PalArch's Journal of Archaeology of Egypt / Egyptology

NATURAL RESOURCE ACCOUNTING, AUDITING AND REPORTING GAPS: THE NIGERIAN EXPERIENCE

Bassey Eyo Bassey[1], Peter Ashishie Uklala[2], Bassey[3], Theresa Ebaye[4], Adie[5], Cletus Inisor[6] and Ina Ibor[7]

[1,2,3,4,5,6]*Department of Accounting, Faculty of Management Sciences, University of Calabar, Calabar, Cross River State, Nigeria*

[7]*Department of Banking and Finance, Faculty of Management Sciences, University of Calabar, Calabar, Cross River State, Nigeria*

Bassey Eyo Bassey, Peter Ashishie Uklala, Bassey, Theresa Ebaye, Adie, Cletus Inisor and Ina Ibor: Natural Resource Accounting, Auditing and Reporting Gaps: The Nigerian Experience -- Palarch's Journal of Archaeology of Egypt/Egyptology, 17 (6), ISSN 1567-214x

Keywords: Natural resource, Accountability, Transparency, Extractive Industry.

ABSTRACT

Background

A search for Natural Resource Accounting, Reporting and Auditing framework in Nigeria has become a challenge as a result of poor governance in the management of resources in the extractive sector of the economy. This quest for such a framework is accentuated even more as the demand for public accountability are brought into focus due to its universal legitimacy of performing public accounts attestation service. To situate and analyze the problem of the study, a review of existing literature on the subject matter are discussed critically and extensively in order to understand the Nigerian case vis-à-vis the rest of the world.

Materials & Methods

To that extent, theoretical and conceptual approach was adopted in the methodology of the study to highlight as well as argue for the essence of an appropriate Accounting framework for reporting and auditing in the extractive sector of the Nigerian public sector.

Principle Conclusion

In conclusion, suggestions and recommendations were advanced to address some of the challenging issues of accounting and auditing created by the near absence of a good reporting system for Natural resources in Nigeria. It is hoped that this paper will stimulate further research into the emerging issues in the area of Natural resources accounting for developing countries globally.

1. INTRODUCTION

It is a widely held view that accounting should contribute to the needs of the society by portraying information that benefit the society at large. On a large scale, accounting seeks to clarify for the society as a whole certain dimension of societal properties which are under the process of decision making. For instance, providing raw financial data about payments for the public to interrogate and analyze, is one mechanism for accountability, but another that has a longer history, is the publication of financial reports, typically on an annual basis. The public sector may produce all kinds of reports for internal use, such as the budgetary control reports, but there are two classes of financial reports produced for external audiences; general purpose reports and special purpose reports.

General Purpose Financial Reports (GPFRs) are reports that are provided to meet the needs of users who are not able or empowered to demand specific financial reports to meet their needs (IPSASB, 2010a: 14) the users of General Purpose Financial Reports are;

- Providers of resources, including not only investors and shareholders, but also lenders, creditors, employees and representatives of these groups;
- Recipient of services;
- Others, including special interest groups, auditors, regulators, governments, the media and voters.

The International Public Sector Accounting Standards Board (IPSASB) issued a consultation paper on several aspects of the conceptual framework for public sector accounting in 2008. In it IPSASB suggest that there are two objective of public sector financial reporting; ‘to provide information about the reporting entity useful to users of GPFRs for accountability purposes and for making resource allocation, political and social decisions’ (2008:6). Each individual user within the group identified above might be interested in the financial report for a unique reason but the kinds of things they might be interested in include:

- to judge whether it is achieving its objectives;
- evidence that the organization is operating economically and efficiently (for example, by identifying whether the organization is making a surplus or deficit);
- assurance that the organization can generate sufficient cash to pay its obligations to employees and creditors;
- an assurance that the organization is a going concern and whether it can continue to deliver services to the recipients;
- to assess the adequacy of its financial reserves;
- assurance that it is operating lawfully
- to decide which way to cast a vote.

General Purpose Financial Reports comprise general purpose financial statements plus financial information about potential or actual future events and non-financial information about the organizations performance in meeting its objectives. General Purpose Financial Reports, unlike internal reports, are subject to review by independent auditors whose opinion on the fairness and accuracy of the reports will be included within them.

