

## **Government Contract Performance: The Accountants' Factor**

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### **Abstract**

*The study is aimed at evaluating government contract performance with reference to Accountants role and in finding the causes of contract abandonment, poor quality of work as well as the role of accountants in the whole process. The study adopts a survey approach. Questionnaires were administered on the contractors carrying out government and private sector contracts worth not less than three million naira in three senatorial districts in Akwa-Ibom State. Data were analysed using tables and percentages. The analysis revealed that government interference; contract price variation/inflation mostly affected timely delivery of the contracts. While the forms of contract prevalent include fixed price and cost-plus contract. The study recommends; involvement of Accountants at all stages of contract negotiation owing to their critical role in contract administration.*

**Keywords:** Contract, performance measurement, Accountants

### **Introduction**

In today's tough economy, becoming a government contractor may be one option to consider as a way of livelihood. Winning the contract is just one small step in the entire process. It's what happens next that can make all the difference if your company is audited. Government accounting practices are not the same as in private industry. However, accounting for government and governmental contracts can be different than bookkeeping for a traditional business, especially if you have not done so before. Grant recipients and contractors (new and experienced) are often challenged and overwhelmed by the accounting regulations, standards, and requirements required by the government. The responsibility of government at all levels amongst others includes provision of infrastructures to enhance economic development and ultimately the wellbeing of citizenry. The provisions of these infrastructures from time to time require the engagement of the services of professionals, otherwise known as consultants or contractors. Obviously, majority of these contracts suffer set-backs in the form of abandonments, poor quality performance, embezzlement etc as a result of overfunding which breeds waste, extravagance as well as underfunding which responsible for the earlier factors mentioned. As a result of this development, citizens are denied the basic amenities that government at various levels are supposed to provide.

In Nigeria we witnessed numerous cases of government contract abandonments, poor quality works that lead to collapse of most buildings and bridges. These are due to neglect by relevant supervising and monitoring authorities. Consultants and supervising authorities have a significant role in service delivery as far as contract in government and private sector is concerned. The contracting officer is responsible for evaluating the reasonableness of the offered prices. Analytical techniques and procedures described may be used, singly or in combination with others, to ensure that the final price is fair and reasonable. The complexity and circumstances of each acquisition should determine the level the analysis is required. Also, the cost analysis should be used to evaluate the reasonableness of individual cost elements when certified cost or pricing data are required. Price analysis should be used to verify that the overall price offered is fair and reasonable. More often than not, competition establishes price reasonableness. Therefore, when contracting on a firm fixed-price or fixed-price with economic price adjustment basis, comparison of the proposed prices will usually satisfy the requirement to perform price analysis, and a cost analysis need not be performed as well.

Government contracting has been over burdened with issues of corruption, poor performance and or non-execution of contract with attendant legal issues with some leading to withdrawal of the contract. This has adverse effect on the individuals, firms, economy and the society at large as a number of sectors are affected in one cycle of contract execution. This study will consider the different issues arising from contract award and explore the role of accountants in the award of contract, execution and monitoring of Government contracts in Nigeria.

### ***Statement of the Problem***

The spate of contract abandonment, poor quality performance and absent of performance by contractors at various tiers of government is a worrisome situation. There are numerous cases of government projects being left unexecuted by the contractors due mainly to the prices involved in contracting and the terms of payments. Most of these contracts were fictitiously awarded or awarded on political recommendation and personal basis without recourse to the laid down rules and procedures. Worse still, Accountants who are responsible for the disbursement to the contractors are not involved in the award process. As such the basic terms and conditions of payments are not known to the Accountants in some cases for compliance. Therefore the Accountants only pay as directed without raising issues as regards terms of payment. This is why most contractors are able to cheat on government and ultimately on the citizens and invariably themselves who are equally the beneficiaries of these amenities.

### ***Objectives of the Study***

The objectives of the study include:

1. To identify the causes of contract abandonment by contractors and government
2. To find out the various forms of construction contracts
3. To identify the cost associated with contracts
4. To identify the role of Accountants in contract performance

### ***Research Questions***

The research questions were developed to aid in finding answers to the following questions;

- i. What constitute the causes of contract abandonment?
- ii. What are the various forms of construction contract?
- iii. What are the major costs associated with construction contract?
- iv. Do Accountants have roles in government contract performance?

### ***Conceptual Framework and Literature Review***

Definition of construction contract: A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function (Adams, 2006).

