researcher was however silence on how to ensure financial prudence in government, the current study will fill this gap.

Similarly, Maronga, Weda, and. Kengere (2013) did a study on "An investigation on the influence of Government Financial management on Kenyan public secondary Schools: A case of Sameta Division." The study assessed the effect of Government Financial regulations on financial management practices in public secondary schools in Sameta Division of Gucha District, Kenya. The study investigated how principals managed the school cash, inventories, account receivables and account payables. The study also aimed at assessing problems principals encountered when applying these financial management practices. The principal and the bursar of each of the thirty secondary schools were interviewed. Secondary data were collected from the District Schools Auditor's financial records and from the financial records of the sampled schools. Descriptive statistics, especially, the use of frequency tables, percentages and means was used to analyze the data. Scaling method was used, particularly the use of Likert scale, to analyze the views gathered from the respondents. The researchers found that 71.67% of the respondents indicated that 71.67% of schools do not follow government policies on financial management when tendering while only 28.33% indicated that they do follow the government policies. Less than a half of the schools (40%) indicated that their books of accounts are audited annually while 28.33% indicated that their books are audited semi-annually. About a third of the schools (31.66%) indicated that their books are audited whenever necessary or have never been audited. The researchers asked the schools to indicate the technique they use on their decisions to grant credit to their customers. Credit scoring was ranked at 65% while sequential credit analysis was ranked at 35%.The researchers thus concluded that credit scoring was the main criterion used by the schools in their decisions to grant credit to their customers. The researchers asked the schools to indicate the technique they utilize to reduce their negative float. It was found that the use of cash discounts was the major technique utilized by schools to reduce negative float with a ranking of 55% whereas use of verbal or written request was ranked at 45%. On what measures the schools used in monitoring the payment behaviour of customers granted credit, collection period criterion was reported as 46.67% while aging schedule received a frequency of 36.67% and that of accounts receivable received 16.67%. The respondents indicated how they rated their book keeping records. The findings indicated that 56.67% of the schools have their school books of account records incomplete while 43.33% of the schools indicated that they either have their books of account records complete and comprehensively kept. The study sought to know the average percentage of fees not paid. More than a third (36.67%) of schools were found to have experienced fees arrears of over 50% while 21.67% experienced fees arrears of less than 40%. This study though comprehensive, the researchers did not investigate financial prudence in governance, the current study will fill this missing gap.

5 Methodology

Survey research design was adopted for this study to enable the researcher get the data on the subject of investigation. Survey is often the most appropriate method for behavioural research and hence this study borders on how the government can ensure financial prudence in the face of falling oil price, survey was considered the most appropriate (Babbie 2013 and Wimmer & Dominick 2013). To arrive at a sample size for the study, the researcher purposively selected 200 respondents in Enugu. It should be noted that the decision to use purposive sampling was to enable the researcher get respondents who have knowledge of the subject matter. To test the hypotheses raised chi-square was used. This is given by the formula:

Chi-square (χ^2) test of Relationship

This study tested the existence/non existence of the relationship with the use of **Chi-square** (χ^2) as expressed bellow:

$$\chi^2 = \sum_{i=1}^{r}\sum_{j=1}^{c}\frac{\left(O_{ij} - E_{ij}\right)^2}{e_{ij}} \qquad equation\ (1)$$

Equation (1) can be simplified to obtain

$$\chi^2 = \sum_{i=1}^{r}\sum_{j=1}^{c}\frac{{O_{ij}}^2}{E_{ij}} - N \qquad equation\ (2)$$

Where O_{ij} and E_{ij} are the observed and expected frequencies, respectively, of attribute in row i and column j; r and c are the number of rows and columns respectively and N is the overall total of frequencies. The instrument of data collection was a self development questionnaire. The reliability and validity of instrument were determined through the use of a test retest approach. A pre-test questionnaire of 20 copies were designed and administered to respondents in the study area. After four weeks interval, the same pre-test copies of questionnaire were administered again to the same respondents and three errors were observed. The Guttman scale of coefficient of reproducibility used to measure reliability of consistence of the instrument and this yielded 0.85 which was considered very high. Also, SPSS 16.0 was used in the analysis of the data for this study

Results

Out of the 200 copies of the questionnaire administered to the respondents,191 were filled and returned but only 183 (92%) were found useful. The demographics of the respondents showed that 96 (52%) of them were male while 87 (48%) were female. It should be noted that the result of this study is not dependent on the demographics of the respondents. The table below shows the data on if effective internal audit can lead prudence in the management of government finances.

Table :I Effective internal audit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	141	77.0	77.0	77.0
	No	42	23.0	23.0	100.0
	Total	183	100.0	100.0	

Source: Field survey, 2015

The result from table I above revealed that 77% of the respondents indicated that effective internal audit can lead to financial prudence in the management of government finances while 23% indicated that it will not. Table II below presents data on proper budget process will enhance finance prudence in the management of government finances.