International Public Sector Accounting Standard 1 (IPSAS1), Presentation of Financial Statement (IPSASB, 2010a), states that a complete set of general purpose financial statements comprises:

(a) A statement of financial position

(b) A statement of financial performance;

(c) A statement of changes in net assets/equity;

(d) A cash flow statements,

(e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and

(f) Notes, comprising a summary of significant accounting policies and other explanatory notes. (IPSASB, 2010a: 34).

There has been an age-long refusal by preparers of government financial report to disclose in their statement of financial position the 'stock of natural resources' owned and controlled by the state. This makes the financial statements incomplete in a sense, taking it, from the angle of stewardship accounting as the accounts of government will not give a true and fair view of the "stock of wealth" of Nations. Perhaps, this non-disclosure in another dimension can be attributed to the old economic school of thoughts of Adam Smith and other classical economists who classified Natural resources as land (all gifts of Nature) and were considered as free. Also, the accounting standard setting bodies over the years have not recognized the need to set a framework that will provide guidance on how to account for natural resources under the public sector. Their silence on the matter has subsequently allowed public sector entities to ignore Natural Resources (assets) in their financial statements, a practice that encourages the non-disclosure of fraud and misappropriation of Natural Resources of States or Countries. The existence of all these problems could only mean that the Nigerian public sector have been operating below the anticipation of stakeholders. In other words, it has not been creating any significant value for the citizenry. The objective of the study is to:

a. articulate the significance of Natural resource accounting for developing nations in Africa with particular reference to Nigeria.

b. advocate for the valuation and measurements of the stock of Natural resources' of Nations as well as their recognition, disclosure and presentation in the end of year financial statements, most especially, the statement of financial position (balance sheet).

c. elicit discussions on the accounting issues of natural resource components or elements of the extractive sector with a view to encourage the accounting standards setting bodies to set an agenda for the project.

d. stimulate further research on how to overcome challenges of auditing in the extractive sector in Nigeria.

The Theory Of Public Value

Public Value from the perspectives of the managers of companies who spent from other people's money rather than maximizing profit in a short term are expected to do something strategic to sustain profit maximization in the long run and that is what Mark Moore calls 'Public Value'. In the public sector Moore maintains that managers are faced with three key questions to test their vision of organizational purpose; these questions include;

- Whether the purpose is publicly valuable

- Whether it will be politically and legally supported
- Whether it will be administratively and operationally feasible (1995:25)

Moore's three questions can inevitably feed into the budgeting process because a budget links an organization's governance (whether the authority comes other sources or political) with its values, by expressing every plans in monetary terms. It only goes so far because Moore's notion of creating public value extends beyond the boundaries of the organization to include co-producers (1995) but to the extent that there is a financial relationship between the organization and the co-producers which should be included within the budget (and the statement of accounts).

Moore describes financial management as the achievement of financial performance targets as well as the means to the end of creating public value. A Public Sector Entity (PBE) needs to do this if it is to survive, but it needs to do more than this if it is to create public value (Moore, 2000: 195; 2003: 7). This is a key difference between PBE and Private sector, profit seeking organizations where the ultimate goal is definable and measurable in financial terms. It therefore follows that, it is important for a public manager to exercise control over the financial resources at their disposal and to use financial performance measures to assess whether they are on course to achieve the Public sector goals. In assertion to Moore's theory of Public value, the Public sector in Nigeria is expected to better the welfare needs of the Citizenry, and promotes economic development in its entirety. To this extent, the objective of the Public sector is to promote 'Public Value' in Nigeria through resource utilization and maximization.

Resource-Based Theory

This theory was originated by Penrose in her 1959 work "The theory of the growth of the firm" and began to be employed and developed in management terms in mid 1980s by Bamey and Conner (Dollinger, 2006). The theory in PBE's context holds that PBEs are facilitated when there are capabilities and resources which they either possess or can acquire and deploy in sustainable manner. It is only when appropriate resources and capabilities are deployed in a sustainable manner over a long term that PBE can achieve sustainable competitive advantage and success (Martin Library, 2013). Despite the wide range of resources, it is possible to classify them according to the following categories;

i. Tangible and intangible resources (Amit & Schoemaker, 1993, Penrose, 1959),

ii. Strategic resources (Day, 1994),

iii. Human resources (Greene, Brush & Brown, 1997),

iv. Social resources (Greene et al, 1997),

v. Organizational resources (Greene et al, 1997),

vi. Location resources (Greene et al, 197),

vii. Assets (Day, 1994),

viii. Capabilities (Day, 1994, Amit & Schoe-maker, 1993).

