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RELATIONSHIP BETWEEN FISCAL RESPONSIBILITY ACT AND PUBLIC SECTOR  
FINANCIAL MANAGEMENT PRACTICE: AN EMPIRICAL JUSTIFICATION

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**Abstract**

*Nigeria unrealistic budget practice due to fiscal indiscipline among others gave rise to the enactment of fiscal responsibility act in 2007 as a means of resolving the problem. This study evaluated the relationship between fiscal responsibility act, 2007 and government financial management practice in Nigeria. A descriptive cross sectional survey research design was used and 500 senior staff of ministry of finance, budget office of the federation, fiscal responsibility commission, and National Assembly were randomly selected as the study population based on the researcher's judgment. Data was collected through questionnaire and analyzed using descriptive and correlation techniques to confirm the six formulated hypotheses. The results concluded that the proxies of fiscal responsibility act - macroeconomic framework; budget performance review; revenue trends and assumptions underlying projections; fiscal strategy paper; analysis and statement on consolidated debt and contingent liabilities; risks to medium-term outlook have positive and significant relationships with public sector financial management practice  $\{R_s = .576; .679; .711; .765; .718; .561; P_s < .05\}$ . It was recommended that fiscal rules should be well implemented to achieve proper revenue projection, expenditure discipline, minimized debt burden, and have a balanced budget that would stimulate economic development. The study contributed to literature by providing empirical explanation for the enactment fiscal rules in Nigeria. A comparative study to review fiscal laws applicable in various countries across continents was suggested for further research. This would assist researchers to properly advise Nigerian government on fiscal laws best practice in the public sector.*

Key words: Fiscal responsibility act, Medium term expenditure framework, Fiscal responsibility commission, Government financial management

**Introduction**

In spite of the legal, economic and political measures put in place, Nigeria still ranks high on fiscal indiscipline among committee of nations (Imoniana, Antunes, Perera, &

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Fabiano, 2011). This was evidenced from the country's poor fiscal stability, lack of aggregate budget discipline, poor expenditure framework and reckless spending, weak procurement procedures, contracts award to unmerited actors, growing local and foreign debts without any economic consequence, depletion of national foreign reserve on irrelevant issues, poor savings culture, weak accountability framework, corruption and mismanagement of public funds as well as abuse of power by public officeholders. The antidote to fiscal indiscipline which is fiscal rules was lacking in Nigeria. This is on the ground that in some areas of government operations, fiscal rules were nonexistent, and where they exist, they were neither institutionalized and nor properly implemented. The concomitant of the absence of fiscal rules resulted in the following: (i) nonexistence of accurate data bank and poor access to fiscal records. This has supported indecorous economic planning and inaccurate revenue estimation; (ii) hindered accurate population census figures which has been used to reinforced election malpractice and perpetrated ethnic political agenda through federal character implementation; (iii) massive corruption, and poor service delivery; (iv) uncoordinated local and foreign borrowing at all levels of government that left the country in huge debts with high debt servicing cost; (v) expenditure were not tied to resource availability; (vi) budgets failed to direct resources to policy priorities as most annual funding efforts were not policy driven thereby wasting national resources.

All these issues negatively affected the government financial management practice and control framework and consequently facilitated inefficient national investments, poor commonwealth distribution states and sectors, fuelled economic volatility and underdevelopment and further worsens the citizens' standard of living (Folscher, 2006; Omolehinwa and Naiyeju, 2015; Okpala, 2017). Financial management and control is the bedrock of government management and its framework provides the principal source of reference to guide the public administrators and political office holders in the efficient and effective use of public resources. The existence of fiscal rules and proper public sector financial management in any country would have assisted the bureaucrats in achieving optimum performance but was lacking in Nigeria (Imoniana et al., 2011). According to Yelwa (2014), Nigeria long and unproductive macroeconomic history and poor financial management especially from 1970s when oil windfalls were hideously mismanaged was orchestrated by the absence of proper fiscal rules. The federal government decided in 2007 to resolve these issues by enacting the Fiscal Responsibility Act.

The Fiscal Responsibility Act (FRA) came into force on the 30th July, 2007 with a reformation goal. The reason for the enactment by the National Assembly was to provide fiscal rules that would address the identified weakness in the public sector financial management practice. The components of this Act include rules to attain balance budget, good revenue estimation, debt limit and proper expenditure management framework. When properly executed, it would link planning, policy and budgeting with the aim of achieving the desired macroeconomic objectives through the preparation of medium term budgeting framework (MTBF). The MTBF is a budgeting structure which embodies medium term expenditure framework (MTEF). MTEF is sectionalized into six namely: macroeconomic framework, fiscal strategy paper, expenditure framework, revenue framework, consolidated debt statement and statement on contingent liabilities. It is assumed that these variables would influence government financial management practice. Therefore, the question is does FRA have any association with public financial management practice and the achievement of set macroeconomic objectives? This research paper attempted to resolve these questions in the course of the study.