Table II: Proper Budget Process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	124	67.8	67.8	67.8
	No	59	32.2	32.2	100.0
	Total	183	100.0	100.0	

Source: Field Survey, 2015

Result from the table above showed that 67.8% of the respondents indicated that proper budget process will lead to financial prudence in the management of government finances while 32.2% indicated that it will not. Table III below presents data on if better budget implementation can lead to financial prudence.

Table III: Better Project Implementation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	161	88.0	88.0	88.0
	No	22	12.0	12.0	100.0
	Total	183	100.0	100.0	

Source: Field Survey 2015

Result from the table below shows that 88% of the respondents indicated that better project implementation can ensure financial prudence while 12% indicated that it will not. To find out the extent to which financial prudence can avoid waste resources, the following table was computed.

Table IV: Extent Financial Prudence Can Avoid Waste

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Large extent	112	61.2	61.2	61.2
	moderate extent	43	23.5	23.5	84.7
	low extent	19	10.4	10.4	95.1
	no extent	9	4.9	4.9	100.0
	Total	183	100.0	100.0	

Source: Field Survey, 2015

Result from table IV above shows that 61.2% of the respondents indicated financial prudence can avoid waste of resources to a large extent, 23.5% indicated moderate extent 10.4% indicated low extent while 4.9% indicated no extent.

Test of Hypotheses.

The cross tabulation with the use of SPSS 16.0 showed that the result form table I yielded square statistic, $\chi^2 = 53.557^a$ and p value 0.000 at 0.05 level of significance and 1 degree of freedom. And hence the p-value is less than 0.05, the researcher concludes that effective internal audit can enhance financial prudence. The result from table II showed that $\chi^2 = 23.087^a$ and p value 0.000 at 0.005 level of significance and 1 degree of freedom. And hence the p- value is less that 0.05, the researcher concludes that proper budget implementation can lead to financial prudence. The result from table III yielded $\chi^2 = 105.579^a$ and p value 0.000 at 0.005 level of significance and 1 degree of freedom. And hence the p-value is less than 0/05, the researcher concludes that better project implementation can lead to financial prudence.

6.Discussion of Findings

This study investigated the place of financial prudence as a deliberate measure in avoiding financial waste in the face of falling oil price at the international market. The research objective sought to determine if effective internal audit can help in promoting financial prudence in the management of available resources. Result showed that effective internal audit can help in promoting financial prudence.(see table one). Consequently, the first null hypothesis hypothesis-effective internal audit will not enhance financial prudence in government was rejected. The result of this study is consistent with that of Githuku (2013).

The second objective of the study sought to determine if proper budget process can enhance financial prudence. Result also revealed that proper budget process can enhance financial prudence (see table II).The second null hypothesis was also rejected. The researcher thus concludes that proper budget process can enhance financial prudence. The result of this study is consistent with that of Boex and Muga (2009 who reported that local councils in Tanzania with better financial management practices such as stronger internal audits, better planning and budget processes, and better project implementation practices achieve better local financial management outcomes than those without these.

The third null hypothesis was equally rejected as result showed that better project implementation can enhance financial prudence. The extent financial prudence can avoid waste of financial resources was found to be large. (see table IV).The result of this study provides an insight into the financial control theory applied in this study. The theory seeks to explain the importance of proper financial control in the running an organization and this was adopted and applied in the running of governance. Finances must be properly controlled to achieve set target. The Association of Chartered Certified Accountants (2014,p.3) sums the importance of prudence thus

> There is an asymmetrical risk that prudence in both standard setting and application is helping to redress. The financial crisis in 2008/9 is the latest example – more prudent accounting by banks might have restrained excessive bonuses and dividends, made for more resilient banks and provided greater financial stability to the whole economic system. The benefits of the exercise of prudence in the application of the standards are perhaps more widely agreed upon.

7. Conclusion/ Recommendations

The Nigerian government is currently battling with ways of properly managing the economy as a result of the fall in the price of oil at the international market. This situation is particularly precarious especially that the country is solely dependent on oil. In Nigeria today, unemployment is increasing, poverty has become common among Nigerians with public institutions in dire need of urgent attention. One of the most efficient ways the government can effectively leave up to its obligation to Nigerian people is to be prudent in the management of available financial resources. Financial resources are often scarce and the need to prudently manage them is non-negotiable. This study thus makes the following recommendations.

- The government of Nigeria should as a matter of necessity, put in place efficient internal auditing mechanism with a view to ensuring prudent utilization of fund.
- There is need for the monitoring and evaluation of all government spending to ensure that they conform with set target as well as minimize cost.
- Government at all levels should ensure proper budget process as doing o will ensure financial prudence.
- There is the need for the government and its agencies to ensure prudent utilization of scarce financial resources to make sure there is no room for misappropriation.
- Further studies should be conducted to determine the obstacles to prudent utilization of financial resources in both public and private sectors of the economy.

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