Resources can be tangible or intangible in nature. Tangible resources include; capital, infrastructure, location among others. Intangible resources consist of knowledge, skills and reputation, entrepreneurial orientation among others (Runyan, Huddleston & Swinney, 2006). Therefore, the main reason for national growth and success can be found where nations with resources and superior capabilities will build up a basis for gaining and sustaining competitive advantage (Peteraf, 1993). Day (1994) posits that resources are by itself insufficient for obtaining sustained competitive advantages and a high performance. He added that this is possible only if the firms are able to transform resources in capabilities and consequently in a positive performance.

The resource based theory of PBEs argues that access to resources by founders is an important predictor of opportunity based entrepreneurship and new venture growth (Alvarez & Busenitz, 2001). Thus, access to resources enhances the PBEs ability to detect and act upon discovered opportunities (Davidson & Honing, 2003). Resource-Based theory focus on the way PBEs leverage different types of resources to get entrepreneurial efforts off the ground (Dontigney, 2016). Access to capital, improved infrastructure and other tools of trade improve the chances of getting a new venture off the ground or improves an existing one. Other types of resources PBEs might leverage include social network and information they provide as well as human resources such as education. In some cases, the intangible elements of leadership the individual adds to the mix, operates as resources that PBE cannot replace (Dontigney, 2016).

Resource Based Theory provides a framework to explain how nations can identify suitable measures to overcome growth obstacles, have better access to technology resources, man power resources, financial resources, natural and infrastructural resources and access to market. Resources that cannot be easily purchased, that required an extended learning process or a change in the corporate culture are more likely to be unique to the enterprise and therefore more difficult to imitate by competitors. It is argued that performance differentials between firms depend on having a set of unique inputs and capabilities (Corners, 1991). According to Resource Base Theory, competitive advantage occurs only when there is a situation of resource heterogeneity (different resources across firms) and resource immobility (the inability of competing firms to obtain resources from other firms (Barney, 1991). The resources can be in form of assets, organizational process, company attributes, information, networks or knowledge controlled and controlled by companies can be used to compete and implement their strategies (Van-de-Vrande, 2009). Therefore PBEs development is central to availability of resources especially natural and infrastructural resources and their fit.

World System Theory

World System Theory is seen as an evolution of the dependency theory, and was established on the approach of political economy of development. Accredited to Wallerstein (1987), the world system approach was characterized as a set of mechanisms, which redistributes surplus value from the periphery to the core. In his terminology, the core is the developed, industrialized part of the world, and the periphery is the “underdeveloped”, typically raw materials-exporting, poor part of the world; the market being the means by which the core exploits the periphery. This theory, based on notions of social conflict and transfer of wealth, shows that developing countries should isolate themselves and work hard to create a system that is more appropriate. Particularism strategy of accounting standard-setting is supported by world system and dependency theory because of their shared focuses on internal development. As stated by Larson and Kenny (1996), just as world system theory advocates or support internally generated solutions to various economic challenges, the particularism strategy advocates internally generated accounting systems to meet the information needs of each country’s economy.

Belkaoui (1988) call for particularism by “evolutionary approach”, in which accounting is developed in a country’s particular context, independent from the influence of international community. The result of this will be a unique accounting system that meets the needs of the particular country at the particular point in time (see Bristone & Wallace, 1990). Therefore, developing countries opting for harmonization standard-setting strategy which is represented by IFRS adoption, whatever the entity (with or without modifications), will have a negative effect on the development of its accounting framework for Natural assets. On the other hand, the developing country that adopts the particularistic accounting standard-setting strategy, thereby rejecting any kind of harmonization with IASB standards, will experience a better development of its accounting systems for reporting on Natural resources. This theory can be applied to explain why a country like the United States of America as at the time of writing has not adopted IFRS. The FASB rather than adopt IFRS is rather talking of "convergence" of some of its accounting standards to meet the need of users or preparers of financial statements for the purpose of reporting in its stock market.

Contemporary Issues And Challenges Of International Financial Reporting Standards

Accounting standards setting process as well as the motives for such exercise have attracted debate and commentary from different authors, professional accountants, accounting bodies, users including researchers amongst others. The process of developing accounting standards is thorough and time-consuming with consultation on proposals – based on document called "exposure drafts" – before any pronouncement is made by the particular standard setting body. Major changes to, or the introduction of a whole new standard, occurs from time to time but there are frequent minor improvements' made to accounting standards (such as IPSASB, 2010b).