#### ***Forms of Contract Award***

**Fixed Price Contract:** this is a construction contract in which the contractor agrees to a fixed price or a fixed rate per unit of output which in some cases is subject to cost escalation clauses. When contract is likely to take long time to complete or even to commence and a price is fixed contractor would like to protect his interest against a high rise in the prices of materials and wage rates. This he does through what is called an “escalation clause”. This is usually included in the contract as a safeguard against any likely changes in the price utilization of materials and labour. However, the contractor is not compensated for the price changes which could be avoided such as completing the contract on time. This is not compulsory that the government or employer must agree to the escalation clause it is a matter of negotiation between the two parties Aroh etal (2003).

**Cost Plus Contract:** This is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs plus a percentage of those cost or a fixed fee the value of the contract is ascertained by adding a fixed margin of profit (mark up) to the total cost of the contract. However, this form of contract has the following qualities as opined by Adebisi (2009);

1. The practice of cost plus-contracts is adopted in the case of those where the cost of the contracts cannot be ascertained in advance with a reasonable accuracy.
2. These contracts are prepared when the cost of materials and labour is not steady and the contract completion may take a number of years.

3. The cost element to be included are mutually agreed by the parties
4. This type of contract offers a fair price to the contractee and also reasonable profit to the contractor.
5. However this form of contract provide the following merits to the contractor:
  - i. Contractor is sure of profit in advance
  - ii. The contractor is projected against any form of fluctuation in the market price
  - iii. The possibility of any loss is completely eliminated.

The main draw backs of this form of contract according to Ofoegbu (2003) and Drury,(2000) are that the contractors are not bordered to consider cost reduction. Also the employer pays uncertain amount until the fee is completed.

To the contractee, cost-plus contract has the following favourable implications:

- a. The contractee is satisfied because of the believe that the contract price has not been fixed up arbitrarily
- b. The price paid by the contractee depends upon the actual cost
- c. The contractee is completely fortified in the situation of an uncertain market.

**Cost of Contract:** According to Adejola (2011) and ICAN (2006), Contract costing is usually applied to work which is undertaken to customer's special requirements, relatively long duration site based, sometimes overseas and frequently at a constructional nature. Contract cost encompasses the following:

1. Cost that relate directly to the specific contract (direct costs)
2. Costs that are attributable to contract activity in general and can be allocated to the contracts (site overheads like telephone, power usage, site vehicle, transportation, administrative salaries)
3. Other costs that are specifically chargeable to the customer under the terms of the contract.

In practice the total cost of construction contract in normal circumstances is expected to be the sum of the following cost: - material labour, site overheads equipment/plant, head office cost and profit. But in many parts of the world particularly in Nigeria there are other costs to be allowed for. These costs according to Aborode (2004) have obvious negative implications for the key stakeholders in particular and the industry in general.

In practice, it is very difficult if not impossible to estimate actual cost of any contract as advocated by Mayor, (2000) and ICAN (2006). The variation of estimated cost from the actual cost incurred can appear as a result of a number factor among which are:

- Location of the project
- Duration of the project
- Availability of materials
- Unpredictable weather condition (flood)
- Frequent design change
- Poor contract management
- Poor technical performances
- Interim payment difficulties
- Equipment cost, due to charge in technology or need for a special equipment
- General Nigeria factor

### ***Contract Performance Measurement***

Performance measurement is the key factor in all construction contracts. This is the objective methodology used to determine the degree to which a contractor achieves the performance specifications. Contractee representative (Accountants & Engineers) is responsible for inspecting the results on a predefined frequency (level of performance).

In most situations, consultants are employed to carry out this function. The consultant or contractee representative must not have any motive to fulfil so as to be able to report objectively. The consultant and the contractor should have an understanding of the workings during the contract period as regards quality of the work performed and quantity.

## ***Advanced Payment***

Generally, the employer/government do make an advance payment which is interest free loan for mobilization and design when the contractor submits a guarantee is expected to be valid and enforceable. If the job/contract is terminated the advance would stand against the contractor.

## ***Overview of Government Contract in Nigeria***

There is accounting and there is Government contract accounting. Government contractors are subject to a wide range of unique accounting regulations, entering into contracts for which negotiation, performance, termination, and more require following specific accounting principles and standards. And, dealing with the Federal Government can be difficult and complex. It is a world apart from commercial business. Accounting in Government contracting, then, has its own unique and specialized rules, regulations, standards, problems, hurdles. And unless a proper accounting system is in place, then a contractor can be faced with enormous challenges.