The main objective of the study is to evaluate the relationship between fiscal responsibility act (FRA) and financial management practice in public sector. The subsidiary objectives to be pursued as a means to attain the general objective include the examination of the relationship between FRA proxies (macroeconomic framework; budget performance review of the past years; revenue trends and assumptions underlying projections; fiscal strategy paper; analysis and statement of consolidated debt and contingent liabilities; risks to medium term outlook) and government financial management practice in Nigeria. The scope of the study only covers the review the fiscal responsibility act, 2007 and its influence on financial management practice in the Nigerian public sector. Findings from this study would provide empirical evidence to refute or validate the FRA enactment and also serve as a decision template for the public administrators. This study would be useful to the Ministry of Finance as the Chief Finance Officer of the nation, Budget Office of the Federation, Accountant General Office of the Federation, Auditor General for the Federation, Debt management Office, Fiscal Responsibility Commission, Bureau of Public Procurement and the National Assembly among others. One of the benefits is to achieve international best practice in national financial management that would engender economic development.

### Literature Review

Nigeria before the enactment of Fiscal Responsibility Act in 2007 was beguiled with poor planning. Lack of national statistics on key sectors of the economy such as health, education, agriculture and industry has hindered Nigeria economic planning process. This scenario has had reflective effects on the economy as policy, informed decision-making as well as service delivery have suffered. The national commonwealth proper allocation was also negatively affected and the citizens have not been able to make informed choices. Researchers, academics and data users had little or no data on the country's key sectors of the economy and therefore are not producing the desired solution to economic issues. Some of the available data were out of date while others were either of low quality or public access to it was limited (Osuala & Ebieri, 2014). Other issues associated with lack of fiscal rules are unclear communications of government objectives and unrealistic budgets. Revenue was unpredictable due to over-depending on crude oil for which price is subject to the international market dictation. Contracts were over invoiced and public expenditure was not limited to resources availability (Gali, 2006; Okpala, 2017). The Fiscal Responsibility Act was passed to address the above identified macroeconomic fiscal issues (Okoroafor, 2016).

The purpose of the fiscal rule as contained in the FRA, 2007 include: (i) to provide for prudent management of the nation's resources (ii) to ensure long term macroeconomic stability of the nation's economy (iii) to secure greater accountability and transparency in fiscal operations and (iv) to establish the Fiscal Responsibility Commission (FRC) to promote macroeconomic objectives. The MTEF would facilitate a number of important outcomes such as: greater macroeconomic balance, improved inter and intra-sectorial resource allocation, greater budgetary predictability for line ministries, and more efficient use of public monies. Improved macroeconomic balance including fiscal discipline attained through good estimates of the available resource envelope which is useful in making budgets that fit squarely within the envelope (Campos & Pradhan, 1997). Kighir (2012) noted that the problem in most developing countries, including Nigeria, is the budget imbalance due to lack of balance budget rules. This has fuelled disconnection among policy making, planning, and budgeting. He stated that the potential solution rests with fiscal rules and the MTEF.

Accounting to Okpala (2012), various countries of the world, in order to address the issues of inefficient and ineffectiveness arising from poor budget management and to

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reposition their economies, embarked on the provision on fiscal rules. India Parliament enacted Fiscal Responsibility and Budget Management Act, 2003 (FRBMA) to institutionalize financial discipline, reduce India's fiscal deficit and improve macroeconomic management. The overall management of the public funds was strengthened, balanced budget was achieved and fiscal prudence also attained. The Indian government reduced their fiscal deficit to a manageable 3% of the GDP by March 2008 and build revenue surplus thereafter. The United State of America enacted Tax Equity and Fiscal Responsibility Act of 1982 that rescinded some of the effects of the Kemp-Roth Act passed earlier in the same year, 1982. TEFRA was created in order to reduce the budget gap by generating revenue through closure of tax loopholes, introduction of tougher enforcement of tax rules, repealing some of Kemp-Roth's reductions in marginal personal income tax rates. TEFRA was also responsible for generation of more revenue and the restoration of the Congressional members' salaries pay cut. The Fiscal Responsibility Act 2010 was an Act of the Parliament of the United Kingdom. The Act was repealed by section 10(c) of the Budget Responsibility and National Audit Act 2011. The act was responsible for the financial prudence in UK. Other countries such as Germany, the Netherlands, Austria, and Australia, Japan, Canada etc. had fiscal rules to drive proper financial management practice, achieve set microeconomic objective and reposition their economy.

The Part II (Sections 11- 17) of the Fiscal Responsibility Act, 2007 focused on the preparation of medium term expenditure framework. The MTEF is annual, rolling three year-expenditure planning designed to aid effectiveness in government financial management practice (Omolehinwa & Naiyeju, 2015). Some public programmes such as infrastructure development require continuous funding that yields benefits for many years. Such future costs and benefits are usually ignored by annual budgeting system. The inadequacy and inappropriateness of annual budget system in linking framework that allows expenditures to be driven by policy priorities and disciplined by budget realities led to the introduction of medium-term expenditure framework. MTEF sets out expenditure priorities and hard budget constraints against which sector plans can be developed and refined on medium-term basis. It also contains outcome criteria for the purpose of performance monitoring. According to the Act, the Federal Government after consultation with the states shall cause to prepare and lay before the National Assembly for consideration and approval an MTEF for the next three financial years. The medium term budget is prepared and submitted to the National Assembly not later than August every year proceeding the next three financial years (Okpala, 2015).