These changes and additions to accounting standards cost money. Organizations have to understand the changes, perhaps, having to train their accounting staff as well as amending their financial systems, and may have to calculate the effect of the changes on prior years' transaction as well as future transactions. As Hodges and Mellet state: (2003:10) 'accounting regulation should be seen as the output of processes that can be viewed as a form of political activity, rather than being concerned solely with technical issues'.

Carnegie and West talk about the self-interest of accountants. They maintained that, the consultation on exposure drafts, for instance, will tend to be responded to by accountants, whether as individuals, accountancy institutes, accounting firms, academics, etc., because the technical nature of the documents makes them accessible only to those with a grounding in accounting. The problem Carnegie and West see is that private sector accountants are imposing accounting standards onto the public sector without necessarily understanding the differences between the sectors.

Also, Corbett (1996, p. 138) observed that, the self-interests of the accounting profession was an important influence on the standard setting agenda: He contended that 'there is a large measure of self-serving self-interest in what the accounting profession's senior bodies are trying to do'. He went on to state that, if they can impose a common set of standards on the public sector, their members, whose experience is mainly in the private sector, will suddenly become experts in what public sector accounts should contain and will thus become eligible to serve as consultant experts and contracts auditors'. (Carnegie and West, 2005: 918).

More so, another aspect of this was picked up by Laughlin (2008:250), that public sector accounting standards are an afterthought:

However, an alternative view is held by the IASB who are content to let the unfortunately named 'not-for-profit' sector to be picked up late in the conceptual framework project. Implication of this is that differences between the sectors are so small that the consideration of (public benefit entities) can be left until all other major issues have been resolved. The differences are not, in fact, small or trivial and there are issues that arise from use by PBEs of accounting standards that were developed for use by the private sector.

Adoption Of International Financial Reporting Standards (IFRS) In Nigeria

In Nigeria, the accounting setting body which was previously known as the Nigerian Accounting Standards Board (NASB) was renamed Financial Reporting Council of Nigeria (FRCN) in an enabling legislation of 2011. With the signing of the FRCN Act in 2011, Nigeria was set to adopt IFRS, a roadmap was put in place and the process of adoption commenced in phases.

Phase 1 included publicly listed entities and significant public interest entities. This category of entities mandatorily adopted IFRS with effect from 1st January, 2012.

Phase 2 was made up of other public interest entities referred to those entities, other than listed entities (unquoted, private companies), which are significant public interest because of their nature of business, size, or number of employees or their corporate status which required wide range of stakeholders. Entities that met these criteria were large not-for-profit entities such as charities and pension fund. In this category also were other entities that had potentially significant effect of financial stability, that is, all private companies that were not quoted in the Nigerian stock exchange market. They were mandatorily expected to adopt IFRS with effect from 1st January, 2013.

Finally phase 3 included small and medium-sized entities. They were mandatorily expected to adopt IFRS with effect from 1st January, 2014. The implication is that, all entities in Nigeria by the end of 2014 were expected to comply with the use of IFRS in preparing financial statements.

With this one-size-fit-all adoption without modifications and developing country such as Nigeria is bound to face crises and loss of focus in the development of suitable accounting framework which will be compatible, consistent with the realities of its economic, political, social and religious variables.

The situation above is a clear case of the ‘peripheral nations’ versus ‘core nations’ accounting system relationship which essentially, only consolidates the advantages and benefits of the ‘core nations’ at the expense of the dependent nations.

The Concept Of Natural Resources

Natural resources could be classified into two (2) categories, namely; mineral and environmental (natural) resources. Mineral resources usually exist in the earth’s crust and are usually mined through industrial process which are often referred to as the extractive industry. These mineral resources) otherwise referred to as minerals) include limestone, iron ore, tin, columbite, coal, bitumen, natural gas, to mention but a few.

Environmental resources are nature’s elements which support biological life. These elements include rivers, forests, fertile (arable) land, sunlight, mountains, to mention but a few. Nigeria as a nation is hugely blessed both in mineral and environmental resources (Bassey et al, 2019).

Nigeria as a country is richly blessed by nature with huge amount of natural and environmental resources; yet, there is so much poverty in the land. This situation can on the one hand be attributed to the absence of proper framework for accountability of natural resources by Nigerian leaders. On the other hand, additional reasons such as lack of appropriate indigenous technology for exploration has exposed the country into the hands of multinational predator companies that are exploiting and ravaging on the resources of the country to their advantage, thereby, leaving the Nigerian citizenry in abject poverty. This study is an attempt to advocate for a better accounting framework or standards that would address reporting issues in the sector.

