STUDY MANUAL

PUBLIC SECTOR ACCOUNTING AND FINANCE (PEB 6)

ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA (ANAN)

TABLE OF CONTENTS

MODULE 4

MODULE 5

MODULE 6

MODULE 7

MODULE 8

MODULE 9

MODULE 10

MODULE 11

MODULE 12

MODULE 13

MODULE 14

MODULE 15

MODULE 1

1.0 INTRODUCTION TO PUBLIC SECTOR ACCOUNTING AND FINANCE

1.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Examine the concept of public sector, private sector, public service and civil service and their interrelationships;
ii. Evaluate the primary objectives and functions of the public sector in any economy;
iii. Analyze the various definitions of the concept of public sector accounting;
iv. Disintegrate the various users of public sector financial information and also the bases of accounting in the public sector;
v. Have a firm grasp of the tenets of accountability especially in public service with particular reference to your role as an accountant.

1.02 Scope of Public Sector

Every economy is divided into two sectors: The Private Sector and the Public Sector. The Private Sector includes all organizations established by individuals and other interest entities and is therefore devoid of any form of government interference. The Public Sector refers to all organizations which are not privately-owned but which are established, run and financed by the government for the purpose of providing essential welfare services to the citizens.

1.03 Nature of Government Entities

The wealth of the private sector is owned by individuals and groups while the wealth of the public sector is collectively owned by all. Private sector organizations comprise sole traders, partnerships, companies and even non-profit oriented organizations while the public sector in Nigeria is made up of the Federal Government and its allied MDAs, the State Governments and their allied MDAs and the 774 LGAs. The public sector is the biggest spender in any economy, controlling about 80% of the nation’s asset base but the private sector is the driver of the economy.

1.04 Functions of the Public Sector

The followings are some of the functions of the public sector:

i. Protection/Security of lives and properties
ii. Communal services; Roads, Bridges etc.
iii. Personal welfare; Education, Housing etc.
iv. Trade and commerce.
v. Provision of services to the citizens without the intention to maximize profit

1.05 Definition of Public Sector Accounting

Public sector can be defined as that sector of the economy, established and operated by the government or, its agencies, distinguishable from the private sector, and organized on behalf of the whole citizens (Anyafo, 2002).
Public sector can equally be defined as the government sector whose affairs or services are made known to the public (people in general) in aggregate and in details, reflecting all transactions involving the **receipts, transfer and disposition** of its funds and properties.

From the foregoing, we can conclude as follows:

i. Public sector organizations are established, owned and operated by the government. This excludes possibility of individual ownership. Hence they are non-proprietary.
ii. Such organizations are distinguishable from the private sector.
iii. They are run on behalf of the general public.
iv. The primary motive of the public sector is to provide services to the citizens while that of the private sector is maximization of profit.

Public sector accounting is defined as a process of recording, analyzing, summarizing, reporting/communicating and interpretation of financial information about government in aggregate and in details, reflecting all transactions involving the receipt, transfer and disbursement of government funds and properties. It is financial accounting in government.

From the above, it is safe to summarize that government accounting refers to the entire process and activities that lead to receipt, transfer and disposition of government funds and properties that would culminate into rendering, comprehensive stewardship to the public.

1.06 Objectives of Government Accounting

To fulfill legal requirement: The law requires that government accounts are prepared and audited annually.

To perform the stewardship function: The ruling government is the steward of the resources and finances of the Nation. Government has to give account of how these finances are used.

i. To enable Government to plan well the future activities and programmes of the Nation.

ii. To provide a mechanism for controlling the use of the financial and other resources

iii. To provide the basis by which actual performance may be compared with set targets.

iv. To evaluate the economy, efficiency and effectiveness with which governance is carried out.

1.07 Purpose of Public Sector Accounting

i. To give evidence of accountability for the stewardship of government resources
ii. To provide useful information for the good control and efficient management of government operations.
iii. To ensure efficient administration through system of internal control and management information. To monitor the progress of planned revenue and expenditure.
iv. To serve as a basis for planning i.e. to provide historical forecasts, budgets and plan and also as a guide to the formulation of policies.
v. To serve as a basis for decision making.

1.08 Users of Government Accounting Information (Internal)

i. The **Labor Unions** in the public service which will press for improved conditions of employment and security of tenure for their members.

ii. Members of the **Executive** Arm of Government such as the President, Ministers and Governors. Their interest areas are to ensure probity and accountability through score keeping and performance control which are achieved through accounting information.

iii. **Top Management** members such as Permanent Secretaries of various Ministries and General Managers, MD/CEO of Parastatals. They are the conduit of accounting information generation and transmission and serve as liaison officers between Government, employees and the public.

1.09 Users of Government Accounting Information (External)

i. Members of the Legislature

ii. The Members of the Public

iii. Researchers and Financial Journalists.

iv. Financial Institutions, such as the Commercial Banks, World Bank and International Monetary Fund (IMF).

v. Governments, apart from the one reporting.

vi. Suppliers and Contractors

1.10 Bases of Government Accounting

Bases are principles or methods of accounting chosen by an entity and applied consistently by that entity in relation to the preparation and compilation of its financial statement.

Bases of accounting varied and numerous depending on the need. However, there are four methods of recording financial transaction in public sector accounting namely: Cash, Accrual, Commitment and Modified Accrual bases.

i. Cash basis of Accounting

This is the basis of accounting under which revenue are recorded only when cash is received, and expenditure recorded only when cash is paid irrespective of the fact that the transactions leading to the receipts or payments of cash now may have occurred in previous accounting period.

This is the basis upon which government financial statement in Nigeria are being prepared. Government has valid reasons for the adoption of cash basis since all bills must be paid with cash (not receivable or other assets) therefore, the required cash must be on hand in the year the payments have to be made.

So also, goods and services must be paid for in the year of acquisition not necessarily in the year or years, in which the benefits will be received or in the periods set forth in a borrowing agreement.

In most cases, the public view accounting to be a difficult subject but in government there are many laymen in the field of accounting which are accounting officers, such as, Local Government Chairman, School principal or even a Chief Magistrate who are called to perform some accounting duties or at least bookkeeping work.

Advantages of the cash basis of accounting

i. It is a simple method which can be learnt quickly and performed with confidence.
ii. It allows a simple and unambiguous comparison between account authorized in the budget and those who usually spent it, therefore, it promotes control.
iii. It concentrates on the disbursement of money which is very important, that is, no payment can be made until specified procedures are completed.
iv. It permits easy identification of those who received them. It therefore, promotes accountability.
v. When government is able to defer payments it need not either debtor or have the cash at hand until disbursements are required hence it does not make provisions for.
vi. It is strictly factual, no reliance on opinion is necessary either to complete or to check the accounts. They are either right or wrong.
vii. It saves time; the time and effort spent in accounting are minimized.

Disadvantages of the cash basis of accounting

i. It fails to recognize the assets usage and makes no allowance for depreciation instead it is only the assets paid for during the year that is recognized.

ii. Incompleteness: cash aspect is not the only aspect to transactions. By recording only, the cash aspect to transactions, the cash basis is relatively incomplete as a form of accounting hence it becomes of little useless in making decisions on economic costs.
iii. It does not reveal an accurate picture of the state of financial affairs at the end of the periods since it mixes up cash flow of various periods' account which could result in misleading report.
iv. Limitation of internal controls: under cash basis, the entire internal control is centered on cash movement, other aspects of the business are ignored, and in fact this is a big flaw.
v. To Adams (1996) it takes unrealistic view of financial transaction since transaction goes through several stages all of which have financial implications for the organization. These stages are divided into five which are as follows:
    a. Management decision to spend money
    b. Issue of order or contract for the supply of goods or services.
    c. Acknowledgement of liability
    d. Settlement of liability
    e. Consumption of value

The cash basis of accounting only record (a) out these stages while the accrual basis records stages (b) and is usually supplemented by the recording of stages (c, d and e).

Instruments of Cash Basis of Accounting

The instrument of cash basis of accounting includes:

a. Receipts vouchers
b. Payment vouchers
c. Adjustment vouchers: these are journals or vehicle by which entries are moved from one account to another
d. Back up document: these are source document such as local purchase order, invoice etc. they are attached to payment vouchers made out separately for cash payment and for each sub-head and service

ii. Accrual Basis of Accounting

Under this basis of accounting, revenue are recorded when earned and expenditure as soon as the result in liabilities is known or when benefits are received notwithstanding that receipt or payment of cash may take place totally or partially in another accounting period accrual basis is commonly found in a private sector and all government parastatals. For instance, Nigeria Post Office (NIPOST), Nigerian Television Authority (NTA), Nigerian Port Authority (NPA) etc. The reason for this is that, they are profit oriented and it is therefore necessary to estimate or make a budget on how much profit has been earned in each period or with a view to investing capital impact and making periodic distributions to shareholders.

Objectives of the Accrual Basis of Accounting

The main objective of the basis is to match realized revenues with their related costs, thus, providing the basis for the matching concept.

Advantages /Disadvantages of Accrual Basis of Accounting

All the advantages of cash basis are the disadvantages of accrual basis except factuality and vice versa.

In fact, there is a growing support both international and in Nigeria for the wider adoption of accrual accounting in the public sector. In the words of the National Councils (Committee) on Government Accounting, NLGA, (1979) as cited by Johnson" (1997) is that the accrual basis is the superior method of accounting for the economic resources for any organization.

The resulting accounting measurement based on the substance of transactions and events rather than merely when cash is received and disbursed, and this enhances their relevance, neutrality, timeliness, completeness and comparability".

In fact, the council recommended the use of accrual basis for capital projects, special assessments and intra-governmental services funds and that modified accrual basis should be used for general accounting hence the cash is not appropriate.

iii Commitment Basis of Accounting

This is the basis of accounting that is adopted by government when a commitment has been made evidenced by a contract or local purchase order (LPO) and formally authorized by management, that is, the expenditure to which management has committed itself.

Since financial transactions are recorded immediately management takes decisions to spend money and when such decisions are taken money will be set aside specifically for that purpose. In short, budgeting is closely related to this basis because it draws the attention of management to how much of the total budget has been committed.

Advantages of the Commitment Basis of Accounting

i. It recognizes transactions at their inception and records then as they pass through other stages to completion, to this extent it is considered realistic and complete.
ii. It recognizes both cash and accrual basis, it is therefore more complete than any other basis
iii. Since most government projects are executed by contracts, this basis appears appropriate and logical for government entities.
iv. It assists in the reduction of the errors or irregularities and fraud. Since large number of formal procedures must be observed in terms of checks before fund can be disbursed.
v. It gives room for matching concept like the accrual basis of accounting.

Disadvantages of the Commitment Basis of Accounting

i. It lacks control: this is as a result of too much emphasis on the commitment aspects of a contract without establishing control quality relevant to its execution.
ii. Disbursement procedures under the basis are cumbersome i.e. it involves a lot of documentation some of which are dated many years behind or after the period.
iii. It cannot be used in isolation but either with accrual or cash basis.
iv. It may not be able to adequately account for transactions that will take place in the future, for instance, contract variation since it is too futuristic.

v. Modified Accrual/Cash Basis of Accounting

Modified accrual accounting is that method of accounting in which expenditure are recorded at the time when received in cash, except for material or available revenues which should be accrued to reflect properly the taxes levied and the revenues earned.

It does not allow for balance sheet recognition of long-term assets and debts. However, it does permit a wide array of transactions and events to be recognized when they have their substantive economic impact, not merely when they result in cash inflows. It is a hybrid of cash and accrual basis. Cash basis is applied to revenue while the accrual basis is applied to expenditure.

1.11 Differences/Similarities between Public Sector and Private Sector Accounting

The term "Public Sector" refers to all organizations which are created, administered and financed by Government, from the tax payers' money, on behalf of the members of the public. Such establishments which are referred to as the "three tiers" of Government, Government Companies, Ministries, Departments, Agencies, Parastatals, extra-ministerial departments and other public agencies created by the Nations Constitution, Acts of Parliament and Bye-Laws. The organizations produce public goods and services which are available to the citizens free of charge or at very minimum charges. Public sector organizations are managed by appointed members of the citizenry.

"Private Sector" is that part of the economy where the factors of production: Land, Labor, Capital and Entrepreneurship are supplied by private individuals who are the business owners. They manage the businesses, bear the risks and earn the profits through the sale and production of goods and services as sole traders, business partners or shareholders in limited liability companies.

Public Sector organizations are concern with pricing products or services at marginal costs, thereby catering for the welfare of the public while privately owned businesses venture to recover not only marginal costs but fixed overheads and even earn profits.

Public concerns do not distinguish between capital and revenue expenditure, unlike private companies. The latter write off the values of fixed assets over estimated useful lives through depreciation. Public Sector organizations are accountable to the citizens of the Nation through their elected representatives, while private sector concerns are answerable to their owners.

Differences Between Public and Private Sector Accounting

S/N	Feature	Public Sector Accounting	Private Sector Accounting
1	Accounting Basis	Cash basis	Accrual basis
2	Accounting structure	Multi-unit based on funds concept	Holistic based on entity concept
3	Criterion for production and allocation of goods and services	Political machinery (votes)	Price/ market Mechanism (money)
4	Performance measurement	Compliance with fiscal and other rules and regulations	Profitability
5	Source of capital	Mainly budget-financed	Private capital
6	Capital expenditure	Wholly charged in the year incurred	Spread over the lifespan of the asset
7	Asset depreciation	No provision is made	Provision is made
8	Costs	Not compared with revenue raised but expenditure is compared with funds voted. Matching concept is not used	Compared with income and costs are matched against revenues
9	Application of GAAP	Some are relevant with modification e.g. money measurement concept; some are not relevant e.g. entity concept	All are relevant
10	Main summary of accounts	Statement of Assets and Liabilities	Balance Sheet
11	Legal basis	Constitution and Act of Parliament	Companies Acts
12	Objective	Enhancing social welfare	Profit Maximization

1.12 Review Questions

a. ***"He who plays the piper dictates the tone".*** Discuss this statement in the light of the assertion that the public sector is the biggest spender in any economy.

b. List and explain the two categories of users of Public Sector Accounting information

MODULE 2

2.00 REGULATORY FRAMEWORK FOR GOVERNMENT ACCOUNTING

2.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Discuss the regulatory framework for government accounting in Nigeria;
ii. Deconstruct the legal framework for government accounting and the legal implication of certain government pronouncements with respect to public sector financial management in Nigeria;
iii. Assess the applicability of the various laws and their implications on government financial reporting processes.

It has often been said that ***"Where there is no law, there is no sin".*** The public sector can be described as entities or organizations that implement public policy through the provision of services and the redistribution of income and wealth, with both activities supported mainly by compulsory tax or levies on other sectors. That is, it comprises governments and all publicly owned, controlled and or publicly funded agencies, enterprises, and other entities of government that deliver public programs, goods, or services.

Sound public sector accounting rests on an articulate framework which has been defined to reflect best practices in the world. To this end, a conceptual framework for public sector accounting is structured to reflect objectives and scope, recognition and measurement criteria, definition and qualitative characteristics of financial information shown in financial and accounting reports of public sector accounting entities

It spells out the government accounting principles and forms the basis of the preparation and publication of budgets, maintenance of complete financial records, provision of full disclosures and submission to full audit. In other words, the framework helps monitor incomes, expenses, assets and liabilities and assist assessment of financial consequences of transactions and events. This finally leads to producing user-friendly financial reports on a periodic basis

Nigeria Legal frameworks includes statutory framework, as the 1999 Constitution, the Finance (Control and Management) Act of 1958 as well as the Audit Act of 1956. The Financial Regulations, Treasury and Financial Circulars and Circular Letters are others. They are envisioned to guide the day-to-day operations of government Departments and to aid the accomplishment of probity and accountability. It also provides, among others, the various types of funds as the Consolidated Revenue Fund for the Federation and for States and the various charges at the federal level and at the state level. The institutional framework comprises the legal, institutional and the professional standards that regulate the public sector accounting. The International Public Sector Accounting Standards (IPSASs) which is issued by the International Federation of Accountants International Public Sector Accounting Standard Board (IPSASB) is probably the major standard for public sector accounting.

Nigeria is a signatory to IFAC and adopts the relevant IPSASs issued by IPSASB. The International Standards of Supreme Audit Institutions (ISSAIs) is another institutional framework. These bodies are to oversee the management of public sector accounting to reflect transparency and accountability within the wider context of good public governance. For this module, we shall dwell on the Legal Framework.

2.02 The Legal Framework: The Constitution of the Federal Republic of Nigeria

The constitution is a legal document in which the accounting and financial reporting system of government as well as power and control over fund are entrenched. Like its predecessors of 1963, 1979 and 1989 respectively, the 1999 constitution of the Federal Republic of Nigeria makes provisions for the following:

i. **Establishment of Consolidated Revenue Fund:** This Fund is established to account for all revenue or money raised or received by the federation except where it is for specific purpose. This fund is guided by sections 80 and 120 of the 1999 constitution.

ii. **Authorization of expenditure from the Fund**: This has to do with the preparation of financial year estimate and passing of appropriation bill. It is regulated by sections 81 and 121 of the 1999 constitution.

iii. **Authorization of expenditure in default of appropriations:** For continuity purpose, if the appropriation Bill in respect of any financial year has not been passed into law by the beginning of the year, the government can make withdrawal from the Consolidate Revenue Fund to meet the expenditure necessary to carry on her services for a period not exceeding six months or until the coming into operation of the Appropriation Act, whichever is the earlier. This is guided by sections 82 and 122 of 1999 constitution.

iv. **Establishment and operation of Contingencies Fund:** This is the fund set aside to meet an urgent and unforeseen need for expenditure for which another provision exists as stated in sections 83 and 123 respectively

v. **Remuneration of statutory office holders**: This involves the remuneration, salaries and allowances of the President, Governors and certain other officers as may be prescribed by the National Assembly or State House of Assembly as the case may be.