The concept of MTEF translates macro-fiscal objectives and constraints into broad budget aggregates and detailed expenditure plans that are guided by strategic expenditure priorities (Kighir, 2012). The medium term budgeting framework consists of a top-down resource envelope, bottom-up estimation of the current and medium-term costs of existing policy. It matches the costs with available resources in the context of the annual budget process (World Bank, 1998).The top-down resource envelope is fundamentally a macroeconomic model that indicates fiscal targets and estimated revenues and expenditure including government financial obligations (Olomola, 2009; Okpala, 2017). Various sectors engage in bottom-up reviews that begin by scrutinizing sector policies and activities. This is similar to the zero-based budgeting approach, with an eye toward optimizing intra-sectorial allocations (Okpala, 2015). Currently, the FRA covers only the financial management of the federal government MDAs. The states and local governments otherwise known as sub-national agencies (SNAs) are excluded in order not to impair the federal system. Section 17

of the act provides that SNAs which so desire may join on their own volition (Folscher, 2006). However, such SNA should be assisted by the federal government to manage their fiscal affairs within the medium term framework. This presumes a constitutional autonomy of the SNAs to manage their public finances in their own way and should be given some incentives by the federal government if the provisions of the Act were judiciously followed (Yelwa, 2010).

Section 13 of Fiscal Responsibility Act, 2007 requires the government through the Minister of Finance to elicit input for MTEF from various stakeholders such as National Assembly, Organized Private Sector, Civil Society Organization, National Planning Commission, Central Bank of Nigeria, and Revenue Mobilization Allocation and Fiscal Commission and sensitize them. The expenditure envelopes of the MDAs are agreed after considering the input from various stakeholders and the medium term sector strategies developed by the MDAs (Okpala, 2017). The MTEF, according to the Act, shall contain six sections as follows: macroeconomic framework, fiscal strategy paper, expenditure framework, revenue framework, consolidated debt statement and statement on contingent liabilities (Yelwa, 2010; World Bank, 2013).

Omolehinwa and Naiyeju (2015) noted that in order to ensure that federal government spending is policy based and prioritized, with effect from 2007, it was decided that the MDAs were required by budget office of the federation to develop the medium term sector strategies (MTSS). The MTSS is a budget planning forum for the large spending that enables MDAs to plan their rolling capital projects over a 3 year time horizon in line with the available resources (Okpala, 2014). This financial exercise permits the MDAs to articulate their medium-term objectives as a basis for annual budget. The MTSS involves the identification and documentation of key projects and programmes necessary to achieve government macroeconomic goals; costing the identified key initiatives in a clear and transparent manner; mapping out the implementation plans of the projects and programmes; defining the expected outcomes in a measurable term; and linking the envisaged outcomes to planned objectives (Okpala, 2017).

The fiscal responsibility commission is the government agencies created by Fiscal Responsibility Act, 2007. The functions and powers of the commission was provided under No. 31 Part 1 of the Act as follows: First, there shall be established, a body to be known as the Fiscal Responsibility Commission (in this Act referred to as “the Commission”), second, the Commission shall be a body corporate with perpetual succession, a common seal and may sue and be sued in its corporate name. According to Yelwa (2010), the responsibility and powers of the commission are:

(1) For the purpose of performing its functions under the Act, the Commission shall have power to: (i) compel any person or government institution to disclose information relating to public revenues, and expenditure, (ii) cause an investigation into whether any person has violated any provisions of this Act, (iii) if the Commission is satisfied that such a person has committed any punishable offence under this act, the Commission shall forward a report of the investigation to the Attorney-General of the Federation for the possible prosecution.

(2) The functions of the commission shall be to: (i) monitor and enforce the provisions of this Act and by so doing , promote the economic objectives contained in section 16 of the constitution, (ii) disseminate such standard practices including international best practice that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters, (iii) undertake fiscal and

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financial studies, analysis and diagnosis and disseminate the result to the general public, (iv) make rules for carrying out its functions under the Act, and (v) perform any other function consistent with the promotion of the objectives of this Act.

The act also states that the Commission shall be independent in the performance of its functions and that the provisions of Public Protection Act shall apply to the members of the Commission in discharge of their functions under this Act (Omolehinwa & Naiyeju, 2015). The FRA mandated the commission to enforce and monitor the preparation and implementation of the MTEF (Yelwa, 2010).