The Imperative For Natural Resources Accounting In Nigeria And Other Developing Countries

Recent developments in Nigeria and other developing economies in the world have made it imperative for the need to account for the stock of Natural wealth in the hands of the Governments of States. Strictly speaking, natural resources such as solid/mineral deposits, petroleum and gas deposits, timber, just to name but a few, though gift of nature, can be classified as state assets. They constitute the resource based of most economies which are owned and controlled by government. These governments make laws and regulations to protect these resources from unauthorized encroachment.

As in the case of Nigeria, South Africa and Ghana, most jurisdictions have data on the quantities, valuations and measurements of these resources on a continuous basis, though in patches. This brings to mind, the question, why are these natural resources not always reported in the financial statements of government? (that is, the National Balance Sheet).

Alternatively, why are they not disclosed even in a separate financial statement with a caption such as “a statement of resource base” and then presented along with other financial statement to give a wholistic view of the net worth of a nation?

Whatever answers critics of this position may advance, it is important to note that natural resources especially those that constitute the resource base of a nation – earning assets of state, can be classified into national assets. Arising from accounting definition of what constitute assets both in the private and public sector, this category of resources fit into such classification.

The conceptual framework identifies what it labels ‘elements’ of financial statements – the building blocks that together constitute the contents of financial statements. The framework identifies assets, liabilities, equity, income and expenses. However, the motors of these are the definitions of assets and liability. It gave the definition of an asset as:

A resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity (Framework for the Preparation and Presentation of Financial Statements, Para 49[a])

Whereas a liability is:

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (Framework for the Preparation and Presentation of Financial Statements, Para 49[b]).

These definitions determine what constitutes an asset or liability of the entity, but they do not on their own satisfy the requirement for RECOGNITION in the Financial Statements, for an asset or liability to be recognized (i.e. appear in the financial statements) it must satisfy two criteria: the future cash flow must be PROBABLE (interpreted as more likely than not in IFRS): and it must be capable of being measured with reasonable certainty.

A related issue is that the asset must be CONTROLLED by the entity to qualify for possible recognition.

From the above, it can be seen that Natural resources, especially those that are earning assets qualify to be recognized as national assets and therefore, recorded in the books.

Apart from the issue of definition, this resources are earning assets. Expected revenue from these resources are always estimated and captured in the Annual Budget of the Public Sectors. Budgets in the public sectors are the basis and **prime documents for National Accounting**. Therefore, if the earnings potentials of a resource is recognized in the budget, the quantity stock of these resource should be recorded in the final accounts. Most others may argue from the point of placing value on the stock of natural resource. Of course, there are ready International Markets for this very important assets of state. You have International Oil Markets, Timber, Gold, etc., meaning that the fair values of the assets can be easily ascertained.

Alternatively an annual revaluation approach could be adopted to quantify these assets as the need arises.

The physical quantities of resource such as solid minerals and other deposits can be estimated through geo-physical survey and other scientific methods. As a result, there is no likely problem of not being able to ascertain reasonably and reliably the monetary value of these assets as the need arises. It is no longer news that governments in the developing countries are suffering from the syndrome of corruption and fraud associated with the exploitation of national wealth by the privilege class along with their foreign predators.

Natural resource accounting will enhance transparency and discipline in the conduct of the affairs of states and countries.

The Need For Audit Report On The ‘Stock Of Wealth’ In Nigeria

Arising from the fact that there is no accounting framework for reporting, particularly for Natural resources, there is equally, no framework or guidelines for audit of the extractive sector as a component unit of the Nigerian public sector.

It is a known fact that over the years, crude oil has remained the major source of earnings for the Nigerian government. The lack of proper accountability, auditing and control of Nigerian crude oil and other solid mineral deposits has resulted to poverty and misery in the country. As at today, there are 192 member states of the United Nations, only 52 are currently classified as high-income countries. In other words, 140 countries (73 percent) are still considered poor and under-developed economies with Nigeria rated among these under-developed nations of the world. The case of Nigeria is a typical-example of what Sachs and Warner (2001) labeled “Natural resource curse”.

Aristotle wrote in the politics: ‘To protect the treasury from being defrauded, let all public money be issued openly in front of the whole city and let copies of the accounts be deposited in the various wards’. He was talking about fiscal and value for money auditing. The implication of this is that, public accountability is crucial as an essential component for the functioning of the political system.