When government is racking up efforts to show it is safeguarding taxpayers' money, contractors must demonstrate that their accounting practices and procedures comply with government requirements. Those that clearly do this well with systems, infrastructure, policy, and procedures and an ability to adapt to new requirements have a huge advantage over their competitors. In view of this, Tinsey, (2010) identified six common accounting and financial management mistakes that companies make in contracting as thus;

- **Not Understanding Government Rules/Requirements** – Companies that think government accounting involves a slight variation from commercial business are wrong. Through voluminous and ever-changing requirements, such as Cost Accounting Standards, Federal Acquisition Regulations (FAR) and FAR agency supplements, government contractors must comply with criteria above requirements promulgated by the Financial Accounting Standards Board. For example, the government restricts executive compensation to what it considers “reasonable.” Compensation above this is considered “unallowable,” meaning it cannot be charged against or recovered from a government contract. Another example: Entertainment charges, including alcoholic beverages, are unallowable.
- **Building a System Around an Individual** – As government contractors grow, they “systematize” the accounting function to improve compliance and may hire a mid- or senior-level accountant to institute a system. A question companies should ask, assuming it is financially possible, is how that system can be maintained if the key individual(s) leaves the business or is incapacitated.
- **Failure to Keep Pace** – Whether it is a new administration, increased government transparency driven by the stimulus plan or the normal run of new regulations, there will be more changes to government accounting and financial management requirements. Companies need to anticipate and implement systems, policies and procedures designed to support compliance with changing requirements.
- **Lack of Trained Personnel** – If data is wrong or entered into the system improperly, or internal accounting processes such as contract cost allocations are performed incorrectly, the system is jeopardized. Companies need to ensure they not only have skilled personnel but also have policies and procedures to avoid mistakes and correct them properly when discovered. Personnel unfamiliar with requirements and accounting processes common to government contract accounting often undermine a company's investment in the accounting software itself.
- **Waiting Too Long** – Your Company needs to operate on the assumption that it will face a rigorous government audit, possibly with little or no advance warning. You should be ready and confident that you will obtain a positive evaluation. Once a company is tagged with having a noncompliant accounting system, it is very time-consuming and difficult to regain the government's acceptance. Indeed, contracts can be terminated, new business opportunities squandered and even payments on existing contracts withheld until improvements are made.
- **Failing to Use Available Information** – Implementing an accounting system, designing procedures and following policies to comply with government regulations will make more information available to the contractor, but it has little value if the contractor does not leverage it to manage and grow the company. An overhead rate, for example, must be calculated correctly to comply with government requirements, but if management does not learn why the rate is important and manage spending to control rate variances, it is of little use. With innovative technology, companies are far better able to comply with government contracting requirements and can use the systems to manage and grow their companies while gaining necessary compliance.

### ***Performance Contract in Nigeria***

The Federal Government of Nigeria in a bid to enhance performance, transparency and accountability in Government Contract signed a performance contract with his ministers on 22<sup>nd</sup> of August, 2012 (Eze, 2012)

Speaking at the contract signing ceremony in the Council Chambers of the State House, the President said the exercise was not meant to witch-hunt any minister but to ensure that they are all answerable to Nigerians. He noted that since the citizenry expected the government to be more proactive and effective in its actions, the performance contract signed by each Minister will also help in achieving the government's mandate to the citizens as well as in transforming the country. Stressing further the importance of the concept, the President said it will assist in delivering quality and timely services to the citizenry, improving productivity and instilling a greater sense of accountability for effective service delivery.

The performance agreement which was first of its kind in the history of Nigeria would be able to track performance and evaluation processes, it was like an evaluation bond to assess performance of ministers which stipulates timelines for meeting set goals and targets. This is expected to provide the missing link between contract award and delivery.

For the performance contract to be meaningful and helpful, our leaders should change their attitudes, become committed to public good, be more selfless and trusting. They have to give up their penchant for wealth accumulation and see leadership as opportunity for service, not to make money. In a country with so much poverty and massive unemployment with suffering across the land, ministers, permanent secretaries, directors-general, heads of departments and government agencies should be prepared to render patriotic, selfless service and make a difference. Proper implementation is also crucial to the success of the initiative. Records have shown that most public policies, agreements and contracts are not implemented even when they had legal arrangement.

The question is, should a minister be compelled to sign a performance agreement before he/she would perform the work constitutionally assigned to him/her? The Nigerian factor may not allow the work, some people had argued.