Public financial management (PFM) is concerned with the planning, organizing, procurement and utilization of government financial resources as well as the formulation of appropriate policies in order to achieve the aspirations of members of that society. Premchand (1989) sees public financial management as the link between the community's aspirations with resources, and the present with future. Public financial management lies in the heart of the operations and fiscal policy of government. The financial management in the public sector enables high-quality financial information in the public sector to achieve accurate and complete assessment of the impact of policy decisions, supports external reporting by governments to electorates, taxpayers, and investors, and aids internal decisions on resource allocation (planning and budgeting), monitoring, without which there is an increased risk of inefficient use and mismanagement of funds.

A good attributes of a successful public sector financial management practice is present when a government has the capacity to (i) conduct a well resource management cycle, (ii) establish boundary lines that clearly delineate the limits within which all decisions and transactions must be made, and (iii) establish and exercise clear accountabilities for managing resources and staying within the boundary lines, demonstrating integrity vis-à-vis the shared values, and beliefs of the government (Okpala, 2017). According to Okpala (2017), an open and orderly PFM system is one of the enabling elements needed for desirable fiscal and budgetary outcomes: Aggregate fiscal discipline requires effective control of the total budget and management of fiscal risks. Strategic allocation of resources involves planning and executing the budget in line with government priorities aimed at achieving policy objectives. Efficient service delivery requires using budgeted revenues to achieve the best levels of public services within available resources. Therefore, the MTEF seems to be the appropriate framework to support public financial management practice. It would also end the implementation hiccups that existed since Nigeria's independence (Kighir, 2012; Olomola, 2006; Yelwa, 2010). The study assumed that FRA is likely to influence a reduction of leakages in the public resources management and promote probity and accountability. This would strengthen the financial management and support the attainment of desired macroeconomic objectives.

Imoniana, et al. (2011) studied Nigeria ranks among the countries with the highest fiscal indiscipline in the globe in order to propose the enactment of the Fiscal Responsibility Act for the Nigerian public administrators based on the frameworks implemented in Brazil. A case study approach and secondary data were collected and analyzed. Findings showed that Nigeria has a weak tax collection system which results in tax evasion, and insignificant revenue, thus making the state and the local government to depend full on federal allocations. The study concluded that control tools such as the administrative and financial information systems for states and municipalities (SIAFEM) which is the backbone of FRA will be an essential artifact to institutionalize surveillance and also assist the Nigerian government in curtailing spending and facilitate accountability at all levels. Yagboyaju

(2013) appraised democratic consolidation, fiscal responsibility and national development in Nigerian fourth republic. The paper identified some key factors which include the artificial beginning of the state, colonial legacies, the abuse of the traditional system and, more acidly, the effects of military rule and its attendant consequences on the general abuse of official privileges due to absence of fiscal rules. A descriptive and analytical method was used and the framework of analysis was solely rest on the mutually reinforcing effects of the relationship between an autonomous and functional state and the citizens' wellbeing especially when states relationships are less acrimonious.

Ogujiuba and Okafor (2013) examined public financial management and fiscal outcomes in Nigeria. The results indicate that corruption and literacy rate are the key institutional factors that influence fiscal outcomes in Nigeria. Critical improvement is needed in the budget institutions and the coordination of the ministries, departments and agencies (MDA's). The study argued that despite the increasing reforms in all sector, fiscal outcomes of the nation have been very weak and poor. Osuala and Ebieri (2014) analysed the impact of fiscal policy on economic growth in Nigeria using time series data from 1986 to 2010 collected from the Central Bank of Nigeria statistical bulletin, and National Bureau of Statistics. The findings showed that, there is evidence of long run equilibrium relationship between fiscal policy and economic growth in Nigeria during the period. Ogunlana, Fatai, Arogundade, Al-Hassan, and Olayinka (2014) examine the flow of fiscal responsibility among layers of government in Nigeria. The study employs three measures of fiscal decentralization namely revenue measure, expenditure measure and simultaneity measure to determine the extent, and the impact of fiscal decentralization on macroeconomic performance over the period 1980 to 2010. The indicators include: economic growth, inflation rate, interest rate and exchange in Nigeria. This finding conforms to a strand of the literature that establishes links between fiscal decentralization, public sector efficiency and macroeconomic stability.

Onodugo and Amujiri (2015) analyzed the imperatives of Fiscal responsibility practice in Nigeria. The paper explores some theoretical issues surrounding fiscal responsibility in an economy. Major features of the fiscal responsibility laws in Nigeria are highlighted. Some of the fundamental flaws in Nigeria's public financial management that impede economic development as well as the imperatives of the fiscal responsibly law in Nigeria were analyzed. The paper concludes advisedly that strict adherence to the new fiscal policy law is bound to promote macroeconomic stability in Nigeria. Lusha, Mziu, and Brahim (2015) studied financial management improvement among countries aspiring to be a European Union member. The study concluded that legal framework and units and institutions that do monitoring of public financial management, should be created to continue their pursuit for grow and consolidate. Liu, Steven and Webb (2016) conducted a research on fiscal responsibility laws for sub national discipline. The paper analyzed the characteristics and effects of fiscal responsibility laws in seven countries-Argentina, Australia, Brazil, Canada, Colombia, India, and Peru designed to address the short time horizons of policymakers, free riders among government units, and principal-agent problems between the national and sub national governments. Analysis result showed that fiscal responsibility laws can help coordinate and sustain commitments to fiscal prudence, but they are not a substitute for commitment and should not be viewed as ends in themselves. Okoroafor (2016) studied the implications of the public sector reforms on the accounting and budgeting systems in the Nigerian public sector. The provisions of the fiscal responsibility act 2007 were the major framework for carrying out the public sector reforms in Nigeria. The descriptive and ex-post facto research designs were used. The study established that there is need for a reform of

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the public sector financial reporting systems if the objectives of the Nigeria Public sector reforms as provided for in the Fiscal Responsibility Act is to be achieved.