Accountability means that those who are charged with drafting and/or carrying out policy should be obliged to give an explanation of their actions to their electorate who include tax payers, employees and others. In the simplest context of the word, accountability means that obligation to answer for the responsibility that has been conferred. It presumes the existence of at least two parties, one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which responsibility has been discharged.

For the Nigerian public sector, the framework for accountability gives the Auditor-General of the Federation the right to demand the explanations necessary for his audit, and the opportunity to report his findings to the National Assembly.

There is also the public accounts committee, a select committee of the Nigerian legislature which is charged with the responsibility to examine the accounts showing the appropriations of the sum granted by the National Assembly.

In addition, the Audit Act of 1956, provides that the Auditor-General of the Federation shall on behalf of the National Assembly inquire into and audit the accounts of all accounting officers and of all persons entrusted with the collection, receipts, custody, use, sales, transfer or delivery of any stamps, securities, stores or **other property of government** of the Federation.

The Acts gives the Auditor-General enormous authority to audit all sectors of the economy under the public sector. This, not-withstanding, the public sector framework in Nigeria does not make provisions for the recognition, valuation, measurement, disclosure and presentation of ‘stock of Natural resources’ in the accounts for audit purposes.

Taking a look at the Audit Act of 1956, one may not be wrong to classify the stock of Natural resources as a key component as what the act describes as “other property of Government in Nigeria”. The Auditor-General is empowered to examine the economy, efficiency and effectiveness of expenditure and the use of resources by bodies where he is appointed auditor or has right of access either under statue or by agreement. He reports to the National Assembly on the results of these examinations.

The sad story in Nigeria is that, the political elites and the successive governments have not recognized the need to put the necessary accounting framework that will properly account for the huge Natural resource in the country.

Therefore, it is our views that the public sector as an accounting entity in Nigeria should consider “Natural resources” as the main object for accounting and auditing. This position is advocated and canvassed because Nigeria and other developing countries that are richly blessed with humongous Natural resources derived their major revenues from the extractive sector which are national assets owned and controlled by government.

Apart from deriving huge revenues from the sales of Natural resources, the revenue estimates are usually captured in the Annual Budgets (IPSAS 24), which the actual receipts are recorded in the receipts and payments as well as the income and expenditure accounts of the particular period. This being the case, there is no sufficient reason why the stock of these individual ‘resources’ should not be accounted for in the statement of financial position of Government (Balance Sheet) from an academic standpoint.

2. METHODS

The research approach is theoretical and conceptual; therefore, theoretical variables of Natural Resources Accounting issues in Nigeria and other developing nations were examined with a view to finding solutions to the problems.

3, DISCUSSION

Discussion On Transparency, Governance And Management Of Revenue Streams In The Extractive Sector

This section of the paper examines the policy and administrative foundations of fiscal regimes for the extractive industry, with a principal focus on royalties. Taxing the extractive sector in an equitable and internationally competitive manner, while at the same time attracting investment away from competing destinations, requires a delicate balance between government and public expectations. However, international attention is also increasingly focused on how governments account for and disclose the taxes and payments that the extractive sector generates. Accordingly, this section discusses the transparency, governance, and management of the revenue streams of the extractive industries.

The Case For Transparency

The issue of transparency is important and is gaining international momentum. The final communiqué of the Gleneages G-8 Summit in July 2005 included a call for improved governance in general. In terms of extractive industries, major initiatives have been launched within the past five years, such as Publish What You Pay, the Extractive Industries Transparency Initiative, and the Global Reporting Initiative. This effort has been spearheaded by developed countries and nongovernmental organizations (NGOs), but an increasing number of developing countries are emphasizing the issue. Many major resource companies in petroleum and mining have voiced their support for improved transparency and governance of revenues. In addition, the Organization for Economic Co-operation and Development (OECD) countries, as well as their securities exchanges, have adopted more stringent disclosure rules in the wake of various corporate governance scandals. Certain governments, such as the United States and some European countries, have legislated requirements for disclosure of payments and taxes made nationally and internationally. Finally, international financial organizations and major banks have tightened corporate principles government the funding of resource development projects. For instance, the International Finance Corporation, an affiliate of the World Bank, now requires assurance on good governance of revenue streams in order to provide funding to extractive industry projects.

The movement to enhance transparency and governance of the extractive industries in the result of serious questioning by reputable observers. Critics have cited many problems regarding the economic contributions of extractive industries and their impacts on human well-being in many developing countries.

