

The Impact of Computerized Accounting System on Financial Reporting in the Ministry of Local Government of Rwanda

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Abstract

The study focuses on the impact of computerized accounting system on financial reporting in the Ministry of Local Government (MINALOC) in Rwanda by evaluating: the nature of computerized accounting system used by the Ministry, how computerization of accounting has affected the generation of financial reports, and the extent to which computerized accounting contributes to financial reporting in the MINALOC. The study will help the management of the Ministry to understand the importance of using accounting software packages in preparing quality and reliable financial reports. End users of computerized accounting system will also benefit from quick financial transactions and services facilitated by the use of accounting software packages available in the Ministry. A survey questionnaire was administered on a sample of 65 respondents randomly selected from a population of 110. From the findings, 98% of the respondents admit that the Ministry uses both cash based and accrual based system of computerized accounting, 38% of the respondents agreed that computerized accounting improves accountability, while 31% of the respondents maintain that the system provides financial statements on time. With increased improvements and versions of accounting packages, the study recommends that finance and accounting staff should have constant and continuous training by the authorized dealers of the packages so that they remain well equipped with the knowledge and experience of the package. There is also need for more internal audit reviews to appraise and check the strength of the instituted controls within the accounting system in the Ministry of Local government of Rwanda.

Keywords: computerized accounting system, financial reporting, accounting software, MINALOC, Rwanda

INTRODUCTION

Information technology has existed almost at every stage of human existence but being reflected differently at each stage (Haigh, 2011). The use of computer technology has made a tremendous global impact in all sectors of life and has made a huge transformation particularly in the way of doing business both within and across countries. Since 1950's when information storage and processing using computers started, it became easier and quicker to handle massive data and produce more accurate and timely reports (Kharuddin et al., 2010). Since then, most organizations have been changing their ways of transacting business to increase their levels of profitability (Elliot, 1992; Porter, 1980; Fisher et al., 2000).

The evolution of computer technology has completely transformed accounting systems, and studies have shown that financial outcome of a firm will always depend on how much one invests and improves the accounting information system being used (Imeokparia,

2013). In the area of accounting and finance, the use of hand in financial reporting has been replaced by the use of computer softwares to enable quick reporting and easy processing and storage of financial information, hence due to facilitation of accounting softwares, preparation and access of financial statements and use of accounting procedures has been made easy (Kharuddin et al., 2010). In the current business world, failure to use computer software almost implies that financial information may not be accurate, delays in financial reporting, and that financial information may not be stored for a long time.

Several studies on computerized accounting systems and financial reporting have been conducted in banks to investigate the impact of information Technology on preparation and publishing of financial reports (Imeokparia, 2013); in Small and Medium Enterprises (SMEs) of Nigeria to provide empirical evidence on the existence of computer-based accounting systems in

SMEs (Oladipupo and Ajape, 2013) in local administrative units like counties in Kenya to investigate the effect of computerized accounting systems on audit risk management in public enterprises (Otieno and Oima, 2013) and in income tax departments to check on the effectiveness of tax audit and collection (Yaser, 2013; Ahmad, 2013) as well as in medical services to understand how computerized accounting information systems can be used to reduce costs of medical services (el-Dalabeeh and Alshabiel, 2012). Little has been done at Ministerial level and yet this is where budget decisions of where to cut and add are normally taken. Hence, this study intends to assess the impact of computerized accounting system on financial reporting in the Ministry of Local government of Rwanda.

Profile of MINALOC

The ministry of Local Government (MINALOC) is a Ministry in charge of overseeing all activities done right from the village to the provincial level. The main activities include good governance, decentralization, community development, Local finance and social protection. In order to implement all these activities, there must be a budget and hence accounting and financial procedures have to be followed. The accounting system has been decentralized to districts but monitoring of finances has to be done at central level hence the use of appropriate accounting software becomes inevitable. The ministry oversees 5 provinces including Kigali City, 30 districts, 416 sectors, 2148 cells and 14837 villages. However, the study was conducted at the Headquarters of the Ministry, in Finance and administration department. This department is the backbone of the Ministry since no work can be done without a financial transaction. Computerized accounting system was introduced in the Ministry in 2010. Therefore, the study assesses the Impact of Computerized accounting system on financial reporting in the Ministry of Local government in Rwanda.

PROBLEM STATEMENT

Since the 1950s, when technology started to be applied in business (Otieno and Oima, 2013), most developing countries have moved away from the use of a pen and a paper and started to adapt to the use of accounting softwares to facilitate generation of quality, quick and accurate financial reports. However, due to other poverty related issues, there is lack of consistency coupled with irregularities registered in the field of technology which handicap the regular use of computerized accounting system. Studies to evaluate the impact of using this technology to generate financial reports are limited. This study intends to assess the impact of computerized accounting system on financial

reporting in the Ministry of Local Government in Rwanda

OBJECTIVES OF THE STUDY

The main objective of the study is to assess the impact of computerized accounting system on financial reporting in the Ministry of Local government in Rwanda. Specifically, the study intends to:

- i) Explore the nature of computerized accounting system used by the MINALOC,
- ii) Find out how computerization of accounting has affected the generation of financial reports in the MINALOC, and
- iii) Examine the extent to which computerized accounting contributes to financial reporting in the MINALOC

MATERIALS AND METHODS

This is an empirical study with additional information from Secondary data. The investigation explores the impact of computerized accounting system on financial reporting in the Ministry of Local government. The generation of data is done using a survey questionnaire, followed by a descriptive analysis using tables, frequencies and percentages. Out of 110 employees that form the target population, a sample of 65 was randomly selected for the study. This sample included all the employees of the Ministry who have either a direct or indirect link with accounting information and practices.