Available literature indicated that studies have been carried out in the US, some in European nations, Latin America and some Sub-Saharan African countries, to examine the link between public financial management and fiscal laws. However, evidence suggests that empirical research on the subject matter in Nigeria is scanty hence conclusion on the relationship between the variables was inconclusive. There is the need for further study to examine the linkage between public finance management practice and fiscal rules in Nigeria. Based on the identified gaps, the following hypotheses were developed:

*H01: There is no significant relationship between macroeconomic framework and public financial management practice:* The macroeconomic framework is area of MTEF which considers the framework to be adopted to revamp the economy such as the global economic landscape characteristics, global trade, commodity prices, the global financial markets, private consumption, and exports and stressed corporate balance sheets and investment climate. It also contained the global and local inflation index trend, economic performance and growth, unemployment and underemployment level, Nigeria's foreign trade volume as well as foreign direct and portfolio investment inflows, distributable revenue and domestic macroeconomic and socioeconomic developments. This section will consider (i) the revenue outturns on which revenue projections for the past years were based as well as the setbacks such as oil pipeline vandalism, oil theft, and oil price fall below budget reference price. (ii) Expenditure Outturns on the main and supplementary budgets. (iii) Fiscal Deficit which would be revealed by comparing the shortfall in revenue outturns and increase in expenditure provisions. Fiscal deficit is important for further planning. Previous empirical studies showed that this sub variable of FRA has been omitted in the literature which prevented conclusion. Hence, it was hypothesized. This hypothesis was measured by the bivariate linear equation 1

$$Fmp_{ps1} = \theta_0 + \theta_1 (MEF) + \epsilon_1 \text{----- (1)}$$

Where MEF= Macroeconomic framework and  $Fmp_{ps1}$  = First proxy of financial management practice in the public sector. A priori expectation =  $MEF > 0$

*H02: Budget performance review has no significant relationship with public sector financial management practice:* The review of past year budget performance was to determine how well the country performed in the immediate past years, what constitute a major setbacks, particularly in the oil sector where oil production was less than projection due to internal problems. The review of past year budget performance would show the level deviation and area of concern. The shortfall in oil and non-oil revenue would necessitate the downward revision of the revenue projection in the current MTEF. Due to insufficient study in this direction, conclusion on the relationship between the variables was in doubt. Therefore, a null hypothesis was formulated. This relationship was measured by the bivariate linear equation 2

$$fmp_{ps2} = \theta_0 + \theta_2 (BPR) + \epsilon_2 \text{----- (2)}$$

Where BPR = Budget performance Review of past years and  $fmp_{ps2}$  = Second proxy of financial management practice in the public sector. A priori expectation =  $BPR > 0$

*H03: There is no significant relationship between revenue trends and assumptions underlying revenue projections and public financial management practice:* The Revenue trends and assumptions underlying revenue projections is the revenue profile that needs to be carefully

articulated. The question of how much is available for Government's discretionary spending, and the fiscal balance are driven largely by the revenue profile. Government's spending plans respond to the developments in the wage bill, infrastructure gap, and emerging security situations. Any fiscal gaps created must be closed. These developments engender a drive for other financing sources including borrowing from the capital market, thereby crowding out the fiscal space. The key measure of how well the annual budget is implemented is the quality of revenue forecasts and the efficiency and effectiveness with which it is collected. The assumptions include oil production, oil price benchmark, non-oil revenue baseline assumptions. The makeup of non-oil revenue baseline assumptions embodies customs collections, companies' income tax; value added tax, and FGN independent revenue. Due to lack of study in this direction, further research is needed to establish the strength of the relationship between the variables. It was theorized that the relationship between the variables is not significant. This hypothesis was measured by the bivariate linear equation 3

$$fmp_{ps3} = \beta_0 + \beta_3 (RPA) + \epsilon_3 \text{----- (3)}$$

Where RPA=Revenue trends and assumptions underlying revenue projections and  $fmp_{ps3}$  = Third proxy of financial management practice in the public sector. A priori expectation =  $RPA > 0$