The Resources Curse, Or The Paradox Of Plenty

The so-called resource curse, or paradox of plenty, holds that countries that are heavily dependent on the extractive industries perform less well economically than countries not as heavily dependent on them. The works of Thorvaldur Gylfason, Jeffrey Sachs, and others purport, through regression analysis, to show the negative relationship between economic growth and resource dependency. Notably, some reservations about the veracity and pertinence of the data used in the analyses have been raised (Davis and Tilton, 2002). Exceptions to the resource curse include, for example, Botswana, Chile, Malaysia, and Norway, which are frequently cited as countries that have managed the revenues generated by extractive industries well. However, most observers find the curse/paradox label worthy of closer reflection, because many countries (e.g., Angola, Nigeria, Papua New Guinea, Peru) have had, or currently have, difficulties managing the revenues produced by their extractive sectors.

Civil Strife

In some cases, a relationship appears to exist between the presence of resource wealth from extractive industry and civil war. In many developing countries, particularly in Africa, there is considerable rivalry among various factions and ethnic groups for control of natural resources and the revenues they generate. In the most extreme cases (Angols, the Democratic Republic of Congo, Sierra Leone, and Sudan), attempts to control such resources have led to prolonged and bloody civil wars. Works by Collier and Hoeffler (2000) and others show that the pertinent variables that explain the presence of civil strife in many countries are extreme poverty, low growth, a large diaspora, and the presence of mineral resources that are easily looted. Clearly, numerous factors explain civil war, but competition to control revenue streams of extractive industries seems to be a key factor in some countries.

Corruption

In some countries, revenues from the extractive industries are said to heighten corruption. For instance, Transparency International's corruption index for many countries is positively correlated to the dependence of their economies on mineral or petroleum resources. The nature of the industries' revenue streams – very large in relation to the local economy, quickly generated, and subject to contracts between the government and private companies that are mostly confidential – are factors that can help explain the proclivity toward corruption. However, it should be pointed out that many countries that are not dependent on extractive industries also score poorly on the corruption index.

Because of the above drawbacks, some argue that countries should defer development and exploitation of their resources. However, it is not realistic to expect countries and companies to abandon exploitation of mineral (and petroleum) resources as a viable economic activity. A more balanced approach is to make development of the resource and continued exploitation of them subject to better governance. Thus, emphasis needs to be placed on ensuring that the revenues are properly accounted for and that they are directed toward programs that improved the quality and delivery of public services. One of the keys to doing so is disclosure of the revenues, including royalties, paid by the companies and received by governments. In this fashion, citizens of the country concerned can make their own informed judgements about the amounts and sources of revenues from the sector and require their political leaders, through their own political process, to provide a proper accounting of the funds and the uses to which the funds are allocated.

General Principles Of Disclosure And Reporting

It is generally agreed that the fundamental requirement for good governance is, first, compliance with law, and second, transparent and full disclosure of revenue streams. However, disclosure raises a number of questions that need to be carefully taken into consideration. For instance, how relevant is the information disclosed? Who discloses the information: individual companies or the sector as a whole? If disclosure is made on a regular basis, what are the reporting periods? What standards are to be used and are they consistent? To what extent are various types of taxes paid reported in a disaggregated form for public access? Are sanctions to be applied if disclosure is not made or if it is deemed erroneous and, if so, what should those sanctions be? Who certifies and validates the information as disclosed.

CONCLUSION AND POLICY RECOMMENDATIONS

Disclosure of the stock of wealth will provide a basis of holding government accountable in their stewardship function to the voters. For instance, the electorate will have facts and figures of how much stock of natural resources was handed over to democratic government at a particular regime and can assess the government at the end of its tenure.

Apart from the Foreign Exchange Reserves, the electorate will be able to assess the depletion in the stock of Natural resources as well as the improvements or additions and enhancements that have taken place over the period.

To refuse to disclose the quantum of natural resources in the hands of government will make for wastage and reckless appropriation.

Natural resources are the resource base of nations, in most countries, their availability have become a curse and a source of sorrows instead of happiness for the citizens. In jurisdictions where this is the case, there have been increasing rate of poverty, crime, prostitutions, urban slumps among industrial unrest, riots and other maladies.

Where natural resources are properly accounted for, the worth of nations in terms of their balance sheet could be used as a measure of potential wealth among other factors. For the developing countries, this will attract foreign investors as the net worth of assets can be a basis at least for evaluating the economic potentials of a state. Thus, some aspect of natural resource accounting was highlighted in the pioneering work of Adam Smiths in 1776.