   However, the amount cannot exceed the amount determined by the Revenue Mobilization Allocation and Fiscal Commission. This is regulated by the sections 84 and 124

vi. **Audit of public accounts and investigations**: 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 (Aristotle, 322-384 BC).

   To this end, audit of public accounts, offices, courts and power to conduct investigations are provided for under sections 85, 88, 89, 125, 128, and 129 respectively.

vii. **Appointment and tenure of office of the Auditor-General for a State or Federation**. These are regulated by sections 86, 87, 126, and 127.

viii. **Preparation of estimate (budget) and its implementation**: It is mandatory on the President or Governor to prepare and lay before each House of National or State Assembly at any time in each financial year estimates of the revenue and expenditure of the federation or state for the following financial year to be legislated upon.

This is provided for in sections 81 and 121, however, if the amount appropriated by the Appropriation Act is insufficient or a need arises for expenditure for which no amount has been appropriated by the Act, these sections allowed the preparation and implementation of supplementary budget.

ix. **Establishment of Federation Account**: This is a special account enacted, into which shall be paid all revenue collected by the government of the federation, except the proceeds from the personal income tax of the personnel of the Armed Forces of the Federation, the Nigeria Police Force, the Ministry or Department charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory Abuja. The operation of this account is regulated by section 167.

x. **Revenue Generation/Revenue Allocation formula**: The revenue generation, its lodgment and disbursement of same to different levels of government from relevant account in the proportion that is determined from time to time is guided by sections 162-168 and 313 respectively

2.03 Other Regulatory Provisions

2.3.1 The Finance (Control and Management) Act: 1958

This was a law made to provide for the control and management of the public finance of the federation and the matters connected there. Finance (control and Management) Act 1958 constitute the bed-rock upon which government accounting manuals, treasury circulars and all other laws regulating the finances of the government are based. It is in six (6) parts with seventeen (17) sections and came into existence on April 1, 1958.

It covers the establishment of the followings: First, Second and third schedule respectively. Rules for the operation of the Treasury Fund deemed to be Public funds or Consolidated Revenue Fund, Development Fund, Contingencies Funds in terms of generations, authority to incur expenditure, supervision of expenditure and accounts by accounting officers and retirement of Imprest etc.

The parts of the Act as cited by Johnson (1999) and Adebisi (2005) are as follows:

Part I: Deals with the general supervision and control of public funds by the Minister of Finance to ensure that full accounts is made to the National Assembly of all matters relating to the financial affairs of the federation which are not by law assigned to any other Minister.

Part II: Deals with Consolidated Revenue Funds, the management of which shall be conducted in accordance with the financial provision of the constitution.

Part III: This part deals with basic rules guiding the valuation of government investment. It contains the regulation as regards the securities which should be considered as part of the government portfolio. Section 9(1) reads: "Consolidated Revenue Fund and any other public funds of the federation subject to the express provisions of law regulating any such public funds may in any part consist of deposit with bank, either at calls or subject to notice not exceeding six months or of any investment in which a trustee in Nigeria may lawful invest trust funds".

This section serves as a measure of restricting the risk of management of government fund investment to risk minimization as well as preventing the Accountant-General from pursuing maximization of return on investment.

Part IV: Deals with legislative authorization of expenditure. It stipulates that the Minister shall cause to be prepared in each financial year estimates of the revenue and expenditure of the federation for the following financial year, which shall be presented to the President for approval and when approved by him shall be laid before the National Assembly at a meeting commencing before the 1st day of the financial year to which they relate.

Part V: deals with other public funds of the federation which are deemed to have been established with effect from the 1st day of April 1958.

Part VI: Deals with the Annual Account of all funds, and the transfer from the General Revenue Balance to the Consolidated Revenue Funds on the 1st day of April, 1958, the sum of Four Million Eight Hundred Thousand Naira being the balance of the General Revenue Balance Account at the close of such on the 31st March, 1958 after deducting there-from.

i. The sum of money appropriated by resolution of the House of Representative on the 14th day of March, 1958 for payment into the Development Fund and.

ii. The sum totaling Five Million Two Hundred Thousand Naira provided for the purpose of the Treasury Funds established by subsection (3) of section 18 of the Finance (Control and Management) Act, 1958.

This Act specifically mandated the cash basis of Accounting for the Consolidated Revenue Fund. The annual financial statements are also required to be prepared on fund basis.

The three schedules to the Act deal with the public funds of the federation; funds established upon or after commencement of the Act: Treasury Funds deemed to be the Public Funds. Second schedule is the rules for the operation of the contingencies Fund.

2.3.2 The Audit Act, 1956

This covers all areas of Auditing and Public Accountability and other purpose incidental thereto and connected therewith. It provides for the appointments, tenure, removal, remunerations, powers and duties of the Director of Audit (now referred to as Auditor General in compliance with Decree N0 43. of 1988).

The account to be signed and presented by the Accountant-General for the Federation to the National Assembly in consonance with sections 3, 4 and 5 of the Act are:

i. An abstract account of receipt and payments.
ii. A statement of assets and liabilities at the close of the financial year;
iii. A detailed statement of revenue and expenditure according to sub-heads
iv. Such other statements as the National Assembly may, from time to time require.

2.3.3 Government Budget (Appropriation Act)

Upon receipt of the Appropriation Bill by the legislature, there follows due deliberation after which the Bill is passed. Subsequently the executive endorses it to become the Appropriation Act. -As the Approved Estimate, the Act monitors public expenditure; any sum spent above it or without prior approval is illegal.

For any expenditure outside the appropriation act, other than a statutory expenditure, to be legitimate, it has to be supported by the supplementary act. These are bills either money bills or others passed into law by the National Assembly. Appropriation Act states the amount to be spent on each programme on the approved estimate.

2.3.4 Financial Regulations 2000

This is the operational rules and guidelines for day-to-day management of financial activities (delineate functions and responsibilities of government officers; organize treasury functions; explain authorities to incur expenditure; and provide guidance on budget preparation; provide guidance on expenditure control, payments, collection and receipt of monies, remittances, advances/loans and custody of public funds, among others).

2.3.5 Treasury Letters & Circulars

Circulars are issued from time to time by the Accountant General as circumstances demand to revise procedures and deal with new policies and guidelines, which affect finance officers in particular and government accounting in general.
They are meant to guide the operation and conduct of public sector financial transactions as they relate to government ministries and departments. Circulars come into force from time-to-time and they can be used to introduce new policy guidelines or modify existing financial procedures such as contained in the Financial Instructions (FIs).
However, in the event of any conflict between Circulars and the FIs, the latter supersede. These are directives issued in form of circular, letters or memo to guide the day to day activities of government ministries or departments. They are used to amend existing financial regulation or to introduce new policy.

2.3.6 Gazettes

This is the government official newsletter. It is published periodically and contains all government policy statements like appointment of new officers, retirements, financial statements, release of warrants, advertisement on contracts etc.

2.3.7 Public Service Rules

Though this deals mostly on personnel matters but there are some sections that are related to account for example FR 2006 stated that hand over of government furniture should be in line with public service rule.

2.3.8 Financial Memoranda

Financial memoranda are the laws or instruments guiding the operation of the finances of all Local Government Authorities/Councils of the federation. It is the equivalent of the Financial Regulations at the Federal and Financial Instruments at the state level. Major provisions of this instrument include the following:

- Financial duties and responsibilities of local government officers
- Stores accounting
- Estimates preparation
- Expenditure and Revenue accounting
- Instrument Fund, Revenue fund and Deposit accounting;
- Accounts maintenance and extraction etc.

2.3.9 Standards and Guidelines

These are standards approved by International Federation of Accountants (IFAC) to be used in the Public Sector. Presently there are 32 IPSAS in force.

Public sector organizations face accounting challenges that stem from the use of cash-based accounting systems and a historical lack of standardized international reporting practices.

Without a widely accepted set of rules, definitions, and guidelines, financial reporting data cannot be accurately compared among organizations around the world. We shall deal with IPSAS in details in a later module.

2.04 Review Question

"The Accountancy profession is a noble and well-regulated profession". As a public sector accountant, what roles are you expected to play in boosting the integrity of government financial reporting processes in the light of the weaknesses in some of our legislations and the dynamism of the reporting environment?

MODULE 3

3.00 GOVERNMENT ACCOUNTING: THEORY AND PRACTICE

3.01 Learning Outcomes

On successful completion of this module, students should be able to:

i. Examine the various concepts and terminologies used in government accounting;
ii. Appraise the various books of accounts, their uses and their limitations;
iii. Evaluate the basics and techniques of reconciliation of accounts;
iv. Critically discuss the meaning of Fund Theory in public sector accounting;
v. Analyze the concept of Standardization of Financial Accounting and Reporting for Federal, State and Local Governments;
vi. Deconstruct the various accounting officers and their functions;
vii. Elucidate the techniques for preparation of vouchers and final accounts in the public sector.

3.02 Books of Accounts Used in the Public Sector

Basically, the expression 'public sector', denotes government and all its institutions and agencies that are the collective ownership of the public. Such institutions, set up by the state, engage in the maintenance of law and order and undertake a number of activities and transactions that have economic and financial implications like:

i. Provision of infrastructures and amenities, which require substantial capital outlays beyond the ability of the people using them;
ii. Regulation of the economy through fiscal and monetary measures;
iii. Fair allocation of resources, to remove apparent inequalities among sections and citizens of the country to ensure even development;
iv. Making available services to all citizens regardless of their ability to pay (without price-based discrimination);
v. Collection of revenues in the form of taxes, duties and fees or payments for services from individuals and organizations;
vi. Creation of jobs for the productive section of the populace and transferring benefits to the aged, the young and the unemployed and the unemployable;
vii. Provision of a variety of assistance, subsidies and payments to individuals and organizations.

Books of accounts are accounting records in which the government records its financial transactions. The basic books of accounts of governments correspond with that of the private sector although some of these books in the public sector do not form part of double entry system. The books of accounts in use in the public sector, therefore consists of the following:

i. Cash book
ii. Journals
iii. Ledgers
iv. Memorandum Accounts
v. Abstract books

Cash Book

Cash books are books of original entries where all cash transactions are kept. It is otherwise known as treasury books in the public sector. There are many types of cash books that exist in government among which are:

a. Main cash book
b. Revenue collector's cash book
c. Petty cash book

Main cash book

This book is used in recording all receipts and payments of cash whether the receipts are of revenue or payment are in respect of expenditure or below-the-line accounts. It is the major accounting record maintained by accounting unit in the public sector for this reason it is called the recognized cash book or treasury cash book No 153 (TRY 153). The book usually serves as book of original entry as well as ledger account.

Since all cash payment are made by cash office, it is expedient that the various pay offices in the accounting units in the public sector keep one of such cash book. Adebisi (2005) noted that, in some ministries where accounting transaction work-load is heavy a system based on multiple cash book may be introduced. He stressed further that, the main cash book may be recognized and sub-divided in to:

i. A cash book that records payment of salaries
ii. A cash book that records settlement of commercial/procurement or contract claims.

Again, where multiple cash books are in use, specific and special arrangements are made for the method of integrating the various transactions and for the reconciliations of the total cash book balance with the balance on the banks statements.

The book has sixteen columns. Eight columns on the receipts side or debit side another eight columns on the payment or credit side with some rulings provides for cash/bank transaction. Below is a format of treasury cash book. Ruling provides for cash book transactions:

TREASURY CASH BOOK

Try 153A

Date………………….

…………………………..

Inset Ministry and Section

No of From Classification No. of Bank Cash Total No of Voucher to

Classification Gross Deduction Bank

Vouch Whom Head Sub- Treasury whom

Sub Payee No. of Amount or Cash or

Received Head receipt Treasury Ministry paid Head Bank

Cheque of Payment Net

Head

Issued Voucher

……………………………………………………………………………………………

Entries of the Cash Book

Entries of transactions into the cash book are made on each day, that is the day the transactions occur and balancing must be effected same day.

Receipts used are entered on the left-hand side called the Debit with its particulars especially, the serial numbering, from whom cash is received and the classification of the receipts in the appropriate columns as provided on the debit side of the book.

If the amount is received in cash, it should be posted to the cash column and extended to the total column, alternatively, if the amount is received through a bank teller or supported by a bank advice, it should be posted to the bank column and also be extended to the total column as obtainable in the double columns cash book in the private sector.

However, if for any reason deduction is/are made on a payment voucher, it should be noted that a receipt is to be issued and such receipt should be posted to the debit side of the cash book.

Payments made are recorded on the right hand side called the Credit side. In posting to the credit side of the cash book cognizance must be taken of the voucher number which must be contained along with the payee.

The number of the Cheques issued for payment where applicable the payee's bank account; the classification of the transacting and finally, the amount to the gross columns and the net amount to the column.

Illustration

Post the following items into the Treasury Cash Book, Ministry of Commerce and Industry for the month of March, 2014 and show the balance brought down.

Balances brought forward from February 2014

	₦
Bank	2,450,000
Cash	175,000
2nd Quarter allocation for Recurrent and Capital Expenditure .	28,000,000

Payment under personnel cost (Salaries) 20/2 . . .	7,000,000
Deductions from salaries include:	
Rent on quarters-Junior 10/2	7,000
Rent on quarters-Senior 10/3	5,250
Motor Vehicles Repayment 13/102	10,500
Payment on Stationeries by cheque 20/4	17,500
Utility service paid by cheque 20/7	21,000
Traveling and Transport paid by cash 20/3	12,250
Cash withdrawn from bank	175,000
Cash received from tenders on contract 104 82 . . .	28,875
Contractors' registration fees cash 11/26……12/20 . . .	21,000
Maintenance of Motor Vehicles & Other Assets by	
Cheque 37/16.20/12	15,400
Purchase of Motor Vehicles by cheque 260/8 120/6 . . .	10,500,000
Cash sales of Office Equipment 11/4.12/7	227,500
Payment to Bank	227,500

TREASURY CASH BOOK

MINISTRY/DEPARTMENT **MINISTRY OF SOCIAL AFFAIRS**

Date

V/No From Class R.No B.S.No Bank Cash Total No. & Voucher to Whom

Class P. Bank C. No. Gross Deduct Bank or

N T. No D. No

or Cash Net

245,000 17500 001

20/2 7000000 22750 6977250

Bal B/F Salaries

001 Allocation 280,000 28000000 001 Stations

20/1 17500 17500

002 Rent on

Quarter 10/2 7000 7000 003 Utility 20/7

21000 21000

003 Rent on 250 5250 Travel &

20/3 12250 12250

Quarter 10/3 004 Transp.

004 Motor 15/7 10500 10500 Cash

Vehicle Contra

17500

Bank 17500 M/V 20/12

Contra 005 Mainte.

16/17 15400 15400

005 Tender 8/5 28875 006 Purchase

120/6

28875 of M/v 260/18

10500,000 10500,000

006 Registration 12/20 21000 21000 Bank Contra

227500

007 Sales 12/7 227500 227500 Bal c/f

230125 12971350

Cash Contra 227500

3067750 492625

1956650 492625 30,677,500

Bal b/f 1297150 230125

NB

The Treasury Number have been assumed and given serially. Balancing of the TCB is done for the Bank and cash columns only. The Bal b/f has not been extended to the Total column on the debit side. That column does not require balancing. Just like the Gross column on the credit side. Date is written always, on the place provided at the top of the TBC.

Journals

This is a vehicle by which entries are moved from one account to another, that is it enables transfers. Most transactions are entered initially in a special journal such as:

i. Correction of errors arising from over/under casting of figure or wrong classification of transactions.
ii. Making transfer from one head to another, for instance, from consolidated fund to development fund
iii. Carrying out adjustment where there is discrepancy in the figure of a ministry transcript and that of the bank statement.
iv. Ultimate allocation of unallocated stores
v. Payment of inter-ministerial/departmental services

Note that accounts total from special Journals and other non-routine transactions are recorded in a General Journal. Journals are used in the treasury final accounts sections

Types of Journals

In Nigeria there are three types of Journal used in the public sector namely:

i. Principal Journal voucher
ii. Adjustment voucher
iii. Supplementary Journal voucher

Principal Journal Voucher: This is a journal voucher designed for the transfer and adjustments after the below the line statement have been extracted or to effect month-end transfer of accounts from above-the-line accounts to below-the line account as well as correcting misclassification of accounts detected by the main accounts.

Adjustment Voucher*:* This is described as treasury form 23 by Appendix 15 of Financial Regulation (2000).

Adjustment voucher is an amendment by way of transfer from one account to another without actual receipts of cash. It is used for payment of Inter-Ministerial services and adjustments and ultimate allocation of allocated stores etc.

Supplementary Journal Voucher

This is designed for all transfer and adjustments that are made before the cash flow statements is extracted.

i. The adjustment of the discrepancy between the transcripts figures of ministries and that contained in the bank statements
ii. The reclassification of accounts before the drawing up of the trial balances.