### ***Accountants Role in Contract Performance***

The Accountant's role in contract performance cannot be over emphasized. Accountants according to Adebisi (2009), Mayor (2000) role includes;

1. Payment of contract sum to contractors as at when due and subject to availability of fund.
2. Deducting retention fees from the contract sums and refund of such fees when it is approved and time set elapsed.
3. Relying on the certification of consultants/engineers for the release of a certain amount of contract sums.
4. Keeping accurate books of accounts to indicate total cost of the contract and variation (if any)
5. Ensuring the assets of the construction company is properly documented in the asset register

### ***Methodology***

The study adopts a survey approach. A total of sixty (60) close-ended questionnaires were designed and administered to contractors performing government and private contracts in the three senatorial districts of Akwa Ibom State. The questionnaires were personally administered by the researchers with the help of two research assistants who understood the intent of the study and the selection process of the respondents. The contractors were randomly selected in the local government areas comprising the three senatorial districts. Contractors whose contract sums were from three million naira and above were considered in the study. The data collected were analysed using simple percentage and table for easy understanding by the reading public.

## Findings and Discussions

**Table 1: Causes of Contract Abandonment**

S/N	VARIABLES	No of respondents	Percentage
1	Contract price variation	24	40%
2	Government interference/corruption	19	32%
3	Diversion of contract mobilisation fees	8	13%
4	Ostentious life style of contractors	6	10%
5	Defects in agreement drafting / relationship	3	5%
	TOTAL	60	100%

**Source:** Field survey, 2014.

Twenty four (24) respondents (contractors) identified contract price variation representing 40% as the bane of contract abandonment in Akwa-Ibom state. Nineteen and eight respondents indicated government interference, corruption and fund diversion representing 32% and 13% respectively as the causes of contract abandonment. However, these views were in agreement with opinions of other experts interviewed.

**Table 2: Forms of Construction Contracts**

N/S	Variables	No of Respondents	Percentage
1	Fixed price contract	43	72%
2	Cost plus contract	14	23%
3	Others	3	5%
	Total	60	100%

**Source:** Field survey, 2014.

From the table, forty-three contractors identified fixed price contract representing 72% as one of the major form of construction contract, while fourteen respondents representing 25% indicated cost-plus contract. Three respondents choose others representing 5%. The analysis indicated that the fixed price contract is the major form of contract in practice.

**Table 3: Costs of Construction Contracts**

N/S	Variables	No of Respondents	Percentage
1	Direct cost	32	53%
2	General cost	24	40%
3	Other cost relating to specific contract	4	7%
	TOTAL	60	100%

**Source:** Field survey, 2014.

The above analysis indicates that 32 respondents representing 53% indicate direct cost which is the main cost of construction contract while 24 contractors indicate 40% contractors. However, these are the main costs of construction.

**Table 4: Accountants' Role in Contract Performance**

N/S	Variable	No of Respondents	Percentage
1	Payment as at when due	29	48%
2	Deduction of retention fee	7	12%
3	Accurate bookkeeping	18	30%
4	Advisory services	6	10%
	Total	60	100%

**Source:** field survey, 2014

The table 4 above revealed that the payment of contract sum to contractors as well as keeping of accurate records constitute the main role of accountants in contract performance as indicated by the respondents. However, accountants performed other services such as advisory service and deduction of retention fees

### **Conclusion and Recommendations**

Contract performance is expected to be carried out within the stipulated time frame. A good project manager will achieve the performance standards, make a profit, and leave a past performance track record that can be used to win future contracts. In most cases it is not attainable. This is owing to contract price variation and political interference. This of course would lead to abandonment and poor performance. The Accountant's involvement in contract process is crucial and important in all ramifications. He acts as a cost saving tools and in the time of evaluation, correct and accurate data can be readily made available when needed. In view of the foregoing, the following recommendations are posited:

1. Accountants should be involved in all contract award processes as a means of achieving the defined performance standards at a minimum cost.
2. The certification issued by engineer should be based on value engineering concept, which is aim at careful analysis of each function and the elimination or modification of anything that adds to the project cost without adding to its functional capabilities. the financial disclosures by the accountant
3. Due process in the award of contract should be respected against the political interference that is the order of the day
4. Comprehensive and error free designs and specifications should be provided to avoid misinterpretations by contractors and/or missing details.
5. Waste should be reduced at both professional and trade practice levels, effective material policy and material management strategy should be implemented.

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