*H04: There is no significant relationship between fiscal strategy paper and public financial management practice:* The fiscal strategic paper (FSP) in the MTEF contains proactive fiscal measures adopted by the government to maintain a stable macroeconomic environment. It is also designed to improve planning, budgeting monitoring and evaluation framework to enhance efficiency in resource allocation. This would help the government to achieve the macroeconomic objectives within the predetermined medium term plans and strategies. FSP aids reform in the critical sectors of the economy, public finance management required to engender accountability and transparency, national social development programme, and establishment of medium-term macroeconomic parameters and targets. The fiscal strategy paper considers the followings: (i) Macroeconomic stability parameters needed to drive strong policies that would withstand external and domestic shocks, and creates a business environment conducive to investments and productions. (ii) National social development programme. (iii) Infrastructure to enabled conducive business environment job creation, and enhance development, and improve the living conditions of citizens. (iv) Reviewing and strengthening frameworks for concessions and public private partnerships. (v) Improving governance to ensure efficiency in the management of public financial resources. Sufficient studies were made in this direction resulting doubtful relationship between the variables. Therefore, a null hypothesis was formulated. This relationship was measured by the bivariate linear equation 4

$$fmp_{ps4} = \beta_0 + \beta_4 (FSP) + \epsilon_4 \text{----- (4)}$$

Where FSP = Fiscal strategy paper and  $fmp_{ps4}$  = Forth proxy of financial management practice in the public sector. A priori expectation =  $FSP > 0$

*H05: There is no significant relationship between consolidated debt statement and public financial management practice:* The Analysis and statement on consolidated debt and contingent liabilities contains the debt management approach over the next medium-term and in particular, the immediate fiscal year, that would strategically focus on ensuring that the cost and risk profile of the federal government's public borrowings remain within statutory limits while being tailored to cover funding imperative for economic recovery.

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There should be a deliberate development of the domestic bond market and reducing that exposures exchange rate risks. This section proffers solution by managing (i) total debt stock (ii) stating approach to debt service and sustainability. Though, this researcher discovered that sufficient studies have not been carved out on the relationship between the variables and proper conclusion was not researched. Hence it was theorized in null form. This hypothesis was measured by the bivariate linear equation 5

$$fmp_{ps5} = \theta_0 + \theta_5 (CBS) + \varepsilon_5 \text{----- (5)}$$

Where CBS = Analysis and statement on consolidated debt and contingent liabilities and  
*fmp<sub>ps5</sub>* = Fifth proxy of financial management practice in the public sector. A priori expectation = CBS > 0

*H06: There is no significant relationship between risks to the medium-term outlook and public financial management practice:* The risks to the medium-term outlook are vital as the Nigerian economy has remained susceptible to a number of recurring risks and persistent shocks. These risks have posed setbacks to government finances, constrained economic growth, and consequently, slowed the pace of achieving development objectives. The identified risk to be considered in designing the medium-term strategy include: (i) Oil price volatility risk which distorts government's revenue outturns and expenditure programme. (ii) Oil quantity potential shocks risk which declines the fiscal outturns as result of oil pipeline vandals and crude oil thieves. (iii) Risk to non-oil revenue are lags in fiscal spending in critical economic sectors resulting from shortfalls. This may drag activities in the real sector with implications of reduction in government tax revenue and social welfare. (iv) Exchange rate risk which implies that more resources might be required to refinance or service the debt, should the Naira depreciate below the levels at which the debt were incurred. This is common particularly with the introduction of a flexible exchange rate regime. All potential risks are mitigated at the long run during which the economy would have been sufficiently diversified for increased export earnings to ease debt service payments. This sub variable haven not been studied hence the null hypothesis 6. This relationship was measured by the bivariate linear equation 6

$$fmp_{ps6} = \theta_0 + \theta_6 (RMT) + \varepsilon_6 \text{----- (6)}$$

Where RMO = Risks to the medium-term outlook and *fmp<sub>ps6</sub>* = sixth proxy of financial management practice in the public sector. A priori expectation RMT > 0

### **Methodology**

The study adopted a cross sectional survey research design. 500 senior staff of ministry of finance, budget office of the federation, fiscal responsibility commission, National Assembly was randomly selected as the study population based on the researcher's experience and judgment. A 7-point Likert-scale instrument structured into Section A and B for demographic and inferential data was developed from the study's conceptual, theoretical and empirical review and was used to elicit respondents' opinion. The scale rating range from 1= very irrelevant, to 7=very relevant. The face validity of the questionnaire was confirmed by the experts in public sector financial management while the construct validity exhibited the values between .665 and .689 > .05 which shows that the instrument was valid and the variables could be used for further analysis. The instrument reliability was guaranteed through a pilot study conducted in November, 2017 on site at

different times. A Cronbach's Alpha coefficient was used and the  $R_c$  obtained for the six constructs were 671, 699, 704, 811, 679 and  $.741 > .05$ . This proved the internal consistency and reliability of the instrument for data collection. Total enumeration method was employed. A co linearity test was conducted and the result obtained shows that relationships between the predictor and the outcome variable meet the assumptions of linear regression. Given the equation  $FMF = f(FRA)$ , where FMF is the dependent variable covering (fmf<sub>1</sub> to fmf<sub>6</sub>). FRA is the independent variable covering sub variables: MF, FSP, EF, RF, CBS and SCL. Descriptive statistics and correlation techniques were used for data analyses and hypotheses confirmation. The working equation for the research regression model is specified as follow:

$$FRA = \theta_0 + \theta_1(MEF) + \theta_2(BPR) + \theta_3(RPA) + \theta_4(FSP) + \theta_5(CBS) + \theta_6(RMT) + \varepsilon \text{----- (7)}$$