Revenue Collectors Cash Book

This is the book that is used to record all the receipts of revenue collected by the revenue collector. This is the subsidiary of account kept by the revenue collectors, although, it is one sided memorandum book of account.

It is mandating for the revenue collector’s book to include dates and numbers of all official receipts issued and on no account should temporary or unofficial receipts be given.

All the revenue collected must be properly accounted for by making returns to the cashier. At this point, the revenue collector will obtain an official receipt for all moneys paid in by him paste this receipt in his cash book and record it and number on the payment side of his cash book.

It should be noted that, no deduction must be made from any revenue collected or amendment to previous over/under credit. It is also expected of revenue collector to submit his cash book and receipt books for examination to the treasury cash officer/sub-accounting officer to whom he pays his collections at such fixed intervals as the Accountant-General or Accounting Officer may prescribe.

The revenue collector’s receipts book is also known as Treasury Form 6A (TF6A) or Book No 6A as stated by Financial Regulation (2000). It contains fifty (50) sets of original, duplicate and triplicate, that is, one hundred and fifty (150) leaves.

Below is the revenue collector’s cash book format:

Format of a Revenue Collectors Cash Book

Revenue Collectors Cash Book

(Insert Ministry and Station)

Date	Revenue Receipts No	Classification	From Whom Received & Particulars	₦	Date	No Of Treasury Receipt Issued	₦
		Head Sub-Head					

Illustration

Omotola Orenibi Finance Assistant with the Federal Ministry of Commerce and Industry station at Kasawa in Lokoja Local Government Area of Kogi State listed the following entries from his TR6A booklet for the month of June 20014

3/4/2014-Ade-Trade Rates	TR080032	N42,900
5/6/2014-Bunmi-Trade Rights	TR0800032	12,100
9/7/2014-Smart -Sign board	TR0800033	29,700
9/8/2014-Olu-Miscellaneous rates	TR080035	14,300
10/8/2014-Puke-Payments	TR080026	99,000
10/6/2014-Tuku-Trade Marks	TR80038	31,350
13/6/2014-Tayo-Registration	TR080041	7,150
15/6l2014-Tolu-Park Dues	TR080043	48,950
20/6/2014-Odofin-Payments	TR90028	87,450
22/62014-Bello-Tenament	TR080062	77,550
28/6/2014-Olutoki-Tenament	TR080064	11,000
30/6/2014-Lamidi-Payments	TR080033	88,550

Note: Payments were made at required time intervals in June 2014 head of Accounts is 40 and Sub-head is 8

KASAWA REVENUE COLLECTOR'S CASH BOOK

FMC 1

Date	Rev. Receipt Number	Classification		From Received & Particulars	Amounts N	Date	Number of Treasury Receipt Issued	Amount N
		Head	Subhead					
3/6/2014	080031	40	8	Ade Rates	42,900			
5/6/2014	080032	40	8	Bunmi rights	12,100			
9/6/2014	080033	40	8	Smart Sign board	29,700			
9/6/2014	080035	40	8	Olu Rates	14,300			

10614 90026

99,000

10/6/2014 080038 40 8 Tuku Marks 31,350

13/6/2014 080041 40 8 Tavo Registration 7,150

20/6/14 90028

87,450

15/6/2014 080043 40 8 Tolu Dues 48,950

22/6/2014 080062 40 8 Bello Tenament 77,550

30/6/201 90033

88,550

28/6/2014 080064 40 8 Olutoki Tenament 11,000

275000 **27500**

Petty Cash Book

The petty cash book is otherwise called imprest cash book. Imprest is defined by Financial Regulation F1101 (FR1101) of the Federal Republic (2000) revised applicable to all sums advanced to officers of the government to meet expenditure under the current estimates, for which vouchers cannot be presented immediately to the Account-General or a Sub-Accounting officer for payment.

In a nut shell, an imprest means cash advance given to an accounting officer which must be accounted for by that officer in line with instructions issued to him. In view of these, it is expected of or even a must for every imprest holder to keep a cash book and record their-in all receipts and payments

Authorization of Government Expenditure

Authority for issuing of imprest (FR1102): The authority for issuing imprest is conveyed in the Annual General Imprest Warrant issued by the Minister of finance to the Accountant General.

Issue and recording of imprest (FR1106): Authorities for issue of imprest will be given, and payments of interest effected on a departmental imprest Warrant (TF9) and a copy of each Warrant will be sent to the Auditor-General.

All Imprests issued and retirement of Imprests, will be recorded in a special Imprests ledger.

Issues and retirements will be classified to Imprests General Ledger Accounts with the names of designated officers. The number of the Imprests warrant will be recorded on all relevant vouchers.

Classification of Imprest

Imprest are of two classes, (FR1104) namely,

i. **Standing Imprest** which may be replenished from time to time during the financial year concerned by submitting paid vouchers the sub-Accounting officer for reimbursement.

ii. **Special Imprests** granted for a particular purpose which must be retired in full within the period allowed or when the service is completed

Procedure for payment from Imprest

FR 1107 provides for the following procedure for payment made from imprest:

i. Every imprest holder will keep cash book and will record therein all receipts and payments. This applies also to Imprests for telegrams and postage.

ii. All Imprest payments will be supported by Sub Receipt (Treasury Form 10)

iii. Vouchers will be classified to the Heads and Sub-heads of the approved estimates and the imprest holder will retain a copy of each voucher.

iv. Entries will be made in the cash book on the day they occur and will show particulars of each receipt or payment.

v. The cash book will be regularly balanced and ruled off, and the cash on hand regularly checked by a senior officer, who will certify the cash book accordingly. Accounting Officers will issue instructions concerning the frequency, having due regard to the size of the imprest and the number of payments made.

vi. The cash in bank as shown by the cash book will be regularly reconciled with the bank statement, and the Reconciliation Statements duly certified by a senior officer.

vii. A record will be kept of vouchers which have been submitted for reimbursement, and reimbursement moneys will be brought to account immediately they are received.

viii. Imprest cash will be kept separate from other moneys at all times.

ix. The provision of Regulations 903 or 904 as appropriate will apply with regard to the custody of imprest cash

x. The duty of maintaining the imprest cash book may not be delegated to an officer on a salary lower than Assistant Executive Officer (Accounts). The delegated officer must also be conversant with the book-keeping procedure for posting and balancing the cash book.

Reimbursement of accounted Imprests FR1110

To obtain reimbursement of amounts paid from an imprest, the holder will submit the properly completed and receipted payment vouchers for the amount expended to the Sub-Accounting Officer who issued the imprest.

The vouchers will be classified direct to the expenditure heads concerned and not to "Imprest". The replenishment must not exceed the amount of the expenditure vouchers submitted. Replenishment of amount paid from imprest will be effected at least once a month.

Retirement of imprest FR1111

All standing imprests must be retired on or before the 31st December of the financial year in which they are issued. Special imprests will be retired within the period allowed or immediately the reasons for which they were granted cease to exist whichever is the earlier. Retirement will be effected by the production of vouchers and/or cash for the full amount of the imprest.

i. If imprest is retired at a station other than that in which the warrant is drawn, the officer to whom the imprest was issued must immediately notify his Ministry or Department and the Sub-accounting Officer who issued the imprest, stating the number of the Warrant and date, number and amount of relative Receipt Voucher. It is the responsibility of the Sub-account officer who issued the imprest to verify the Receipt Voucher particulars.

ii. All Self-Accounting Ministry/Extra-Ministry Departments will submit to the Accountant-General of the federation within twenty-one days of the end of the financial year a return showing details of imprests issued and particulars of the vouchers (receipts or adjustments) by which the imprests were retired.

Imprest accounted for after end of Financial Year. (FR1112)

Sub-Accounting Officers and Holders are required to see that all imprests are retired in accordance with Regulation 1111 (a).

Suitable arrangements should be made to ensure that all vouchers submitted for reimbursement are passed before the end of the financial year.

However, if in special circumstances completed vouchers cannot be submitted in time, the imprest holder will pay his cash balance to the Sub-Accounting Officer on or before the 31st of December, of the financial year and will forward the voucher when completed to the Accountant-General (or Accounting Officer concerned) who will include them by journal entry in the year's accounts.

Should repayment not be made in full, any shortage will be charged to an advance account in the name of the imprest holder who will be personally responsible for refunding the shortage.

IMPREST CASH BOOK

Reimbursement No. of Bank									
Detailed Voucher Date Issued	Cheque Nos of P. Vs	Credit Slip Cash Bank or Cheque	Cash		Bank	Date	Payment Description of Payment	No of No.	

Illustration:

(I) Enter the following transactions in a petty cash book of commissioner for Works & Housing having analysis columns for motor expenses, postage and stationary office entertainment, sundry expenses and ledger column. Remember that the amount spent is to be reimbursed by the cashier on the last day of each month. The imprest amount is N60, 000.

May 1	Confectionaries	3000
May 3	Afobaje Petrol	600
May 4	Courier Services	1500
May 5	Postage Stamps	750
May 6	Envelops of different sizes	1500
May 8	Total Oil Petrol	750
May 9	Wall Clock Gift to a Retiring Staff	3000
May 12	Oda Station Petrol	600
May 13	Postage Stamps	150
May 15	Dr. Luca Ledger Account	12000
May 16	Mr Ajenole Ledger Account	7500
May 17	Sweets (Assorted)	450
May 18	Emiene Bookshop Stationery	3000

May 19	Unipetrol Station Petrol	750
May 19	Market Ticket	60
May 21	Udu Aka Ledger Account	9000
May 21	Confectionaries biscuits	3000
May 25	Assorted Safe drinks	900
May 27	Medium Calculator	1050
May 30	Mobile Station-Petrol/Engine Oil	1500
May 30	Air Conditioner Gas for Official Car	900

Analytical Petty Cash Book

Receipts & Office Enter N	Folio Sundry Expenses	Date Ledger Folio	Details Account	Voucher No. N	Total	Motor Expense N	Postage Stationery N
N	N						
60,000	CB18	May	Cash	3000			3000
	-1	Confectionaries	3000			3000	
	-3	Petrol	600		600		
	-4	Courier					
		Service					
	-5	Postage	3 1500		1500		
		Stamps	4	750		750	
	-6	Envelops	5	1500		1500	
	-8	Petrol	6	750	750		
	-9	Wall Clock			7		3000
3000							
	-12	Petrol	8	600	600		
	-13	Postage		3000			
		Stamps		9	150		150
	-15	Dr. Luka			10		12000
PL2	12000						
	-16	Mr. Ajewole			11		7500
PL3	7500						
	-17	Sweet	12	450			
	-18	Stationery	13	3000	3000		450

-19 Petrol 14 750 750

-19 Market Ticket 15 60

60

-21 Udu Aka 16 9000

PL4 9000

-24 Confectionaries 17 3000 3000

-25 Soft Drink 18 900 900

-27 Calculator 19 1050 1050

-30 Eng. Oil/Petrol 20 1500 1500 1050

-30 A/C Gas 21 900 900

51960 -30 Cash bal c/d 11960 5100 6900

6900 4560 28500

111960 -30 Bal c/d 60,000 GL 1 GL 2

GL 3 GL 4 GL 5

60,000 June 1 Bal b/d

Ledgers

This is that accounts that holds the records for all the transactions relating to that particular ministry (e.g health), thing (e.g head/subhead) or activity (e.g revenue/expenditure).

All operating accounts, statement of assets and liabilities items are maintained in this account. The general ledger consists of control accounts that summarize the balances of the detailed subsidiary accounts operating accounts that are maintained in subsidiary ledgers (head/sub-head accounts).

In most cases in practice and where applicable the head account is a total account for the relevant sub-head accounts. Either recurrent or capital estimate's head or relevant sub-head with the head account operating as a total account are also ledger accounts.

The main ledger records the total transactions as shown on a sub-head account in respect of payments and receipts every month however, the monthly figures in this sub-head accounts are transferred monthly to the annual sub-head cards in the same main ledger (Oshisami, 1993) there are two major types of ledger in the public sector viz-a-viz:

a. General ledger and
b. Subsidiary ledger

General ledger is the net summary of the main ledger; it records the net transactions on a particular head or sub-head of account, month to month. Each of this ledger accounts has an account in the ledger with the exception of control accounts.

The control accounts are the accounts in the ledger operating as controls for the respective subsidiary accounts. The General ledger is known as annual ledger, all the bellow-the-line accounts also has general ledger.

Subsidiary ledgers are ledgers accounts for each subhead/sub programme in respect of which the accounting officer is required to render an appropriation accounts. This ledger is mainly kept for all below-the-line transactions.

Memorandum Accounts

These are books that are used as supplements to the accounting systems of government since government operates mainly on cash basis of recording her transactions and accounts.

The memorandum accounts do not constitute part of the double entry system. Examples of such books include:

i. Departmental Vote Expenditure Analysis Book (DVEA Book) or Vote Book.
ii. Loan/Advances register
iii. Bills/invoices/LPO register
iv. Paper money register
v. Plant and which register
vi. AIE register
vii. Unclaimed wages register
viii. Payment voucher register
ix. Deposit register
x. Dishonored Cheques register
xi. Adjustment vouchers register
xii. Cheques summary register etc.

Departmental Vote Expenditure Accounts Book (DVEA)

These are books of accounts used for monitoring government expenditure by ensuring that vote is not over spent (no extra-budgetary spending) and are used for the authorized expenditure. It also shows the progress made towards the attainment of budgets for heads and subheads.

All liabilities must be recorded promptly and efforts should be made to see that the liability columns are cleared as soon as payment is effected.

Liability should be taken for AIEs issued as well as for local purchase orders (LPOs) and any other known commitment changeable to that known Vote Book is kept to:

i. Ensure that funds are available in the appropriate head and sub-head to meet payment of a special voucher.
ii. Show uncommitted balance at a glance
iii. Show government creditors
iv. Identify any fraudulent payment charged against a vote

At the end of each month's account the voucher schedules received from the final Accounts should be reconciled with the entries in the vote books and necessary adjustment should be raised to correct wrong scheduling and misclassification.

In fact, where vote books are adequately kept, it should be possible to take out the monthly return of expenditure within two working days of the end of the month.

The following is a format of DVEA Book.

Head……….. Sub-Head……………. Amount Authorized

For Expenditure N………

Service: Min. of xyz AIE NO……………………

<u>Motor Vehicle maintenance</u>

Expenditure **Liabilities**

Line No Date Particular P.V.No Payment Total Balance Liability Ref.

Incurred Cleared Total Remarks Balance

N N N

Outstanding Available

1	2	3	4	5	6	7	8	9	10	11	12	13

Illustration

Record the following transactions in a DVEA book of the Ministry of Information in respect of the purchase of stationery.

5/6/2014	Authorized Appropriation N325,000
7/6/2014	Paid N 1,462,500 for the purchase of biros, pencils, and typing sheets on PV number 016 from Smart Bookshop
8/6/2014	Amount paid for the supply of duplicating papers on PV 017 was N162, 500 from Ama Bookshop.
11/6/2014	Issued LPO number 054 to Emiene Bookshop for the supply of Photocopying papers for N325000
12/6/2014	Settled Emiene on account PV number 018
14/6/2014	Paid for stapling pins, office pins, staplers etc. N65, 000 on PV No. 019 from Lara Bookshop
16/6/2014	PV No. 020 N390, 000 payment for typing sheets to Bola Bookshop
22/6/2014	Issued LPO number 055 for supply of duplicating paper to Chika Stores Ltd for N975, 000
25/6/2014	Paid N975, 000 on PV No. 021 for the purchase of carbon papers to Gol Bookshop
28/6/2014	Paid Chika Stores Ltd on account Pv No. 022

The SW/AIE/RIE number 06, the head for stationery is 99 and the subhead is 08

SOLUTION:

FEDERAL MINISTRY OF INFORMATION VOTE BOOK

HEAD………………………..99

SUB-HEAD…………………..08

SERVICE STATIONERIES

Date	PVNo	Particulars	Payment	Cumulative payment	Balance	Liability referred	Liability incurred	Liability cleared	Outstanding liability	Rmk	Balance	Uncommitted
5/8/14		Authorized appropriation SW/AE/R104			3,250,000						3,250,000	
7/8	0	Paym	142,	14,6	31,037						31,037,5	

/14	011	ent for biro, pencil etc.	2500	2,500	,500						00	
6/8/05	0012	Payment for duplicating sheet	162,5000	308,750		2,941250						294,1250
11/6/14				308,750	2941250	LPO54	252,000		325,000	Being LPO issued to Emiene	251,62500	
12/6/14	0018	Payment to Emiene	325,0000	633,7500	26662500			325,0000		Being settlement to Emie		22,912

										ne		,500
14/6/14	0019	Payment for pins etc.		650,000	6,987,500	25,512,500						25,512,500
1/8/14	0020	Payment for typing sheets	3,900,000	10,887,500	21,612,500						21,612,500	
25/6/14	0021	Payment for carbon etc.		975,0000	206,37500	118,62500		975,0000				211,250

												0
28/6/14	**0022**	**Payment to Chika**		**975,0000**	**303,87500**	**211,2500**			**975,0000**	**Being settlement to Chika**		**211,2500**

Loans/Advances Register

This register is to be maintained centrally in conjunction with the pay roll of the officers concerned. It is to be given thorough examination at regular intervals and checked against the schedules of payments of the advances and the vote book record.