The non-disclosure of stock of natural resources in the accounts of state has led to the creation of secret reserves in the hands of managers of state affairs. This in Nigeria and other developing nations is not good enough as it forms the basis of corruption in the use of these resources.

REFERENCES

- Audit Commission (2009). Use of Resources Framework: Overall Approach and Key Lines of Enquiry. London: Audit Commission.
- Barth, M., Landsman, W. and Lang, M. (2008). International Accounting Standards and Accounting Quality. Journal of Accounting Research, 46, 467-498.
- Bassey E. B., Bessong K. P., Oben V. O. and Effiong GT (2019). Accounting for Natural Resources: The Nigerian Experience. GNOSI: An Interdisciplinary Journal of Human Theory and Praxis, 2(1), 26-35
- Belkaoui, A. and P. Karpik, P. G. (1989). Determinants of the Corporate Decision to Disclose Social Information, Accounting, Auditing and Accountability Journal, 2 (1): 36-51.
- Carnegie, G. D. and West, B. P. (2003). How well does accrual accounting fit the public sector? Australian Journal of Public Administration, 62(2), 83-6.
- Charity Commission (2005). Accounting and Reporting by Charities: Statement of Recommended Practice (Revised 2005). Liverpool: Charity Commission.
- Collier, P., and A. Hoeffler (2000). “Greed and Grievance in Civil War”. Policy Research Working Paper 2355, Development Research Group, World Bank, Washington, DC.
- Davis, G., and J. Tilton (2002). “Should Developing Countries Renounce Mining? A perspective on the Debate”. Working Paper, Colorado School of Mines, Division of Economics and Business.

- Department of the Treasury (2010). 2009 Financial Report of the United States Government. Washington, DC: Department of the Treasury. Retrieved from www.fms.treas.gov/fr/09frusg/09frusg.pdf (accessed 10 August, 2020).
- Dollinger, M. J. (2006). Entrepreneurship: Strategic and resources (3rd edition). New Delhi: Pearson Education Limited.
- Gylfason, T., T. T. Herbertsson, and G. Zoega (1999). A Mixed Blessing Natural Resources and Economic Growth. Vol. 3 of Macroeconomic Dynamics, 204-25. Cambridge, MA: Cambridge University Press.
- HM Treasury (2010). Total Place: A Whole Area Approach to Public Services. London: The Stationery Office.
- Hodges, R. and Mellett, H. (2003). Reporting public sector financial results. Public Management Review, 5(1), 99-113.
- IPSASB (2008). Consultation Paper: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. Toronto, Canada: International Federation of Accountants.
- IPSASB (2010a). 2010 IFAC Handbook of International Public Sector Accounting Pronouncements. New York: International Federation of Accountants.
- IPSASB (2010b). Improvement to IPSASs – 2010. New York: International Federation of Accountants.
- Jones, R. and Pendlebury, M. (2010). Public Sector Accounting (6th edn). Harlow: Pearson Education.
- Laughlin, R. (2008). A conceptual framework for accounting for public-benefit entities. Public Money and Management, 28(4), 247-54.
- Laughlin, R. (2008). A conceptual framework for accounting for public-benefit entities. Public Money and Management, 28(4), 247-54.
- Moore, M. H. (1995). Creating Public Value: Strategic Management in Government. Boston, MA: Harvard University Press.
- Penrose, E. T. (1959). The Theory of Growth of the Firm. New York: Wiley.
- Sachs, J. and A. Warner (2001). "Natural Resources and Economic Development: The curse of Natural Resources". European Economic Review. 45: 827-38.
- SEC (2008). SEC Proposes Roadmap Toward Global Accounting Standards to Help Investors Compare Financial Information More Easily. Washington, DC: SEC. Retrieved from www.sec.gov/news/press/2008/2008-184.htm (accessed 10 August, 2020).
- The Guardian (2010a). Local Government Spending Over £500: Full List of Who has Published What So Far. Retrieved from www.guardian.co.uk/news/datablog/ 2010/sep/10/local-council-spending-over-500-list (access 10 August, 2020).
- The Guardian (2010b). Datablog. Retrieved from www. Guardian.co.uk/news/datablog (accessed 10 August, 2020).
- Wallerstein, I. (1987). Modern World System Economy. Cambridge University Press.