RESULTS AND DISCUSSION

Based on the study objectives, analysis was done using SPSS version 15.0. All the 65 questionnaire sheets that were distributed were all received back from the respondents. It is worth mentioning that computerized accounting in the Ministry of Local government was introduced in 2010, meaning that it is a recent innovation initiated in the ministry to improve its performance in financial management

THE NATURE OF COMPUTERIZED ACCOUNTING SYSTEM IN MINISTRY OF LOCAL GOVERNMENT IN RWANDA

This objective intends to identify the accounting system used in the Ministry of local government among the cash based and accrual based systems.

Table 1: Accounting system used by the Ministry of Local Government

Response Percentage (%)	Frequency
Cash based	-
-	
Accrual based	1
2	
Both	64
98	
Total	65
100	

Source: Field data (2015)

According to the findings in table 1, almost all respondents confirmed that both cash and accrual based accounting systems are used in the Ministry of Local government in Rwanda. Additionally, interview results reveal that when the Ministry introduced computerized accounting system, accountability, probity and transparency were enhanced in the entire accounting system of the Ministry.

The Effect of Accounting Procedures on Quality of Financial Reports in the Ministry of Local Government in Rwanda

In relation to finding out the effect of the accounting procedures on quality of financial reports in the ministry of local government, concern was given to the benefits of the computerized accounting system, whether computerized accounting system provides information for decision making and whether it is significant in the operations of the ministry of local government.

Table 2: Effect of computerized accounting system on financial reporting in the Ministry of Local Government

Impact Percentage (%)	Frequency
Accurate and comprehensive results	20
31	
Speed in handling transaction	20
31	
Automatic document production	15
23	
Availability of information	10
15	
Total	65
100	

Source: Field data (2015)

From Table 2, majority of respondents accepted that computerized accounting system has improved on producing accurate and comprehensive results as well as

being quick in handling transaction. This means that computerized accounting system has a positive contribution in the generation of financial reports. The results have been supported by el-Dalabeeh and Alshabiel (2012) who underscores the importance of timely, accurate and precise information in decision-making.

The Extent of Contribution of Computerized Accounting to Financial Reporting in the Local Government in Rwanda

In finding out the extent of the contribution of computerized accounting system to financial reporting in ministry of local government in Rwanda, attention was given to the areas of the improvement in the ministry's performance due to computerization, the contribution of computerized accounting system in the ministry of local government and the extent to which computerization has affected the financial reporting in the ministry of local government.

Table 3: Improvements in the Ministry's performance due to computerization of the accounting system

Improvement Percentage (%)	Frequency
Quality of financial reports	25
38	
Quick service delivery	20
31	
Accuracy	20
31	
Total	65
100	

Source: Field data (2015)

Findings from Table 3 indicate that majority of respondents (38%) agreed that there are improvements in the Quality of financial reports. This is followed by respondents who show that both quick service delivery and accuracy are some of the improvements brought about by the computerization of accounting system in the Ministry of Local government. This shows that the computerized accounting system adopted by the ministry of local government has improved its performance in financial reporting. Interview findings also reveal additional improvements made which include Accuracy and efficiency in record keeping, simplified transaction posting, minimization of errors, as well as speed and better quality of reports. This is supported by Yaser (2013) in the study on the impact of accounting information systems used in the income tax department on the effectiveness of tax audit and collection in Jordan where speed, accuracy and efficiency are articulated.

LIMITATIONS

Due to the sensitivity of financial information, some junior staff in the department of finance initially refused to provide information. However, after consulting their line managers, this problem was solved and they finally accepted to respond to the questionnaire. Some respondents were also unwilling to respond to the questionnaire with reasons that they had no time due to their reporting deadlines. It was therefore necessary to meet the respondents at their convenient time, sometimes after working hours in the evening to ensure data availability.

CONCLUSION AND RECOMMENDATIONS

The computerized accounting system has proved to be effective in providing information regarding the financial position of an entity in a timely and efficient manner. In the Ministry of Local Government of Rwanda, accounting information system serves the purpose of furnishing information about the entity's economic resources, claims against those resources, owner's equity and changes in the resources and claims. Accounting software enables timely and faster generation of financial reports. This helps managers to easily identify and solve problems instantly and take evidence-based decisions within various departments of the ministry. Computerized accounting system also enables data to be available instantly and be made available to different users in different locations at the same time meaning that reporting can be done at any time. During the study, several inefficiencies were identified that could handicap the smooth running of the entire financial system of the ministry. These include poor accounting information system maintenance, inadequate on- job training for accounting and finance staff and weak internal audit. Hence, the study recommends the following:

- i. The Ministry of Local government should ensure routine system maintenance programs in order to get rid of shortfalls such as viruses and fraud among others that may affect the system operations. This should be done so that the system can operate to the expectation of management and other users.
- ii. It is also important that the employees handling transactions are trained so as to improve on the accuracy and speed in posting. With increased improvements and versions of accounting packages, finance and accounting staff need constant and continuous training by the authorized dealers of the packages so that they remain well equipped with the knowledge and experience of the package.

- iii. In addition to the training, it is important to constantly appraise the staff to check which staff is failing the system as regards to reporting unbiased financial information. The Ministry needs more internal audit reviews to appraise and check the strength of the instituted controls within the system. The computerized accounting system is prone to fraud in cases where physical cash is involved. Without internal audit reviews, there may arise cases of teaming and lading fraud that may pass unnoticed. It is therefore important that external auditors come in once in a while to do audit.

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