The register shall contain the following:

i. Name of borrower
ii. Date and amount of loan/advances with Treasury
iii. Amount of monthly payment
iv. Name of guarantor/Surety
v. Cumulative total amount of advances made during the financial year by the Accounting officer.

Bills/Invoices/LPO Register: This is maintained in order to account for all bills, invoices and LPOs issued and received according to their dates of issues and receipts. This is to be able to determine how many bills and invoices that are outstanding and why they are not paid: what action is being taken to settle outstanding bills and whether LPOs entered in the DVEA books as liabilities are cleared when bills are paid: this will enhance to facilitates the production of the statement of creditors.

Paper Money Register: When remittances are received through the post (e.g. bank note, cheque, postal and money orders), they are recorded immediately in paper money register under supervision of a senior officer of the ministry and extra ministerial department. The essence is to control revenue through the post.

Plant and vehicle Register: This book gives detail information on plants and vehicles showing date of acquisition engine/Chassis number location, maintenance or servicing guideli**nes.**

AIE register: It is kept for AIEs issued and received. It also shows whether authorized expenditure is within approved estimates and that the AIEs are backed up by cash when it is properly kept. AIE is recorded in the liability column of the book and initiated by the authorized signatory.

Unclaimed wages register: This register is kept by the officer directly responsible for the payment of labor to record details of repayment to the sub-Accounting officer and the subsequent payment to the affected staff. This register will show details of the payment vouchers involved in each case.

Payment Voucher Register: This register records all payment vouchers in sequential order. It assists in disclosing outstanding, misplaced or loss of vouchers where the book is properly kept. All sections where payment voucher are prepared are mandated to keep a PV register.

Deposit Register: In compliance with (FR 1603) a deposit ledger/register will be maintained by all officers authorized by the Accountant-General to operate deposit accounts and in it will be recorded under the name of the depositor, particulars of all deposits made or withdrawn.

Deposits and withdrawals shall be promptly posted into the Deposit Ledger. It is important that sufficient detail of each deposit be given to ensure recognition of the withdrawal.

Consequent to the above provision in (FR1603) it is also prescribed by (FR1604) that deposit register shall be maintained by the sub-Accounting officer (Sub-Treasurers) and used as a memorandum record.

Dishonored cheques register: All cheques dishonored are recorded in the register stating the PV and Cheque number, Drawers name, Head and Sub-Head, Amount, Bank and branch e.tc.

Adjustment voucher register: This register ensures that all adjustment vouchers raised are properly authorized by the officer controlling Vote and that classifications are charged to the appropriate Heads and sub-heads of expenditure. Where this book is properly kept, correct entries of debit and credits to the DVEA book can be determined by the inspector.

Cheque summary register: All cheques issued and credits to the bank are recorded on a daily basis in this book. The book must be balanced daily, total must be reconciled with the cash book balance(s). The book is kept by an officer other than the cashier. It is expected of the Sub-Accounting officer to sign this register.

Abstract: These are books expected to be kept for receipt and payments and to classify expenditure according to sub-heads. The books are to be reconciled with the cash book on monthly basis before posting to the relevant ledger or for extraction into transcripts or both.

Reconciliation of Accounts

The need for reconciliation arises when two persons or organizations maintain an account simultaneously but at different locations; bank reconciliation is a classic example which is of general application. Reconciliation is found necessary in Government Accounting in many more areas than the reconciliation of bank balance.

It is used to reconcile cash balance as well as balances on any Below-the-line account which Ministries/department keep on the one hand are also kept by the Treasury on the other hand, these include Advance, (Personal and Non-Personal), Deposits etc. Each type of reconciliation has a format but we shall limit ourselves to Bank Reconciliation for the purpose of this pack.

Bank Reconciliation Statement: A bank reconciliation statement is prepared to reconcile the discrepancies between the bank's columns of the cash book with the bank statement received for the month. The documents required for the preparation of bank reconciliation are the cheque, summary register or cash book, monthly bank statements and the cheque stubs, bank reconciliation for the previous month and bank teller.

In public sector the bank reconciliation starts with the balance in the cash book (not with the balance in bank statement) to which are added unpresented cheque and receipts in banks (not in cash book).

Payment in bank (not in cash book) and receipts in cash book (not in bank) are deducted, that is uncredited cheque are deducted. The resultant balance must agree with the balance in the bank statement. With this format, there is no adjustment to the book before the statement is prepared.

Reasons for bank reconciliations: Bank reconciliation is important because of the following:

i. It reveals all cheques debited to the Account by the bank
ii. It reveals any form of unauthorized cheque issued and en-cashed
iii. It reveals authorized transfer
iv. It reveals dishonored cheque for which receipt have been issued on the cheque or draft
v. It reveals some cash pretended to have been paid in through the presentation of forged stamped teller
vi. It reveals some lodgments not credited by the banks either by omission or commission.

Making The Bank Statement figure agree with the cash book figure

Balance as per cash book on (………)			N	
Add:	a.	Unpresented Cheque	+	+
	b.	Direct payments into Bank	+	+
Less:	a.	Uncredited Cheques	-	-
	b.	Bank Charges	-	-
	c.	Direct payment by Bank Statement of the government	-	-
		Balance as per Bank Statement	xxx	xxx

Overdraft: When the bank statement shows an overdraft, there is a different approach. Add where you deduct and deduct where you add. This should not present any difficulty to you because an overdraft is simply treated as negative with the minus (-) sign.

An overdraft represents a negative balance in the bank; it is an amount owed to the bank by the customer.

Bad debt: Bad debts are not reflected in the bank reconciliation statement.

Illustration

On August, 31st 2014, it appeared from the cash book of Taraba State Water Board that she had a balance of N1, 069.99 at her bank. When the cash book was checked with the bank statement, however, it was found that:

i. A dividend of cash N1,000.00 had been paid directly to the bank and was not shown in the cash book;

ii. The last page of the paying-in book showed a deposit of N1,900.50 which had not yet been credited to the account by the bank;

iii. A cheque from Bala for N224, paid into the bank on August, 20th 2014 was shown on the bank statement to been returned dishonored on August, 30th 2014 but no entry had been made in the cash book;

iv. Bank interest and charges of N70.10 had not be recorded in the cash book;

v. Cheques drawn, totaling N793.03 had not been presented at the bank by the end of the month;

vi. The bank had debited N160.00 in error to Taraba State Water Board's account;

vii. The bank statement showed a credit balance of N508.42.

Required:

Prepare the Bank Reconciliation Statement as at 31st August, 2001.

Taraba State Water Board

Bank Reconciliation Statement as at 31st August, 2014

		N	N
	Bal. as per Cash Book		1,069.99
Add:	Unpresented Cheques	793.03	
	Dividend	1000.00	1,793.03
			2863.02
Less:	Unaccredited Cheques	1,900.50	
	Dishonored Cheques	224.00	

Bank Interest and Charges	70.10	
Bank Error	160.00	
		2,354.0
Balance as per Bank Statement		N508.42

3.03 Standardization of Financial Accounting and Reporting for Federal, State and Local Government

By the provisions of the Finance (Control and Management) Act 1958, the Accountant-General of Federation shall issue from time to time Financial Regulations, Instructions, Memoranda Accounting Code Audit Guide and Manuals to be followed by Accounting officers and other employees of each Ministry on all matters relating to the financial accounting, reporting and accounting affairs of the federation which are not by law assigned to any other Accounting officer.

In pursuance of the above, FR 1302 states that, it is in the interest of the economy and flexibility in the transfer of Accounting staff between Ministries and Extra-Ministerial Department that there is within limits, a degree of standardization in the accounting procedures (i.e. financial accounting and reporting) in use in all Federal Ministries and Self Accounting units which is also applicable to States and Local government.

For this purpose, Federal Ministries/Extra-Ministerial Departments, States and Local Government shall use Financial Regulations, Instructions, Memoranda, respectively. Treasury Accounting Manual and Treasury financial circulars are issued by the office of the Accountant-General of the Federation in accounting for their day-to-day financial transactions.

In order to ensure accountability in the financial management of the economy as a result of this standardization, the FR1303 made a provision that, the Accountant-General of the Federation has the responsibility for providing adequate Accounting system in the Extra-Ministerial Department for the control of the collection and disbursement of public funds and the co-ordination of these control system between the various Ministries in general between them and the office of the Accountant-General in particular

3.04 Financial Warrants

Warrant is the authority empowering the officer controlling vote to incur expenditure or delegated to accounting officers to commence expenditure of the allocation for the current financial year. In fact, no expenditure must be incurred by any officer or any service, whether or not included in the estimates, until he has received an authority to do so in accordance with the prescribed Financial Regulations.

Any officer controlling a vote, or part of a vote allocated to him who incurs expenditure without such authority does so in his sole responsibility and will consequently be held pecuniarily responsible for his actions. All warrant must be issued and signed by the Minister/Commissioner of Finance.

In Nigeria, financial warrants are classified into two:

i. Recurrent Expenditure Warrant
ii. Capital Expenditure Warrant

Recurrent Expenditure Warrant

Recurrent expenditure is paid from the Consolidate Revenue Fund and no such expenditure may be incurred except on the authority of a Warrant duly signed by the Minister of Finance, and without such warrant the Accountant-General shall not accept in his accounts any charge upon the Consolidated Revenue Fund. The authority of the Minister of Finance shall be conveyed in one of the following forms of warrant:

- i The Annual General Warrant of Recurrent Expenditure
- ii Provisional General Warrant
- iii Supplementary General Warrant of Recurrent Expenditure
- iv Supplementary (Contingencies) Warrant
- v Virement Warrant
- vi Supplementary (Statutory Expenditure) Warrant

Annual General Warrant

The Annual General Warrant authorizes the Accountant-General to issue funds to pay the Personal Emoluments and other services provided in the Annual Estimates, and authorizes the Officers controlling the expenditure votes to incur expenditure on these purposes.

But the Minister/Commissioner for Finance may exclude from the Annual General Warrant any items of expenditure over which it is desired to exercise special control (see Financial Regulations 406).

The original copy of the Annual General Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Federal/State Official Gazette.

Provisional General Warrant

A Provisional General Warrant, which will be issued if the Appropriation Act has not come into operation at the beginning of the Financial year, provides (for a period of three months, or until the Appropriation Act comes into operation, whichever is the shorter) for the continuance of the service of the Government at a level not exceeding the level of those services prevailing in the previous financial year.

Any money so expended shall not exceed the sum specified in the Estimates presented for approval and shall be set off against the respective amounts provided in the Appropriation Act upon its coming into operation. The original copy of a Provisional General Warrant is addressed to the Accountant-General and signed copy shall be forwarded to Auditor-General.

A notification that the warrant has been signed shall also be published in the Federal/State Official Gazette. However, it shall be deemed lawful for the Accountant-General to pay staff salaries in all Federal Ministries and Extra-Ministerial Departments in January or until the General Warrant or the Provisional General Warrant is issued whichever is earlier.

Supplementary General Warrant

A supplementary General Warrant authorizes the Accountant-General to issue funds to pay for the additional Personal Emolument and other services which may have been approved in the Supplementary Estimates, and for which additional funds have been appropriated by the National Assembly.

The Minister of Finance may exclude from the Supplementary General Warrant the item of expenditure over which it is desired to exercise some control (see Financial Regulation 406).

The original of a Supplementary General Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. A notification that the Warrant has been signed shall also be published in the Federal/State Official Gazette.

Supplementary (Contingencies) Warrant

A Supplementary (Contingencies) Warrant may be issued in very exceptional cases, where virement is not possible and where an application for additional provision reveals such a degree of urgency that the issue of funds cannot without serious injury to the public interest be postponed until a Supplementary Appropriation Act can be passed.

Such authority will be conveyed by the issue of a Contingencies Fund Warrant to the Accountant-General, authorizing him to transfer the necessary funds from the Contingencies Fund to the Consolidated Revenue Fund, and by the issue of a Supplementary (Contingencies) Warrant, authorizing expenditure from the Head and Sub-Heads concerned.

The original copies of both warrants are addressed to the Accountant-General, and signed copies shall be forwarded to the Auditor-General. The Ministry of Finance will also notify the officers controlling the relevant votes of the additional expenditure authorized.

In no circumstances will expenditure incurred under this contingencies Fund procedure be charged, or the relevant vouchers classified, the Contingencies Fund direct. Expenditure authorized under this procedure is subject to the covering approval of the National Assembly at its next meeting and must for this purpose be included in a Supplementary Appropriation Act.

The Supplementary General Warrant will be the authority for the Accountant-General to transfer the sum appropriated to the Contingencies Fund.

Supplementary (Statutory) Expenditure Warrant

A Supplementary (Statutory Expenditure) Warrant authorizes where necessary additional expenditure, over and above that included in the General Warrant or in a Supplementary General Warrant, from votes which are chargeable against the Consolidated Revenue Fund by the virtue of the Constitution of the Federal Republic of Nigeria (e.g. Statutory Appropriation of Revenue to the State Governments) or by Legislation other than the Appropriation Decree (e.g. Statutory Pensions).

The original copy of a Supplementary (Statutory Expenditure) Warrant is addressed to the Accountant-General. The Ministry of Finance will also notify the officers controlling the relevant votes of the additional expenditure authorized.

Virement Warrant

A Virement Warrant may be issued when, as a result of circumstances which could not have been foreseen when the Annual Estimates were framed, additional provision is required under a particular sub-head (or a new sub-head is required) while, at the same time, equivalent savings can be made under another sub-head of the same Head.

Virement warrants are issued under the statutory authority of the Minister of Finance, to authorize by warrant the issue of funds.

Accounting Officers may apply for Virement from the one sub-head to the other under the following conditions:

v. The amount to be vired from any sub-head within a financial year under over-head costs does not exceed 10% of the approved estimates for each sub-head under the over-head costs.

vi. Virement is not used to create a new sub-head or re-introduce items disallowed by the Estimates Committee during the Estimates exercise or by the National Assembly.

vii. Virement does not apply to queries raised by the Auditor-General in respect of the improper expenditure already incurred by a Ministry/Extra Ministerial Department.

A register is kept of all virements made with the details of the virements authorized which shall be forwarded within the month from the date of approval to the Ministry concerned and copies to the Accountant-General and the Auditor-General.

Applications for virement should be submitted to the Ministry of Finance on General Form 57, with a copy to the Auditor-General. In cases where virement involves a question of establishments, grading or personnel, a copy of General Form 57 must also be forwarded direct to the Office of Establishments and Management Services.

Application for authority under Financial Regulation 410 should be made in the same way if any addition is required to the rates of personal emoluments or allowances, or to the number of posts authorized in the Estimates, or if any change is to be made in the grading of such posts, even though the amount provided under the same sub-head will not thereby be exceeded.

Capital Expenditure Warrant

Capital Expenditure is paid from the Development Fund, and no capital expenditure may be incurred except the authority of a warrant duly signed by the Minister/Commissioner of Finance.

Development Fund General Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Official Gazette.

Provisional Development Fund General Warrant

Provisional Development Fund General Warrant, which will be issued if the draft Capital Estimates have not been approved by the National Assembly at the beginning of the financial year, authorizes payment from the Development Fund of such moneys as are necessary for carrying on projects for which any expenditure has been authorized in any previous financial year for a period of 3 months, or until the authority of the National Assembly has been obtained for the draft Capital Estimates for the current financial year whichever is the shorter.

The original copy of a Provisional Development Fund General Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Gazette.

Development Fund Supplementary General Warrant

Development Fund Supplementary General Warrant authorizes the Accountant-General to issue funds, land the officers controlling the votes concerned to incur expenditure, on projects as sanctioned by the National Assembly in resolutions approving Supplementary Capital Estimates.

The Minister of Finance may exclude from the Development Fund Supplementary General Warrant any item of expenditure included in Supplementary Capital Estimates over which it is desired to exercise special control.

The original copy of a Development Fund Supplementary General Warrant is addressed to the Accountant-General and singed copy shall be forwarded to the Auditor-General. A notification that the warrant has been signed shall also be published in the Official Gazette.

Development Fund Supplementary Warrant

A Development Fund Supplementary Warrant authorizes the Accountant-General to issue funds and the officers controlling the votes concerned to incur expenditure in certain circumstances on capital projects beyond the amounts provided for the year concerned in the Annual or Supplementary Capital Estimates.

Its purpose is to accelerate the provision of funds already formally allocated but not yet voted for a project, by bringing forward an amount from the “Balance to Complete” column of the Estimates.

Provision of funds by such a warrant is strictly limited in so far as the amount of the provision brought forward, when added to the total expenditure authorized for the current year must exceed the estimated total cost of the project as shown in the Annual or Supplementary Estimates.

The original copy of a Development Fund Supplementary Warrant is addressed to the Accountant-General and a signed copy shall be forwarded to the Auditor-General. The

Minister of Finance will also notify the officers controlling the relevant votes of the additional expenditure authorized.

Development Fund (Special) Warrant

A Development Fund (Special) Warrant may be authorized by the Council of Ministers when an application for Supplementary provision reveals a degree of urgency which makes it essential that funds be immediately made available to meet expenditure which cannot be provided for by virement nor without serious injury to the public interest, be postponed until adequate provision can be made by the National Assembly.