A priori expectation = MEF > 0; BPR > 0; RPA > 0; FSP > 0; CBS > 0; RMT > 0

### Data Analysis, Results and Discussion of Findings

500 copies of questionnaire were administered to the participants - ministry of finance (220), budget office of the federation (50) fiscal responsibility commission (140), and National Assembly (90). 340 copies were received and analyzed. The total average response rate was 68% which is considered adequate for the analysis. The study evaluated the relationship between fiscal responsibility act proxies which include: macroeconomic framework; past years budget performance review; revenue trends and assumptions underlying projections; fiscal strategy paper; analysis and statement on consolidated debt and contingent liabilities and risks to the medium-term outlook and financial management. The descriptive analyses result indicated a high relevant opinion (246, 229, 272, 295, 229, and 206 representing 72%, 65%, 80%, 87%, 67% and 61%). The grand mean scores of 5.62, 6.11, 6.16, 6.65, 6.01, and 5.38 implied that on the average, respondents were of the high opinion that sub variables of fiscal responsibility act have positive effect on financial management framework in Nigeria. These results enable the achievement of the research objective 1 to 6 and these relationships are further tested in the Hypothesis 1 to 6 of the study.

The summary of the analyses results in table 1 showed that all sub variables of the independent in hypotheses one to six have positive and significant relationships with financial management practice in Nigeria. The results concluded that fiscal responsibility act proxies have positive and significant relationships with public sector financial management practice in Nigeria {macroeconomic framework ( $r = .576$ ,  $p < .05$ ); budget performance review ( $r = .679$ ,  $p < .05$ ); revenue trends and assumptions underlying projections ( $r = .711$ ,  $p < .05$ ); fiscal strategy paper ( $r = .765$ ,  $p < .05$ ); analysis and statement on consolidated debt and contingent liabilities ( $r = .765$ ,  $p < .05$ ); risks to medium-term outlook ( $r = .561$ ,  $p < .05$ )}. The strength of relationship between fiscal strategic paper and financial management practice indicated highest while that of risks to the medium-term outlook and financial management practice recorded the lowest. All the hypotheses results are in agreement with the conclusion of Imoniana al (2011) who concluded that FRA is an essential tool to institutionalize surveillance, assist the Nigerian government in curtailing spending and facilitate accountability at all levels. The study supported the enactment of the fiscal responsibility act for the Nigerian public administration based on the frameworks implemented in Brazil. The evidence obtained from the analyses showed that fiscal responsibility laws can help Nigeria coordinate and sustain commitments to fiscal prudence

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but should not be viewed as ends in themselves (Liu, Steven & Webb, 2016; Onodugo & Amujiri, 2015; Okoroafor, 2016).

The analysis established that fiscal responsibility act is the major framework needed for carrying out the public sector financial reforms in Nigeria. It is a necessary tool for fiscal discipline and achievement of macroeconomic objectives (Okoroafor, 2016). This is in line with the findings reported by Osuala and Ebieri (2014) who confirmed that there were evidence of long run equilibrium relationship between fiscal policy and economic growth in Nigeria. The result indicated that FRA would engender a reduction of leakages of public resources and promote probity and accountability. This can be achieved by using FRA provisions as legal framework and institutions to monitor public sector financial management and to continue the pursuit for grow and consolidation (Lusha, Mziu, and Brahim, 2015). The current study opposed the conclusion of Ogujiuba and Okafor (2013) who argued that despite the increasing reforms in all sector, fiscal outcomes of the nation have been very weak and poor. The correlation analysis results shown in table 3, appendix1 were summarized in table 1.

**Summary, Conclusion and Recommendations**

The conceptual, theoretical and empirical review on the relationship between the sub variable of the independent and the dependent variable as well as the results of data analysis of the six hypotheses are summarized as follows: (i) FRA is only operated by the federal government in Nigeria like most countries but in contrast to Germany where fiscal rules applies to both central and regional government. Participation of the regional governments in Nigeria is at their own volition. (ii) The act encouraged expenditure on medium-term structure and resource availability. This ensures that budget is on rolling basis for three years at all times with balance budget. (iii) Due to the time focus of MTEF and the fiscal discipline instituted by FRA, fiscal indiscipline is reduced and achievement of economic development is made easy. (iv) Top-down resource envelope, bottom-up estimation of the current and medium-term costs of existing policy and the matching of these costs with available resources in the context of the annual budget process. This ensures that planning, policy and budgeting are linked for proper resources management. (v) The development of medium term sector strategies permits the MDAs to articulate their medium-term objectives upon which the annual budget is based, there by optimizing intra-sectorial allocations. This also ensures the identification and documentation of key projects and programmes necessary to achieve government macroeconomic and enabled linking of the envisaged outcomes to planned objectives. (vi) The government through the Minister of Finance elicits input for MTEF from various stakeholders which and the medium term sector strategies developed by the MDAs which fosters goal congress and translates macro-fiscal objectives and constraints into broad budget aggregates and detailed expenditure plans that are guided by strategic expenditure priorities.