Virement Procedure

This is issued where additional provision is required under a particular sub-head and an equivalent amount can be saved under another sub-head of the same head. However, virement warrant should not be used to create a new sub-head or used for items disallowed by the Budget or Estimate Committee.

Conditions for an Application for Virement to Be Successful

i. The application must be in writing
ii. The application must state that a particular vote head is in deficit
iii. The application must state that another vote head is in surplus
iv. The application must state that both vote heads are within the same economic head
v. The application must state that after the transfer, the other vote head will not be in deficit
vi. The application must state that virement is not sought to create a new vote-head
vii. The application must state that vehement is not sought to expend money which the Budget ministry had disapproved,

viii. The application must state the exact amount required to be transferred,

ix. The application must state the necessity for such transfer.

3.05 Financial Control Institutions

There are formal and informal institutions of financial control in Nigeria.

Formal institutions:

a. **President-in-Council** which has the responsibility amongst others, for: reviewing preliminary plans prepared by ministries, departments and agencies, and presenting the proposed budget to the National Assembly.

b. **Ministries and Departments** which have amongst others the responsibilities for:

i. Determining departmental policies and guidelines,

ii. Preparing and submitting proposals to the ministry in charge of budget, and

iii. Revising estimates to conform with the executive's decisions

c. **Treasury Department** which has amongst others the responsibilities for:

i. Managing and allocating cash and cash resources,

ii. Accounting for budgeted aggregate receipts and expenditure,

iii. Preparing the accounts of the receipts and payments in aggregate and presenting them for audit.

d. **The Auditor-General for the Federation** whose office has the responsibilities for:

i. Conducting post-audit of the transactions of each government ministry and department,

ii. preparing annual reports to the legislature giving full details of the manner in which appropriations have been utilized and stating instances of misuse of funds, excess expenditure, unauthorized expenditure and shortfall in revenue, and

iii. Giving evidences as may be required by the Public Accounts Committee.

e. **Legislature/ Public Accounts Committee** which has the following responsibilities for:

i. reviewing the Auditor-General's report,

ii. hearing presentations by accounts officers and the Auditor-General on the

iii. management of public funds,

iv. Reporting its findings and making recommendations thereon to the National Assembly.

f. Informal institutions

i. Mass Media

ii. Organised Civil Society

3.06 Review Question

"Government accounting has undergone a number of stages whether as a professional career or an academic discipline. However, certain obstacles attributable to the nature of the public sector have limited the progress achieved so far".

As a professional accountant in training, identify some of the challenges facing the accountancy profession with reference to proper maintenance of books of account

MODULE 4

4.00 BUDGETING IN THE PUBLIC SECTOR

4.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Discuss the concept of budgeting and budgetary control in Nigeria's Public Sector;
ii. Analyze the various methods of budget preparation;
iii. Deconstruct the basics of preparing a cash budget in the Public Sector;
iv. Evaluate the Budgeting Process in Nigeria;
v. Identify the importance of the Medium-Term Expenditure Framework (MTEF) and Medium-Term Sector Strategy (MTSS) in Nigeria;
vi. X-ray the role of The National Assembly in Financial Control in Nigeria.

4.02 Meaning of a Budgeting and Definition of Budgeting

A budget is an authorized financial plan of the anticipated revenue and expenditure of the government. Before the document is approved and hence authorized for implementation, it is referred to as **estimates**. It is a document that is developed for the financial operations of the Nation.

The Chartered Institute of Cost and Management Accountants (CIMA 1981: 45) defines a budget as a financial and/or quantitative statement prepared and approved prior to a defined period of the policy to be pursued during that period for the purpose of attaining given objectives.

Budgeting is the process of putting together the financial information that will enable an organization or the Nation plan to grow and develop the organization or Nation. It is the process of putting together the financial demands of government institutions to be met through various financial sources.

4.03 0bjectives of Budgeting

i. To provide a **mechanism for the control** of the nation's revenue and expenditure.

ii. It is to give **authority** to future spending; it is an expenditure authorization means.

iii. It is to assist policy makers of a Nation to **develop policies** that will lead the Nation to achieve its main objectives.

iv. It aims at setting standards to **enable performance** to be monitored and evaluated

v. It serves as a **motivating device** for both government employees and the departmental managers

vi. The process is aimed at estimating the total income of the government to support its expenditure plans and developments.

vii. It serves to bring together the separate subsystems of the Nation to enable them work together towards the achievement of the objectives of the Nation.

4.04 Budget Preparation

Generally, six types of budget can be identified:

i. **Master budget:** Master Budget is the main budget prepared by the business which includes several budgets that relate to each head for which the budget is prepared. This budget is prepared by incorporating all the departmental summaries. The master budget is usually divided into two sections as follows:

ii. **Capital Budget:** This budget is meant to take care of capital project. Capital expenditure budget summarizes future plans for acquisition of planned facilities and equipment. Capital budgeting is a long-term planning for proposed capital outlays and their financing.

iii. **Recurrent Budget:** This budget on the other hand is meant to cover estimates on a yearly basis. Recurrent budget is made up of recurrent revenue and recurrent expenditure.

iv. Functional budget: This type of budget is a subsidiary to the master budget. It is the sum total of the component functional budget that make up the master budget. This type of budget relates directly to the functional areas of the organization.

v. Static/Fixed/Periodic Budget: Periodic budgeting concerned the operation of a fixed budget, over certain period of time usually a year. When it is adapted the budget would be allowed till the end of the budget period. This is a budget that is designed to remain unchanged irrespective of the volume of output or level of activity attained. This is a budget that is fixed for the entire period of the budget.

vi. **Flexible budget**: This is a budget that recognizes the difference between fixed and variable costs and gives room for result determination and devaluation under varying levels of activity.

vii. **Rolling or Continuous Budget**: This is the continuous updating of short term budget by adding say, a further month or quarter month, and deducting the earliest month or quarter month so that the budget can reflect current conditions.

viii. **The supplementary budget**: This is a budget that becomes necessary when unforeseen events occur that require expenditure beyond the approved budget.

Conditions for Preparing Supplementary Estimate:

i. The voting of the additional money is manifestly in public interest.
ii. The need is so urgent that provision cannot be delayed until the next annual estimates are approved
iii. The money required cannot be found by VIREMENT.

4.05 Government Budgetary Processes

The budgetary process is a cycle of events which occur sequentially every year and which result in the approved budget. In the public sector for instance, the budget process is a formal routine involving the legislative and executive arms of government.

The budget estimates are based on **call circulars** issued by the budget committee. The budget committee is normally made up of all departmental heads or their representatives under the chairmanship of the Chief Executive or his representative with a senior member of the finance staff acting as the budget officer or Director of Budget.

The **call circular is the notice calling on all ministries, departments and their agencies asking them to submit advance proposals**.

When the advanced proposals have been received and the Budget Committee has recommended necessary adjustments where needed, an administrative hearing is normally organized to reconcile the various Ministries or Departments' advance requests and the adjustments that may have been suggested.

The Treasury Department, Establishment Department, Department of National Planning (now a Ministry) and Ministry of Work usually come together to conduct the administrative hearing on behalf of the budget committee before the final conclusion will be forwarded to the executive for presentation to the legislative arm of government.

Federal Government of Nigeria Budgetary Process

The President shall, in accordance with section 79 of the Constitution of the Federal Republic of Nigeria 1989, cause to be prepared and laid before each House of the National Assembly not later than 60days before the expiration of each financial year estimates of the revenues and expenditures of the Federation for the following year.

The budgetary process of the Federal government follows the steps below:

1 **Presidential Budgetary Policy Directives**

After taking into consideration the macro-economic environment, the President articulates the broad budget strategy for next fiscal year on the basis of the policies of his administration and issues a directive through the Minister of Finance to the Budget Office on the action plan for implementing the strategy.

2 **Ministerial Call Circular**

The Budget Office/Bureau of the Ministry of Budget and Planning interprets and further amplifies the President's budget policy guidelines in a Call Circular to the Federal Ministries, Extra-ministerial Departments and Parastatals requesting them to forward before a stipulated date their Advance Proposals of forthcoming fiscal year's budget.

3 Advance Proposal and Ministerial Budget Hearing

In response to the call circular, the Ministries, extra- Ministerial Departments and Parastatals turn in their Advance Proposals to the Budget Office which examines them and where necessary invites the respondents to ministerial budget hearing towards effecting desirable adjustments and corrections.

4 Draft Estimate Consolidation

The budget Office aggregates the Advance Proposals into a Consolidated Draft Estimate of Revenue and Expenditure and routes it through the Minister to the President.

5 Federal Executive Council Review of Draft Estimate

The President presents the consolidated Draft Estimate before the Federal Executive Council made up of the Ministers (and Service Chiefs under the military regime) for deliberation.

6 Federal Executive Council Approval of Draft Estimate

The Executive Council examines the draft estimate, makes its input on it and approves it for the President's presentation to the National Assembly.

7 Presidential Presentation of Draft Estimate for National Assembly Legislative Examination

In compliance with the appropriate section of the constitution, the President causes to be prepared and laid before each House of the National Assembly not later than 60 days before the expiration of each financial year, estimates of the revenue and expenditure of the Federation for the following year. The Draft Estimate is included in a bill, known as Appropriation Bill.

8 Draft Estimate Legislative Ministerial Defense

The National Assembly examines and debates the budget and when necessary relies on the relevant section of the constitution to invite any minister of the government of the Federation to attend either House of the National Assembly to explain to the House, the conduct of his Ministry and in particular to defend and justify the Ministry's budget proposals.

9 Approved Estimate with Passed Appropriate Bill

After the National Assembly has worked on the draft estimate to its satisfaction, the Appropriation Bill is passed subject to necessary amendments, thus transforming the draft estimate into an Approved Estimate. It is thereafter passed to the President to sign the Bill into law.

10 Presidential Assent to Appropriation Bill as Appropriation Act

When the President assents to the Appropriation Bill passed by the National Assembly by signing it into law, it becomes an **Appropriation Act** and gives a legal force to the Approved Estimate. The approved estimate is transmitted to the Minister of Finance to issue warrants as appropriate.

11 Approved Estimate Implementation through Finance Minister Warrants

The Minister of Finance issues warrants as desirable to the Ministries, Extra-ministerial departments and Parastatals towards the implementation of the approved budget.

State Government Budgetary Process

The Governor shall, in accordance with section 199 of 1989 Constitution, cause to be prepared and laid before the House of Assembly not later than 60 days before the expiration of each financial year estimates of the revenue and expenditure of the state for the following financial year.

In preparing the State Government budget, the following steps are involved sequentially:

i. Governor's Budgetary Policy Directives
ii. Call circular
iii. Advance proposals and budget hearing
iv. Draft Estimate Consolidation
v. State executive review of draft estimate
vi. State executive approval of draft estimate
vii. Governor's presentation of draft estimate to State House of Assembly
viii. Defense of draft estimate by commissioners at the invitation of the state house of assembly
ix. Approval of estimate as passed appropriation Bill
x. Governor's Assent to the Appropriation Bill as Appropriation Law
xi. Approved estimate implementation through warrants

Evidently, all the activities embodied in the budgetary process of the Federal Government apply to the State Government.

4.06 Organs of Budget Preparation, Execution and Control

Oshisami (1992:57) identifies the following bodies as playing significant but different roles in budget preparation, execution and control in Nigeria:

The **President-in-Council** which has the responsibility amongst others, for:

i. Reviewing preliminary plans prepared by ministries, departments and agencies, and;
ii. Presenting the proposed budget to the National Assembly.

The **Ministry in charge of Budgeting and National Planning** advises the President and liaises between the President and the various ministries and departments. It has the responsibilities among others, of:

i. developing economic assumptions and forecasts,
ii. issuing budget guidelines to ministries and departments,
iii. compiling total revenue and expenditure estimates,
iv. recommending fiscal policy to the President and
v. Preparing the budget as well as drafting the President's budget speech.

The Ministries and Departments which have among others the responsibility for:

i. determining departmental policies and guidelines,
ii. preparing and submitting proposals to the ministry in charge of budget, and
iii. revising estimates to conform with the executive's decisions

The Treasury Department which has among others the responsibility for:

i. managing and allocating cash and cash resources,
ii. accounting for budgeted aggregate receipts and expenditure,
iii. Preparing the accounts of the receipts and payments in aggregate and presenting for audit.

The Auditor-General for the Federation whose office has the responsibility for:

i. conducting post-audit of the transactions of each government ministry and department,
ii. preparing annual reports to the legislature giving full details of the manner in which appropriations have been utilized and stating instances of misuse of funds, excess expenditure, unauthorized expenditure and shortfall in revenue, and
iii. Giving evidences as may be required by the Public Accounts Committee.

The Public Accounts Committee which has the following responsibility for:

i. reviewing the Auditor-General's report,

ii. hearing presentations by accounts officers and the Auditor-General on the management of public funds,

iii. reporting its findings and making recommendations thereon to the National Assembly.

4.07 Types of Budgeting System/Methods of Budget Preparation

A Budgeting system is the method adopted in preparing the budget such that the organization can reap maximum result from its resources.

The most popular methods of preparing budget estimates are as follows:

i. Line item budgeting method
ii. The traditional or incremental budgeting method
iii. Zero based budgeting system
iv. Programme planning budgeting system
v. Performance budgeting

Line Item Budgeting System

Under this system, budgets are prepared based on the items government intends to spend money on. e.g.

Sub-Head	**Expenditure**	**Amount ('000)**
1	Personnel Emolument	100,000
2	Consultancy Service	15,000
3	Stationery	25,000
4	Maintenance	60,000

200,000

This method of budget preparation only tells us about the item on which money is to be spent but nothing about what government intends to achieve by spending the money.

Traditional or Incremental Budgeting

The **traditional budgeting** also known as **incremental budgeting system** is a system whereby budget for the in-coming period are prepared and approved based on the previous year budget. Certain percentages are then added to the previous and incoming year's budget. The percentage added is based essentially on three things namely:

i. Inflation
ii. Expected increase in resource to be used
iii. Changes in the previous year results.

This is the typical budgeting system operated by government. The proposed year's budget will be calculated as the **base year's budget multiplied by Inflation factor plus the Cost of New Activities.**

b1 = (b0 x i) + (c1 x i)

Where:

b1	=	Proposed budget
b0	=	Base year budget
I	=	Inflation rate (factor)
c1	=	Cost of new facilities

Illustration:

From the following information below, compute the proposed budgeted amount for Sub-head 7: Maintenance of motor vehicle for the year 2008.

a. In the 2007 budget, N750,000 was approved for the maintenance of 10 Motor-Vehicles.

b. Additional 5 motor vehicles will be required to beef up the activities of the Organization.

c. The inflation rate is fixed at 30%.

Solution:

Base year's budget	-	#750,000
Inflation rate	-	30%
New Activities	-	Cost of maintaining additional 5 motor vehicles = ((#75,000* 5 Motor vehicles) = #375,000

b1 = (b0 x i) + (c1 x i)

Where:

b1 = Proposed budget

b0 = Base year budget

I = Inflation rate (factor)

c1 = Cost of new facilities

(#750,000 x 1.30) + (375,000 x 1.30)

= 975,000+487,500 = **#1,462,500**

Zero-Base Budgeting (ZBB)

Zero Base Budgeting implies starting a budget from a zero situation rather than merely adding to or subtracting from historical budget or actual on a differential basis. It is an approach to cost planning which rejects the customary view of budgeting as an incremental process which simply adds to figure of the previous budgets.

Under Zero-base budgeting, it is assumed that every activity or function of the budget starts form zero, and remains so until the manager can justify the continued existence of the activity for which he is responsible for and the way in which the activity is carried out.

Performance Budgeting

Performance Budgeting can be defined as that budgeting system in which the input of resources is related to the output of services/product.

It represents the objectives and purposes for which funds are requested. **It describes what government does rather than what it buys**. It was first adopted in Nigeria in 1981 but later discontinued.

Planning, Programme and Budgeting System (PPBS)

This budgeting approach is programme oriented. It is a new comprehensive system of budgeting; used in the USA and UK. This is an analytical tool used to assist management in the analysis of alternatives as a basis for rational decision making.

It is a system for an organisation as a whole. **It provides regular procedures for reviewing goals and objectives, for selecting and planning programmes over a period of years in terms of output and resources**. Its major characteristic is that objectives and programme costs are formulated over a period of years within the context of a medium-term plan, thus permitting a longer financial perspective than the traditional budgeting system would allow.

PPBS Features:

i. Identification of goals and objectives in each major area of government activities.

ii. Analysis of the output of a given programme in terms of its objectives.

iii. Measurement of total programme cost not for just one but for at least several

iv. Years ahead.

v. Formulation of objectives and programmes extending beyond the single year of the annual budget.

vi. Analysis of alternatives to find the most effective means of reaching basic programme objectives.

4.08 Factors Affecting Government Budget

I. Human Element

Human element affects the budget. The popularity of the personality that is evolved matters. The popularity, strategy and reputation of the government affect the budget.

i. Capacity of the Nation

Capacity of the nation affects the budget. Does the nation have capacity to carry out the project? Do we have skilled manpower? Are we efficient with the nations resources?

ii. Type of Project

How successful the budget is, depends on the type of project it consists. Some projects are popular while some are not. Unpopular projects may face stiff implementation problem.

iii. Inflation

If there is a reduction in the value of money, that is if there is an increase in inflation rate, the nation's purchasing power will be reduced. The implementation of the budget will run into problems. The revenue we have will not be able to cover the expenditure.

4.09 Personnel Cost Budgeting

This is the budgeting for salaries and allowances of staff. They are budgeted for according to departments and sections in the ministry. Two methods can be used to prepare the personnel cost budget:

On Estimate Cost: Under this method, the personnel cost budget is prepared based on selected policy of the organisation e.g. organisation **A** may choose step 3 of each grade level to prepare its budget while organisation **B** may choose step 5 depending on the number of staff on certain step.

([x-1] incremental rate + Basic Salary)n

Where x = new step

n = no. Of staff on that level

On Actual Cost: The personnel cost is prepared based on the actual amount to be paid out in the next financial year. Individual steps will be used to calculate the personnel costs taking into consideration the following points:

i. Annual increment (step)
ii. Officers due for promotion
iii. Officers retiring from service
iv. New appointments

Illustration

Personnel Cost Budget (On Estimate Cost)

The Personnel division of the Women's Affairs Ministry is about preparing its year 2006 personnel budget. As the newly posted Accountant to that division, you have been called upon to prepare the budget. Going through the records you ascertained the following:

Job Title	No. in Post	Grade Level	Salary (N)
Director of Women's Affairs	-	16	220,000 + 10,000
Deputy Director	1	15	180.000 + 6,000
Assistant Director	2	14	170,000 + 5,500
Assistant Chief Accountant	2	13	140,000 + 5,400
Principal Accountant	4	12	120,000 + 5,200
Senior Women's Affairs Officer	8	10	100,000 + 4,000
Women's Affairs Officer I	6	09	85,000 + 3,600
Women's Affairs Officer II	8	08	75,000 + 3,000
Principal Women's Affairs Assistants	12	10	100,000 + 4,000
Senior Women's Affairs Assistant	10	09	85,000 +3,600
H.E.O (Accounts)	12	08	75,000 + 3,000
E.O (Women's Affairs)	15	07	70,000 + 2,700
Field Women's Affairs Officer I	21	06	62,000 + 2,500
Senior Clerical Officer	18	05	50,000 + 2,000
Clerical Officer	25	04	42,000 +1,800
Assistant Clerical Officer	20	03	40,000 + 1,500
Office Assistant	5	03	40,000 + 1,500
Drivers	10	03	40,000 + 1,500
Cleaners	15	02	30,000 +1,200

Additional relevant information includes:

(i) All the salary shown above is step 1 of each grade and it is the management policy to forward personnel cost based on step 4 of the grade level.

(ii) The Deputy Director and one of the Assistant Directors are due for promotion during the budget year. Two Principal Women Affairs Assistants are to retire at the end of the current year.

(iii) During the year 2006, four Senior Women Affairs Officers will be employed to strengthen the Women Affairs department.

(iv) Staff allowances constitutes 30% of staff salaries

Required:

Prepare the Personnel Cost Budget for the year 2006 based on the above information.

Solution:

([x-1] incremental rate + Basic Salary)n

Add Staff Allowance

Where x = new step

n = Number of staff on that level

JOB TITLE	NO. IN POST	GRADE LEVEL	ESTIMATED SALARY
Director of Social Affairs	1	16	250,000
Deputy Director	1	15	198,000
Assistant Director	1	14	186,500
Assistant Chief Accountant	2	13	312,400
Principal Accountant	4	12	542,400
Senior Women's Affairs Officer	12	10	1,344,000
Women Affairs officers I	6	09	574,800

Women's Affairs Officers II	8	08	672,000
Principal Women's Affairs Asst.	10	10	1,120,000
Senior Women's Affair Assistant	10	09	958,000
H.E.O (Accounts)	12	08	1,008,000
E.O. Women's Affairs	15	07	1,171,500
Fields Women's Affairs Officer I	21	06	1,459,500
Senior Clerical officer	18	05	1,008,000
Clerical Officer	25	04	1,185,000
Asst. Clerical Officer	20	03	890,000
Office Assistant	05	03	222,500
Driver	10	03	445,000
Cleaner	15	02	504,000
			14,051,600
STAFF ALLOWANCE (30%)			4,215,480
			18,267,080

Personal cost brought (On Actual Cost)

Illustration 1

The Budget and Planning Department of Lagos State has issued a call circular to the Ministry of Labour and Productivity to submit its personnel budget proposal for 2007.

The present position of the Ministry is as follows:

	No.	**Grade**	**Salaries**
Permanent Secretary	1	17	20,000x2, 400
Directors	3	16	18,000x2, 100
Chief Engineers	3	15	17,000x2, 000
Deputy Chief Engineers	7	14	15,000x2, 000
Chief Accountant	1	15	17,000x2, 000

Deputy Chief Accountant	2	14	15,000x2, 000
Assistant Chief Accountant	5	13	13,500x600
Senior Engineers	14	10	10,500x550
Senior Accountants	6	10	10,500x550
Engineers	25	9	9,000x500
Accountants	1	12	12,000x500
Higher Executive Officers	40	8	8,000x500
Executives Officers	85	7	8,000x400
Assistant Executive Officers	120	6	5,000x400
Chief Clerical Officers	150	5	4,000x350
Clerical officers	180	4	3,600x300
Cleaners	10	2	1,800x200
Gateman	10	1	1,500x150

Budgetary information from the Ministry of Budget and Planning are as follows:

i) For the purpose of the budget all senior staff on Grade level 10 and above are assumed to be on step 3 of their respective grades and other staff below them are on step 2 at present

ii) The state government is to construct additional buildings in its residential housing estate in 2007 and as a result 7 additional engineers are to be employed on Grade level 9 step 2 and clerical officers and below are to increase by 10%. New entrants of these junior staff are to enter on step 2in the respective grades.

iii) 5 of the present Engineers whose performance were considered very outstanding should be promoted to Senior Engineers on grade level 10 step 3.

iv) 3 of the Assistant Chief Accountants are to be promoted to Deputy Chief Accountants on grade level 14 step 3

v) In view of the incessant attacks on the Ministry by robbers, it was decided to employ 7 Night Guards on Grade level 4 step 3

vi) Allowances of all staff are 45% of their basic salaries.

Required:

Prepare personnel Budget for the Ministry for the year ending 31st December 2007.

Solution:

([x-1] incremental rate + Basic Salary)n

Add staff Allowance

Where x = new step

n = no. of staff on that level

Note that Personnel must get Increment automatically.

Position	**Grade**	**No. Of Staff**	**Estimate**
Permanent Secretary	17	1	27,200
Directors	16	3	72,900
Chief Engineers	15	3	69,000
Deputy Chief Engineer	14	7	147,000
Chief Accountant	15	1	23,000
Deputy Chief Accountant	14	5	99,000
Assistant Chief Accountant	13	2	30,600
Senior Engineer	10	19	228,100
Engineers	9	27	266,500
Accountants	12	1	13,500
H.E.O	8	40	360,000
Exec. Officer	7	85	748,000
A.E.O	6	120	696,000

Chief Clerical Officer	5	150	705,000
Clerical Officer	4	198	826,200
Night Guard	4	7	29,400
Cleaners	2	11	24,000
Gatemen	1	11	19,650
			4,457,950

STAFF ALLOWANCE (45%)

2,006,077.50

6,464,027.50

4.10 Cash Budget

Cash budget is a means of forecasting or is prepared to show the expected receipt of cash and payments of cash during the budget period. Cash budget is usually divided into smaller time periods such as one month to three months. Cash budget is grouped into two parts; Receipt and Payment.

Receipts: Cash receipts could be from cash sales, payments by debtors, sales of fixed assets, the receipt of interest and dividend from investment.

Payments: Cash payment may be for the purchase of stocks, payment of salaries and wages, payment for other expenses.

Illustration:

Nuko State Government has been undertaking fish farming. The State Governor is however apprehensive about the viability of the project and its ability to finance itself in view of the increasing production cost. The expected Cash-in Hand as at January, 1st 2007 is #375,000.

The Following information concerns the budgeted sales and purchases of the farm.

Sale Budget	Purchases Budget	
	N	N
November 2006	1,000,000	
December 2006	1,125,000	750,000
January 2007	937,500	685,000
February 2007	937,500	562,500
March 2007	1,000,000	687,500

Analysis of records shows that debtors settle according to the following pattern:

70% within the month of sale
30% in the following month

All purchases are on credit. Past experience shows that 90% of the purchase costs are settled in the month of transaction and the balance in the subsequent month. Overhead costs of N375,000 per month will have to be paid monthly.

You are required to:
Prepare the state Government cash budget for January, February and March, 2007

Nuko State Government

Cash Budget (January – March, 2007)

	JANUARY	FEBRUARY	MARCH
RECIEPTS	N	N	N
Balance b/fwd	375,000	302,000	290,000
Cash from Debtors	337,500		
70%	656,250	656,250	700,000
30%	-	281,250	281,250
	1,368750	1,239,750	1,271,250
Payments:			
Payments to Creditors	75,000		
90%	616,500	506,250	618,750
10%	-	68,500	56,250
Overhead Costs	375,000	375,000	375,000
	1,066,500	949,750	1,050,000
	302,250	290,000	221,250

Note:

- 30th of December 2006, sales will be received in January 2007

  100

  i.e 30% of N1,125,000 = N337,500.

- 10th of December 2006, purchases will b paid in January 2007

  100

  i.e 10% N750,000 = N75,000

4.11 Review Question

‘Nigeria as a nation has faced some challenges relating to its budgeting processes. This challenges have thrown up strange words like ‘budget padding’ into our academic literature, hence the need for a reform of our budgeting system and processes’.

You have just been nominated into the Budgetary Reforms Committee of the Federal Government. Suggest ways by which our budgeting system can be more transparent and development-driven.

MODULE 5

5.00 AUDITING IN THE PUBLIC SECTOR

5.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Examine the nature, meaning and the need for Auditing as well as explore the history of Auditing;
ii. Have a firm grasp of the core Objectives of Auditing especially in the public sector;
iii. Examine the various classifications of Government Audits;
iv. Analyze the concept of Internal Audit and Internal Checks;
v. Evaluate the responsibilities of the Public Accounts Committee, The Office of the Auditor-General for the Federation and the Audit Alarm Committee;
vi. Examine the concepts of Value for Money Audit, Audit Queries and Assurance Engagements**.**

5.02 Definitions of Audit

Audit is defined by the International Audit Practice Committee as an independent examination of the financial statement of an enterprise by an appointed Auditor in accordance with the terms of his engagement and in compliance with relevant statutory and professional requirements in other for him to draw his own opinion on the truth and fairness of the records examined.

Financial audits are characterized by **attest** functions (Granof and Khumanwala, 2011). To them, attest means "**to affirm to be correct true or genuine; corroborate"**. The attest function adds credibility to the assertion of others in the case of an independent financial audit to an entity's financial data as presented by Management.

In the public sector, auditing extends beyond the attest function. Auditors not only attest to the data reported in financial statements, they also make and report upon, their own independent evaluations as to whether auditees have complied with appropriate statutes and professional pronouncement.

They also access whether the auditees have achieved their objectives and carried out their missions economically, efficiently and effectively.

5.03 Objectives of Auditing

Millichamp (1990) classified the objectives of auditing into two: viz primary and secondary objectives.

The **primary objective of an audit** is to enable the auditor report as to whether the financial statements of an organization present a true and fair view of the state of the financial affairs so that any person reading and using them can believe and rely on the financial statements.

The **secondary objectives of auditing are:**

i. Detection of error and fraud
ii. Prevention of errors and fraud by the deterrent and moral effect of the audit.
iii. Spin-off effect

To achieve the above objectives, it is paramount that the auditors must:

i. Be independent in terms of his programme, area of investigation and freedom in reporting activities.
ii. The scope of his right must be adequate
iii. Must be adequately qualified in terms of his exercise and professionalism of his staff.

The resources at his disposal must be adequate.

5.04 Auditing in the Public Sector

Government Organisations must be managed in such a way that their objectives are achieved, hence the need for performance evaluation. Auditing is one of the ways of carrying out performance evaluation.

Auditing is a discipline in its own right and therefore comprehensive coverage of it is well beyond the scope of this pack. However, some unique features of auditing in the public sector will be discussed.

5.05 Types of Audit in Government

Government auditing standards characterized government audits into three categories as cited by Granof and Khumawala (2011) to include financial audit performance and audit attestation engagement which are explained by them in the following ways:

i. Financial Audit

This determines whether an entity's financial statements are presented fairly in accordance with Generally Accepted Accounting Principles. They may also have related objectives, such as ensuring that the entity has complied with laws and regulations that may have a material effect on the financial statements, providing special reports on selected accounts or items of a financial statement, issuing letters for underwriters or other parties, and reviewing interim financial data.

ii. Attestation Engagements

This covers a broader scope of engagements than financial audits. They involve examining, reviewing, or performing agreed-upon procedures as to various types of management assertions. For example, subject of attestation engagements might include:

i. An entity's internal accounting or administrative controls
ii. Compliance with rules, regulations, or terms of contracts

iii. Prospective or pro forma financial statements
iv. Costs of contracts

iii. Performance Audits

Often referred to as operational audits, may be intended to achieve a variety of different objectives. These include:

i. Measuring the extent to which a programme is achieving its goals and objectives
ii. Providing guidance as to how the organization can improve in the future; that is, providing information on "best practice," analyzing alternatives to existing programmes, and assessing budgeting proposals.

5.06 Classification of Government Audit

Auditing in government is classified into two viz: Internal and External Audit

Internal Auditing

Millichamp (1990) define internal audit as "an independent appraisal function within an organization for the review of systems of control and quality of performance as a basis for service to management, objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic efficient and effective use of resources.

The policy thrust of government on internal auditing is in line with Financial Regulation year 2000 as revised by section 2001, which states that, the Accounting Officer of a Ministry or Extra-Ministerial Department shall ensure that an Internal Audit Unit is established to provide a complete and continuous audit of the accounts and records of revenue and expenditure, plants, allocated stores and unallocated stores where applicable.

The Internal Audit function shall also include Management Audit encompassing other areas of activities and functions of a Ministry/Extra-Ministerial Department. The existence of an Internal Audit Unit will not divest any members of the Ministry or Extra-Ministerial Department of the individual responsibilities placed upon him, neither will it obviate the necessity for normal departmental checks.

Appointment of Internal auditor

FR provides that Accounting Officer of the Ministry shall ensure that the Internal Audit function of the Ministry/Extra-Ministerial Department or Unit is placed directly under the control of a competent Accounts Officer trained in Treasury duties by the office of the Accountant-General. In line with this, Accounting Officer concerned is responsible for the appointment of Internal Auditor.

Duties of Internal auditors

Subject to the provision of FR 2003 the Internal Auditor In-charge of a ministry will be directly responsible to the Accounting Officer for a comprehensive audit of all the operations and activities of the Ministry/Extra-Ministerial Department.

For this purpose, he shall carryout not only financial audits but also Management Audit of other areas of the ministry's functions with a view to monitoring their efficiency and effectiveness.

Further duties of the Internal Auditors include:

i. To review the data and various management information made available to management for decision making.
ii. A continuous appraisal of the system of internal control within the Ministry/Extra Ministerial Department for adequacy, make a report and recommend to the management any required amendment.

iii. Carrying out on a continuous basis a review of the transactions of the Ministry/Extra-Ministerial Department for compliance with the established procedure.
iv. Carrying out special investigation on the specific aspects of the Ministry/Extra-Ministerial Department as may be directed by the management or Auditor-General.
v. Liaise with the external auditor in order to ensure the efficiency and effectiveness of the examination and which may also result in some cost saving.
vi. Providing technical support and know how to Management for the establishment, implementation and improvement in the systems of internal control.

Attributes of the internal auditor:

i. He/she should be a qualified Accountant, adequately supported by staff of the right number, grade and experience.
ii. The team should be appropriately trained in their assigned duties
iii. There should be a constructive working relationship between the Internal Auditor, the rest of the management team and the External Auditor
iv. He should be able to approach his work with the same level of care and skill as expected from an External Auditor
v. He should be able to plan his work systematically such that all aspects of the Ministry/Extra-Ministerial Department are covered
vi. He should be able, in the course of his work to collect evidence which are sufficient, relevant and reliable for his report

vii. His report should be timely, accurate and comprehensive in order that Management may have a perfect understanding of the affairs of the organization and to be able to make informed decisions.

Relationship between external and internal auditors

i. Common Interest:

a. An effective system of internal control
b. Continuous operation of such system and to report cases of failure
c. Adequate management information flow
d. Assets safeguarding
e. Adequate accounting system
f. Ensuring compliance with statutory and regulatory requirements

ii. **Differences**

1. Appointment: the Internal Auditor is appointed by the Management, while the External Auditor is appointed by the recommendation of the Auditor-General.

2. Qualification: there are no specific qualifications required of the Internal Auditor while the Companies and Allied Matter Act prescribes the minimum qualification required of External Auditor (membership of a body of Accountants in Nigeria established from time by an Act or Decree).

3. Function: the functions of the Internal Auditor are defined by the Management who appointed him while the duties and responsibilities of the External Auditor are outlined by the law e.g. Financial Regulation.

4. Scope: the extent of the work of the Internal Auditor is determined by the Management, while the scope of the work of the External Auditor is laid down by statute and may not be limited by Management.