The study concluded that fiscal responsibility act has significant relationship with public sector financial management practice in Nigeria. This means that FRA, 2007 has substantial explanation on how to close up all practical loopholes in financial management practice if well implemented on the ground that FRA through MTEF has been designed to prompt proper revenue projection, expenditure discipline driven by priority and resource availability, achievement of balance budget, and debt limited to a percentage of GDP. The

study contributed to current literature on fiscal rules and financial management framework conceptually, theoretically and empirically.

The study hereby recommends that: (i) The implementation of FRA should be intensified and regular reforms of the act should be carried out by the National Assembly to keep pace with trend and ensure global best financial management practice. (ii) The authorities should ensure absolute commitment with the implementation of fiscal laws in Nigeria to realize optimum benefits. (iii) The operations of act should be extended to the Sub-National agencies (States and Local Governments) in Nigeria to ensure operational congruency and goal congruency as practice in Germany. This study hereby suggest as follows: A comparative study should be conducted to review the extent and effect of fiscal laws practiced in selected countries across various continents. This would enable the researcher to offer advice to the government on the financial management best practice. (ii) Study should also be conducted to evaluate the practical consequences of FRA on the economic development since enactment in 2007.

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### Appendix 1

**Table 1: Summary of Hypotheses Test Result (Based on table 3)**

Hypo.	Variables	Results	Interpretation
1	MEF and FMP	R=.576 R <sup>2</sup> (p=.000)	An average positive and significant relationship exists between MEF and FMP in Nigeria
2	BPR and FMP	R=.679 R <sup>2</sup> (p=.011)	A high positive and significant relationship exists between BPR and FMP in Nigeria in Nigeria
3	RPA and FMP	R=.711 R <sup>2</sup> (p=.009)	An average positive and significant relationship exists between RPA and FMP in Nigeria in Nigeria
4	FSP and FMP	R=.765 R <sup>2</sup> (p=.000)	An average positive and significant relationship exists between FSP and FMP in Nigeria
5	CBS and FMP	R=.718 R <sup>2</sup> (p=.000)	An average positive and significant relationship exists between CBS and FMP in Nigeria
6	RMO and FMP	R=.561 R <sup>2</sup> (p=.000)	An average positive and significant relationship exists between the RMO and FMP in Nigeria in Nigeria

Source: Field Survey, 2018

**Table 2: Analysis of Aggregate Respondents' Information FRA and FMP**

Items	Low	Avg.	High	Total Rec.	Mean Score	Std Dev
	(1-3)	(4)	(5-7)			
Macroeconomic framework	56 (16)	38 (11)	246 (72)	340 (100)	5.62	1.24
Budget performance review of past years	30 (9)	89 (26)	229 (65)	340 (100)	6.11	1.12
Revenue trends and assumptions underlying revenue projections	16 (5)	52 (15)	272 (80)	340 (100)	6.16	1.04
Fiscal strategy paper	3 (1)	42 (12)	295 (87)	340 (100)	6.65	0.99
Analysis and statement on consolidated debt and contingent liabilities	9 (3)	102 (30)	229 (67)	340 (100)	6.01	1.15
Risks to the medium-term outlook	56 (16)	78 (23)	206 (61)	340 (100)	5.38	1.26
<b>Average score</b>	<b>28</b>	<b>67</b>	<b>246</b>		<b>6.00</b>	

Source: Research Survey Data, 2018

**Table 3**

### Correlations

		FRA	MEF	BPR	RPA	FSP	CBS	RMT
MEF	Pearson	.576*	1					

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	Correlation Sig. (2-tailed) N	.000 340	.000 340					
BPR	Pearson Correlation Sig. (2-tailed) N	.679** .011 340	.654** .000 340	1 .000 340	.000 340	.000 340	.000 340	.000 340
RPA	Pearson Correlation Sig. (2-tailed) N	.711* .009 340	.698** .012 340	.647* 000 340	1 .000 340	.000 340	.000 340	.000 340
FSP	Pearson Correlation Sig. (2-tailed) N	.765** .000 340	.762** .000 340	.752* .000 340	.746* .000 340	1 .000 340	.000 340	.000 340
CBS	Pearson Correlation Sig. (2-tailed) N	.718** .000 340	.700** .000 340	.698* .000 340	.691* .000 340	.687** .000 340	1 .000 340	.000 340
RMT	Pearson Correlation Sig. (2-tailed) N	.561* .000 340	.543** .000 340	.545** .000 340	.536* .000 340	.536** .000 340	.525* .000 340	1 .000 340

**\*\* Correlation is significant at 0.01 level (2-tailed) and \* at 0.05 level (2-tailed).**

**Source: Field Survey, 2018**