5. Approach: the Internal Auditor approaches his work with a view to ascertaining the efficiency or otherwise of the system of the internal control and the management information system. The External Auditor approaches his work primarily with a view to ascertaining the truth and fairness of the financial statements.

6. Report: the Internal Auditor addresses his report to management while, the External Auditor's report is addressed to the Auditor-General.

7. Remuneration: Internal Auditor's remuneration is fixed internally by Management which is salary based. While that of the External Auditor is fixed by the Auditor-General.

Areas of Work Overlap:

i. Examination of the system of internal control
ii. Examination of the accounting records and supporting documents
iii. Verification of assets and liabilities
iv. Observation, enquiry and the making of statistical and accounting ratio measurement.

5.07 Audit Programme

Audit programme is simply a list of work or detailed statement or time table an auditor does at the inception of his audit, giving full instructions and guideline to audit assistant/officer as to how they should carry out the audit work and make it more dependable. At one time an audit programme would contain entries like “vouch three months wages”.

Audit programme is usually in columnar form containing the name of the assistant/officer doing the work, the type of audit work, the date of commencement, the date of completion, the signature and the remarks columns. Each assistant/officer acknowledges the activities carried out by him through signatories and initials so that responsibilities can rest upon him for the work he has done.

FR 2004 provides that the Internal Auditor-in-charge shall ensure that the programme of audit is extended to cover all the records of the Ministry, Department or Unit in order to satisfy himself that:

a. The safeguards introduced for the prevention or the prompt detection of fraud and loss of cash are adequate. Normal safeguards include the observance of Government and Department regulations and instructions, and for existence of internal checks.

b. The system for the control of the collection of revenue is adequate, and that all monies received have been promptly brought to account, to the correct head and sub-head.

c. The system for the control of expenditure is adequate and that all payments made are properly authorized and correct, that they are paid to the right person from the correct head and sub-head, and made for the purpose for which they were authorized.

d. A system for the control of the issue and consumption of stories is adequate, that all issues are properly authorized and correct, that issues are made to the right person, and are used for the purpose for which they are authorized.

e. There are adequate means for the verification by him of all cash, stores, plant held.

f. The accounting records are accurate.

The Internal Auditor shall submit a detailed audit programme to his Accounting Officer and send copies to the Accountant-General and Auditor-General.

Specimen of audit Programme

Audit programme

Name	Type of work	Date of Commencement	Date of completion	Signature	Remarks

Advantages of audit programme:

- It provides a clear set of instructions on the work to be carried out. A clear perspective of the work involved is made available.
- They provide a clear record of the work carried out and by whom. In event of any subsequent enquiry, the actual audit staff engaged on the work may be ascertained

- Work will not be duplicated
- Work can be reviewed by supervisors and managers
- The chance of important work being over looked is obviated
- Evidence of work done is available for use in defending actions for negligence
- A performance record of the work is constantly available
- There is allocation of the work between clerks
- The resumption of work by those taking up the audit after its commencement
- Programmes may easily be kept up-to-up by variation as required

Disadvantages of audit Programme

i. Work may tend to become mechanical, variation in the working system of the organization being overlooked

ii. If work is performed to a predetermined plan, the Ministry staff may become aware of the fact and fraud is facilitated

iii. Work may be hurried in order to complete a required schedule, whereas there will be greater concentration on one aspect, even if this involve omission of another which might be of advantage(s) on occasion

iv. Parts may be executed without regards to the whole scheme

v. Initiative may be stifled

vi. Programmes are rigidly adhered to.

vii. There is audit theory that when an auditor's suspicions are aroused (the usual term is put upon enquiry) he should probe the matter to the bottom). A fixed audit programme and limited time tend to inhibit such probing.

5.08 Progress Register

Audit progress register is a register maintained to record the progress of the audit as contained in the audit programme. FR 2008 provides that the Internal Auditor-in-charge will maintain under his control a register to record the progress of the audit.

The register will normally be in columnar form of not less than thirteen columns to record in the first column the specific task to be undertaken in the course of the internal audit and the officer-in-charge of each task should initial in the appropriate extension column against each task for each month. The inspection of headquarters accounts or treasury cash offices should normally be on a continuous basis throughout the year whist inspection of separate units might be on a periodical basis.

SPECIMEN

MINISTRY OF COMMERCE AND INDUSTRY INTERNAL AUDIT DEPARTMENT

PROGRESS REGISTER (JAN 2014)

Units	Nature of Task	Check by when	Remarks
1	Headquarters Accounts		In Progress
2	Self-Accounting Cash Book		Completed
3	Revenue Collectors Cash Book		Completed
4	Bank Reconciliation		In progress
5	Inland Revenue Returns		Completed
6	Deposit		In progress

5.09 Audit Guide

The Internal Auditor-in-charge will draw up detailed internal audit guides for the use of the staff, setting out concisely the nature and extent of the checks to be applied to each account or record. The guide will be comprehensive and will be in amplification of the Audit Programme, and it will explain the general nature of the account, the relationship to the function of the Ministry, Department or Unit, and contain references to the basis in law, any relevant accounting instruction issued by the Accountant-General or other instruction issued by the Government.

Below is an example of Audit Guide

Ministry of Commerce and Industry Internal Audit Department

Audit Guide

Theme: Requisition and Issue of Stores

a. **Requisitions for stores-** the examination should cover the following areas:

    i. Ensure that the requisition is checked by a responsible officer

    ii. Ensure that it is signed by the authorized requisitioning officer

    iii. Ensure that the correct rate of charge is quoted

    iv. Ensure that the quantity required is not excessive and the voucher is otherwise correct.

    v. Ensure that the Head of Ministry/Departments furnish specimen signatures of authorized requisitioning Officers to the stores issuing department.

b. **Stores issues**; the following areas should be covered;

    i. Ensure that issue of stores is supported by Store Issue Voucher in the prescribed form.

    ii. Ensure that the issuing Officer sign each Voucher

    iii. Ensure that the requisitioning Officer acknowledges the receipt of stores by signing and returning the original voucher to the issuing officer for filing.

5.10 Internal Control System

Internal control is defined by the International Audit Practice Committee in Millichamp (1996), "as the whole system of controls, financial or otherwise established by the Management of an enterprise in order to carry on the business of the enterprise in orderly and efficient manner, ensure adherence to Management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records".

Characteristics of Internal Control

These are the types or features of internal control and are stated below using the mnemonic "PAPAMOSSAB".

i. **Physical:** This is concerned mainly with custody of the assets and involves procedures and security measures designed to ensure that access is limited to authorized personnel. It is a control which ensures that assets must be kept physically secured.

ii. **Authorization and Approval:** This is a type of control that ensures that all transaction should be authorized or approved by a person carrying the appropriate responsibility. The authorization limits should be specified. For example:

   a. All capital expenditure beyond N5,000,000.00 must be approved by the Board.

   b. All procurement is approved by the procurement control Department.

iii. **Personnel:** There should be procedures to ensure that personnel have capacities to commensurate with their responsibilities. Staff allocated to duties is capable and sufficiently motivated to integrity. I.e. Round pegs should be put in round holes"; personnel that are not capable for a job should not be employed for the job using sentiments. It is only the staff that is capable of doing particular types of jobs that should be employed by the management.

iv. **Arithmetic and Accounting:** these are controls within the recording function which check the transactions to be recorded and that they are correctly recorded and ensure accurate processing. It includes checking the arithmetic accuracy of records through the checking of totals, reconciliation, control accounts and trial balances.

v. **Management Controls:** These are the controls exercised by the management outside the daily routine of the system. Budget and preparation of periodic management accounts are examples of management control.

vi. **Organisation:** There should be an organizational plan which shows clearly the level of responsibility and authority of each employee and relationship with staff in terms of authority example, each employee should know the power delegated to him and to whom he should report meaning that, every employee's level of authority should be clearly identifiable.

vii. **Segregation of Duties:** It is closely related to internal check. It is to ensure that no employee does more than one aspect of transaction example employee is responsible for all aspect of transaction right from inception to conclusion. This reduces the risk of accidental error or deliberate fraud.

viii. **Supervisory:** It should include the supervision by responsible official of day to day transaction and the recording management on their subordinate.

ix. **Acknowledgement of Performance:** Every employee of the organization should acknowledge activities carried out by them through signatories and initials. If performances of activities are acknowledged by the person that does it, blames or praises can be easily ascribed to the employee, also it boosts the ego of the person and makes the person to consider himself important in the business.

x. **Budgeting:** This is a predetermined line of action to be taken by an enterprise usually expressed in a quantitative manner and which has been authorized by the Management with the budgets in place. The actual performances can easily be compared with the budgeted and the differences analyzed. This leads to giving corrective action on the difference and prevent similar occurrence in the future.

Evaluation of Internal Controls

Public Sector Auditing Standard (1997) provides that for the assessment of the quality of internal controls, the auditor should obtain:

- Sufficient understanding of internal controls both financial and otherwise which have been established in the audited entity; determine the scope of audit and the nature, timing and extent of tests to be performed.
- An understanding of management controls that are relevant to the audit; and
- Sufficient evidence to support the judgment about those controls which are significant to audit objectives.

The study and evaluation of internal controls should be carried out according to the type of audit undertaken. For example:

a. **In the case of financial audit,** study and evaluation are made mainly on controls that:

i. Assist in safeguarding assets and resources

ii. Assure the accuracy and completeness of accounting records:

iii. Assist Management in complying with laws and regulations.

b. **In the case of performance audits,** study and evaluation of internal controls are made on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner. Ensuring adherence to management policies and producing timely and reliable financial and management information.

Internal Audit Reports

By the nature of their appointment, Internal Auditors are directly responsible to the Accounting Officer for a comprehensive audit of all the operations and activities of the Ministry/Extra-Ministerial Department. In view of these FR 2007 made the following provisions concerning his report.

The Internal Auditor-in-charge will render a half-yearly report to his Accounting Officer, with copies to the Auditor-General and the Accountant-General, to certify to what degree he is satisfied with the safeguards against fraud, with the control of the receipts and payment, with the controls on the issues and consumption of stores with the verification of cash and stores held, and with the accuracy of the accounting records.

The report will also include his observations on the economy of operation, efficiency, and effectiveness of other areas of activities and functions of the Ministry/Extra-Ministerial Department. In line with these reporting functions, the Internal Auditor assists towards ensuring that operational policies and procedures are adhered to.

Internal Auditors in their capacity are expected to provide two categories of report as described by Fasua (2014). They are:

i Special or ad-hoc report; and

ii Routine reports.

Special Internal Audit Reports

As gathered from the name, these are reports prepared and presented at the end of special audits or investigation exercises. They normally follow from assignments commissioned towards addressing certain identified problems. Such reports are prepared where for instance, some discrepancies are discovered or a fraudulent practice has come to light.

Reports of this nature are therefore likely to vary depending on the reason(s) for commissioning the special audits or investigations. From a general perspective, Internal Auditors are usually required to present their special reports in very good and clear formats. In particular, such reports should be able to cover adequately the following items clearly with no element of ambiguity.

Purpose: State precisely the reasons or the special audit and the objective being pursued

b. Scope: Indicate the scope in terms of time period covered, the records examined and the various techniques involved towards drawing conclusion.

c. Results: State the outcome from the audit or investigation by the way of actual findings.

d. Recommendations: Provide from a technical point of view, suitable recommendations aimed at providing immediate remedies and strategies towards guarding against future occurrence. Note that Auditors in such circumstances are only to report and suggest their recommendations while responsibility for implementation rests with management.

Routine Internal Audit Reports

As part of their schedules, Internal Auditors are duty bound to provide routine reports so as to guide management on any relevant issues identified and the manner to ensure compliance with organizational policies.

Also, as heads of units, Internal Auditors should be able to articulate on regular basis, routine reports for presentation to management. The reports in this case can take any suitable formats depending on the experience and background of the Auditor concerned. However, as a matter of general principle, routine internal reports should on the average highlight the following, among others:

i. Policy compliance
ii. State of accounting records and documentation
iii. Internal control systems and their effectiveness
iv. Recommendations

A further point to note in this context is that while all major items are covered in their main reports, the Internal Auditors may come across some minor problems in which case they have to draw the attention of appropriate supervisors for necessary corrections. This is because it is not always normal and easy for all items to be reported to highest authorities as observed. Granof and Khumawala (2011).

"The auditor who shows a desire to help and advice will probably gain greater co-operation and be more effective than one who feel bound to reveal every minor irregularity at the highest level".

By way of final note, it must be appreciated that internal auditor's reports must necessarily be also need to be of high quality if Managements are to take them into confidence. Similarly, on most occasions, external auditors would like to make use of information emanating from Internal Auditors so long as such information is qualitative. This again calls for good information to be provided by internal auditors through their reports.

Contents of Reports

The content of all audit opinions and reports are founded on the following general guidelines as provided by Public Sector Auditing Standards (1997)

a. **Title:** The opinion or report should be preceded by a suitable title or heading enabling the reader to distinguish it from statement and information issued by others.

b. **Signature and Date:** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which in the case of financial audit may be beyond the period of the financial statements).

c. **Objectives and Scope:** The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

d. **Completeness:**

i. Financial Audit

The Auditor's opinions should be appended to and published with financial statements to which they relate. The opinions and reports should be presented as prepared by the auditor. The auditor should exercise his full independence. In exercising this independence, the auditor should include whatever he considers fit. He should be free to acquire information from time to time which in the national interest cannot be readily disclosed. Where the auditor is in possession of a very sensitive information which when disclosed will compromise national interest, he has the responsibility to present a separate report under confidential cover to the relevant authority.

ii. **Performance Audit**

The Auditor's reports usually stand alone. The range from reports of two or three pages to those that run into one or two volumes of hundreds of pages. For completeness they contain comprehensive review of all service, stating the findings, lapses and making recommendations that should improve economy, effectiveness and efficiency. Management of the audited organization presents in some cases, action plan for correcting lapses found in the course of the audit.

e. **Addressee:** The opinion or reports should identify those to whom it is addressed as required by the circumstances of the audit engagement and relevant regulations or practice. This may be necessary where formal procedures exist for its delivery.

f. **Identification of Subject Matter:** The opinions or reports should identify the financial statements (in the case of financial audit) or the area (in the case of performance audit) to which it relates. This includes information such as the name of the audited entity. The date and period covered by the financial statements or the subject matter that has been audited.

g. **Legal Basis:** Audit opinions or report should identify the legislation or other authority providing for the audit.

h. **Compliance with Standards:** Audit opinions or reports should indicate that the Public Sector Auditing Standards have been complied with.

i. **Timeless:** The audit opinions or reports should be available promptly to be of greatest use to reader and users particularly those who have to take necessary action.

5.11. External Auditor

"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 account be deposited in the various wards" (Aristotle, 322-384BC).

Public Funds/Accounts therefore are to be subjected to external auditing to give credibility to their contents and to enable users of financial information at large have confidence in them. External Auditor in this context is the Auditor-General of the Federation, State and Local Government respectively.

Appointment/Removal Auditor-General

Subject to section 86 of the Federal Republic Constitution of Nigeria 1999, the Auditor-General for the federation shall be appointed by the President on the recommendation of the Federal Civil Service Commission subject to confirmation by the Senate. In short, the power to appoint persons to act in the office of the Auditor-General shall vest in the President/and except with the sanction of resolution of the Senate, no person shall act in the office of the Auditor-General for a period exceeding six months.

A person holding the office of the Auditor-General for the Federation shall be removed from the office by the President acting on an address supported by two-thirds majority of the Senate praying that he be so removed for inability to discharge the functions of his office whether arising from infirmity of mind or body or any other cause or for misconduct. He shall not be removed from office before such retiring age as may be prescribe by law.

Powers and Duties/Responsibilities of Auditor-General

The power conferred on this officer under section 85 of the Federal Republic Constitution, 1999 (promulgation decree) is stated below:

i. The public accounts of the Federation and of all offices and courts of the Federation shall be audited and reported on by the Auditor-General who shall submit his report to the National Assembly; and that purpose, the Auditor-General or any person authorized by him in that behalf shall have access to all the books, records, returns and other documents relating to those accounts.
ii. Nothing in subsection (2) of this section shall be construed as authorizing the Auditor-General to audit the accounts of or appoint auditors for government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly, be the Auditor-General shall provide such bodies with:

    - A list of Auditors qualified to be appointed by them as External Auditors from which such bodies shall appoint their External Auditor.
    - Provide such bodies guidelines on the level of fees to be paid to External Auditors and;

- Comment on their annual accounts and auditor's report thereon.

iii. He shall have power to conduct periodic checks of all government statutory corporations, commissions, authorities, agencies, including all persons and
bodies established by an Act of the National Assembly.

iv. He shall within ninety days of receipt of the Accountant-General's financial statement submit his report under this section to each House of the National Assembly and each House shall cause the reports to be considered by a committee of the House of the National Assembly responsible for public accounts (Public Accounts Committee).

Other Duties Include:

a. Ensure that public monies have been expended for the purpose for which they were meant and the expenditure have been made as authorized.

b. Ensure that essential records and proper systems of accounts as prescribed by the Ministry of Finance are maintained and rules and procedures applied are sufficient to safeguard and control public property and funds.

c. The Auditor-General does not neither formally disallow expenditure, nor by himself give judgments or rulings on questions of legality.

d. He does not examine questions of misadministration by Departments affecting individual members of the public.

e. He does not report other than to National Assembly (except on audits of the international organisations, where he reports to governing bodies)

5.12 Audit Alarm Committee

This is a Committee that is set up to serve, as a watch-dog on possible abuses of the auditing and its procedures in government accounts.

Composition of the committee

a. Auditor-General as the Chairman;

b. Representative of the President/Governor and;

c. Representative of the Accountant-General

Functions of the Committee:

a. To ensure that irregular or illegal (fraudulent) payments are not made especially where they have been put upon enquiry.

b. Ensure that no audit query related to payment may be made without the approval of the committee.

c. To sit and deliberate on any audit alarm brought to their notice

d. Have access to the President/Governor through their representative on the Audit Alarm Committee.

5.13 Control of Finance by National Assembly

The National Assembly control public funds by debating and approving government budget, through the Public Account Committee and oversight functions.

The Public Accounts Committee

The Public Accounts Committee is a committee of the National Assembly, or State (as the case may be) responsible for Public Account in accordance with the constitution. It was created to promote accountability and transparency in public governance. The PAC is set up via Public Accounts Decree No. 8 of 1987 3rd April, 1987.

Composition of the Public Accounts Committee

The committee comprises members of all the political parties in the House. The Auditor-General, Accountant-General, representative of the Ministry of Finance and Budget Officer are usually in attendance during the deliberations of the Public Accounts Committee. Section 85 (2) of the Federal Republic of Nigeria's Constitution of 1999, enjoins the Auditor-General of the Federation to submit his annual report to the House which in turn will pass it to the Committee. The Committee examines the Public Accounts on the basis of the observations raised in the Auditor-General's Report.

Procedure of the Public Accounts Committee

a. After the submission of the Auditor-General's Report to the Committee, it has absolute discretion in planning and directing its programme of work and manner of summoning witnesses to appear before it;
b. The Accounting Officers are summoned to appear to give explanation on matters affecting their Departments or ministries;
c. The Auditor-General attends the public sessions of the Committee in the capacity as adviser to the Committee;

   He is required to provide justification for each matter raised in his Annual Report;
d. The findings of the Committee are subsequently submitted to the whole House after which the House will direct the Minister of Finance to take necessary action on the points raised by the Committee;
e. The report of the public proceedings of the Committee is usually compiled and distributed by the clerk of the National Assembly for all members of the legislature, the Auditor-General's Officer, Accountant-General's Officer and all Accounting Officers in Ministries, Extra-Ministerial Departments and Parastatals;

Functions of the Public Accounts Committee

The following are the statutory functions of the PAC:

a. To deliberate on the Auditor-General's Annual report as submitted to the National Assembly;
b. To summon the appropriate Accounting Officers to appear before the Committee to give explanation on the observations raised by the Auditor-General for the Federation.
c. To examine any officer on oath if need be;
d. To recommend to the President any action to be taken on the erring officer;
e. To deliberate on other matters relating to the management of public funds;
f. To issue a report at the end of all deliberations, mentioning areas of Financial Management Control that have been observed; and
g. To carry out any duty as required by the National or State Assembly.

Public Accounts Implementation Tribunal

However, because of the PAC's lack of power to implement its decisions adversely affects the seriousness which public servants attach to control and public accountability. Consequently, the Public Accounts Implementation Tribunal Decree No. 34 of 1990 was promulgated with the following provisions:

i. To initiate steps to recover from any officer, contractor or corporate body any misappropriation of public fund;
ii. To consider the recommendations of the PAC, and make any such order which the Tribunal consider appropriate in the circumstances;
iii. To apply any appropriate sanctions against any erring public servants;
iv. To refer to the Federal High Court any case, criminal or civil, involving loss of government funds or property for speedy trial and determination;

v. Where the Tribunal decides to alter or vary the decision of the PAC, and where such variation may affect the proprietary interest of any company or person who has been found liable by the PAC, then, and in such case, the company concerned shall be given a fair hearing by the Tribunal.

It may be observed that the last paragraph of the provisions of the Decree would appear to have given room for the manipulation of decisions of the PAC by giving the Tribunal power to alter or vary the decision of the House.

Although some analysts have said that members of the Public Accounts Committee are not jurists and cannot make decisions that a court of competent jurisdiction can make.

5.14 The International Organisation of Supreme Audit Institutions (INTOSAI)

The International Organisation of Supreme Audit Institutions (INTOSAI) comprises the supreme audit institutions of 191 states, the European Court of Auditors and five associate members. The organization was founded by representatives of 34 supreme audit institutions at the first conference held in Cuba in 1953.

INTOSAI is an independent, non-political and non-governmental organisation which was established as a permanent institution to exchange ideas and experiences in the field of foreign audits between the world's supreme audit institutions. The organisation has consultative status with the Economic and Social Council of the UN. **The motto of INTOSAI is Experientia mutua omnibus prodest (mutual experience benefits all)** and its headquarters is located in Vienna, where the General Secretariat of the organisation operates on the basis of the Austrian Court of Audit (Rechnungshof). Its official working languages are Arabic, English, French, German and Spanish.

Structure of INTOSAI

The highest organ of INTOSAI is the Congress of members, which assembles once every three years. The work of the commissions and working groups in the time between Congresses is organised by the Governing Board. The General Secretariat assists the Governing Board and committees in the performance of their functions and arranges the organisation's practical activities. The General Secretariat is managed by the President of the Austrian Court of Audit as the Secretary General of INTOSAI. The standing Finance and Administration Committee and the Director of Strategic Planning of INTOSAI are also based in Vienna.

The organisation has the following regional working groups:

i. OLACEFS (Organisation of Latin American and Caribbean Supreme Audit Institutions, established in 1965);

ii. AFROSAI (African Organisation of Supreme Audit Institutions, established in 1976);

iii. ARABOSAI (Arab Organisation of Supreme Audit Institutions, established in 1976);

iv. ASOSAI (Asian Organisation of Supreme Audit Institutions, established in 1978);

v. PASAI (Pacific Association of Supreme Audit Institutions, established in 1987)

vi. CAROSAI (Caribbean Organisation of Supreme Audit Institutions, established in 1988); and

vii. EUROSAI (European Organisation of Supreme Audit Institutions, established in 1990).

INTOSAI's committees and working groups are established by the Congress to discuss specific problems and the performance of specific functions.

According to INTOSAI's strategic plan, the following standing committees have been established:

i. Professional Standards Committee (PCS);

ii. Capacity Building Committee (CBC);

iii. Committee on Knowledge Sharing and Knowledge Services; and

iv. Finance and Administration Committee.

The Professional Standards Committee of INTOSAI has created the International Standards of Supreme Audit Institutions (ISSAI), which are constantly being developed further. The committees coordinate the work of many subcommittees, working groups and task forces in the achievement of the goals established by the Congress. The area of activity of the committees includes the INTOSAI Development Initiative (IDI) and the International Journal of Government Auditing magazine.

The National Audit Office has been a member of INTOSAI since 1992. The National Audit Office is a member of the INTOSAI Professional Standards Committee and an expert on its Financial Audit Subcommittee, as well as a member of the Capacity Building Committee and its subcommittee. The Capacity Building Committee deals with the organisation of peer reviews to help promote best practice and guarantee quality.

The National Audit Office managed the INTOSAI Working Group on Environmental Auditing (WGEA) and its steering committee from 2008-2013. The INSOSAI WGEA comprises more than 70 supreme audit institutions from all over the world. From 2014-2016 the National Audit Office is a member of the INTOSAI WGEA steering committee and participates in two projects of the working group: managing the preparation of the overview of market-based environmental organisation measures; and organising the Global Training Facility of the INTOSAI WGEA in cooperation with India.

5.15 Review Questions

Mackenzie (1996) made the following remark: “Without audit, no control; and if there is no control, where is the seat of power?”

Analyze the above statement in line with the need for accountability in the public sector and the growing sophistication of fraudulent practices allegedly facilitated by public sector accountants.

MODULE 6

6.00 FINANCAL MANAGEMENT AND PROJECT APPRAISAL IN THE PUBLIC SECTOR IN

6.01 Learning Outcomes:

On successful completion of this Module, Students should be able:

i. Discuss the meaning and fundamentals of Investment Decisions;
ii. Critically analyze the nature of Investment Decisions;
iii. Examine the Importance and relevance of Investment Decisions;
iv. X-ray the Factors to consider in Investment Decisions;
v. Analyze the Classification of Investment Projects;
vi. Appreciate the Steps in Investment Decisions;
vii. Evaluate the Meaning of Capital Investment Appraisal;
viii. Apply the various Investment Evaluation Techniques.

Investment decisions are long run decisions where consumption and investment alternatives are balanced over time in the hope that investment now will generate extra returns in the future. Investment appraisal therefore involves the need to consider the future costs and related revenue, the time value of money and allied risks as well as the choice between alternatives. Government Ministries and Extra-Ministerial Department also engage in investment decision making. Investment appraisal is a top management exercise because of the scale and long-term nature of the consequences of decision involved.

There are many methods of appraising investments, that is, budgeting on capital expenditure. These include:

a) Accounting Rate of Return (ARR)
b) Pay Back Period (PBP)
c) Discounted Cash Flow Technique (DCF)
d) Discounted Pay Back Period
e) Net Present Value (NPV)
f) Internal Rate of Returns (IRR)

6.02 Accounting Rate of Return

Accounting Rate of Return may be called Return on Capital Employed (RCOCE). It makes use of accounting profits, that is, it is the ratio of annual profits after depreciation but before tax to the capital invested.

i.e. $$ARR = \frac{\text{Average Annual Profit after Depreciation before taxation}}{\text{Initial (or Average Initial) Investment}}$$

Example (1): A project has the following cash flows

Year		
0	Initial Capital	(400,000)
1	Profit	120,000
2	"	120,000
3	"	120,000
4	"	80,000
5	"	40,000

You are required to compute the ARR

Solution:

Total Profits = N80.000

Average Annual Profit = $\frac{480,000}{5}$ = N96,000

Initial Investment = N400,000

Average Initial Investment = $\frac{N400,000}{2}$ = 200,000

ARR based on Initial Investment

$\frac{N96,000}{400,000}$ = 24%

ARR based on average Investment

$\frac{N96,000}{200,000}$ = 48%

If the project has a scrap value of say N50,000, the average investment would be:

$\frac{450,000}{2}$ = 225,000

ARR would be $\frac{N96.000}{225,000}$ = 43%

Decision Method: When using ARR technique, the rule is to invest in all projects whose ARR exceed the company's minimum required ARR

When considering mutually exclusive project, the rule is to accept the project with the higher ARR provided the same project has the ARR higher than the company's required ARR.
When considering mutually exclusive project the rule is to accept the project with the higher ARR provided the same project has the ARR.

Advantages of ARR

a. It is simple to calculate and understand
b. It focuses on all the years of the project life
c. It is consistent with the Return on investment approach to which most Management are familiar

Disadvantages of ARR

a. It ignores the time value of money
b. It is an average therefore, it ignores the timing of money flows
c. It makes use of depreciation rather than capital allowance. This can lead to wrong decision as depreciation relates to accounting profit and not cash flow.

6.03 Pay Back Period

This method evaluates a project on the basis of the period it takes for a project to recover the initial capital invested from the cash flow. The methods make use of the cash flow but only to the Pay Back Period. Payback period also has Pay Back Period Reciprocal.

The payback period reciprocal is the inverse of the payback period but given in percentages.

It is defined as:

$$\text{Pay Back Reciprocal} = \text{Pay Back Period} \times \frac{1}{100}$$

Decision Rule

` The decision rule based on this method is to accept the project with the highest Pay Back Reciprocal for mutually exclusive project.

The decision rule for payback period is to accept all projects that has shorter payback period than the company's required Pay Back Period.

For mutually exclusive projects, the rule is to invest in the project with the shortest payback period provided it is shorter than the company's required Pay Back Period.

Examples:

Super state government is considering the purchase of new machine for one of its parastatals and has two alternatives. The expected cash flow profile is given below:

	Year	Machine A N	Machine B N
Cost	0	(1,000,000)	(1,000,000)
Cash Inflow	1	100,000	500,000

2	200,000	500,000
3	600,000	100,000
4	700,000	50,000
5	800,000	50,000
	2,400,000	1,200,000

You are required to calculate the payback period for the two machines.

Solution:

	Year	Machine A		Machine B
		N		N
Cost	0	(1,000,000)		(1,000,000)
Cash Inflow	1	100,000		500,000
		(900,000)		(500,000)
	2	200,000		500,000
		(700,000)		
	3	600,000		-
		(100,000)	=100,000	
	4	700,000	700,000	
			= 0.143 years or 1.7 months	

Machine B paid at the end of 2 years while machine A paid after back the years 3rd i.e 3.143 years or 1.7 months. On the basis of payback period therefore machine B is to be preferred. However, the overall profitability of machine B is half of that machine A.

Advantages of Payback period

a. It minimizes the effect of risk and problem of liquidity

b. It is widely used with sophisticated members

c. It is easy to calculate and understand

d. Highly pessimistic managers prefer cash inflow now or in the earlier years than the later years

e. It is least affected by uncertainty

Disadvantages of Payback period

a. It ignores the time value of money

b. It ignores the risk associated with cash flow or the project itself

c. It does not concern itself with cash flows in years after payback period

6.04 Discounted Cash Flow Technique

This is a concept time value of money. It is the present value of future cash flow. It highlights the N1 now is greater than N1 in a year time due to interest rate. The following formula can thus be derived; $S= P(1 + r)^n$

Where: S represents 'Total sum of money

R represents rate of interest, and

N represents number of years the money is invested

It is a method of capital investment appraisal which considers the overall profitability of the project and timing of its returns. It therefore combines the advantage of both ARR and Pay Back Period. Cash flow is concerned with cash receipt and payment made (or forgone) as a result of an action. Relevant cost is therefore very important in DFC. Also timing of cash flows is taken into account by means of discounting.

Relevant Cost

The cash flow to be considered are those which arise as a consequence of investment decision under evaluation. Therefore, such costs like:

a. Cost incurred in the past

b. Committed cost which will be incurred whether or not an investment is undertaken; are not relevant to the cash flows because they have occurred or will occur whether the investment is accepted or not.

   Other costs like

   i. Notional cost (depreciation)

   ii. Cost relating to values of stocks (like FIFO LIFO etc.);

   iii. Costs relating to allocation, apportionment of overheads; are not relevant to investment decisions because they do not properly relate to cash flows.

Discounting Method

If say N2,000 is invested at 10% P.A. It will bring N2,662 at the end of years 3. This is calculated as follows:

$S=P(1 + r)^n = 2000\ (1 + 0.1)^3 = 2,662$

The opposite is the case for finding the present value of an amount receivable in future. E.g. what is the present value of 2,662 receivable in 3 years' time. This is calculated as follows:

It can be deduced from simple calculation that money has time productivity. It is therefore preferable to receive a given sum earlier rather than later because the sum received earlier can be put to use by earning interest or some productive investment within the business.

In discounted Pay Back Period, the Cash Flows including scrap values are discounted using the given cost of capital or discount rate. We then determine the payback period using revised cash Flow. In the example of Super State Government, the discounted Cash Flows at 10% discount rate will show the following:

Year	**Discount Factor**	**Machine A Cash Flow**	**PV -**	**Machine B Cash Flow**	**PV -**
	N	**N**	**N**	**N**	**N**
1	0.9091	100,000	90,190	500,000	454,550
2	0.8264	200,000	165,280	500,000	413,200
3	0.7513	600,000	450,780	100,000	75,130
4	0.6830	700,000	478,100	50,000	34,150
5	0.6209	800,000	496,720	50,000	31,045
		2,400,000	1681,790	1,200,000	1,008,075

	Machine A	Machine B
	N	**N**
	(1,000,000)	(1,000,000)
Yr. 1-3 (discounted cash flow)	706,970	-
Yr.1-4	-	977.030
Balance	293,030	(22,970)
Yr. 4 (Discount Cash Flow	478,100	
=	(293,030)	
	478,100	=0.613 years

Yr. 5 (Discounted cash flow)		31,045
	=	2,970
		31,045
	=	0.740 years

Machine A paid back in 3.613 years or 3 years 7 months while Machine B paid back in 4.740 years or 4 years 9 months approximate.

6.05 Net Present Value (NPV)

The Net Present Value method involves calculating the present values of expected cash flows and outflows (i.e. the Process of discounting) and establishing whether in total the present value of cash inflows is greater than the present value of cash outflows.

Illustration:

Mr. Adeola has N200,000 which he decides to invest if he can secure an assurance that the investment will earn at least 10% p.a. he is therefore considering three projects:

Project I: Will earn N218,000 at the end of 1st year.
Project II: Will earn N250,000 at the end of 2nd year; and
Project III: Will earn N140,000 at the end of 1st year and another N100,000 at the end of 2nd year.
If none of the project is undertaken Mr. Adeola will invest his N200,000 in something else which will 10% p.a you are required to advise Mr. Adeola appropriately.

Solution:

Year	D/F	Project I	PV	Project II	PV	Project III	PV

	10%	Cash Flow		Cash Flow		Cash Flow	
-	-	-	-	-	-	-	-
	N	N	N	N	N	N	N
0	1	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
1	0.9091	218,000	198.184	-	-	140,000	127,274
2	0.8264	-	-	250,000	206,600	100,000	82,640
	NPV		(1,816)		6,600		9,914

Project I: The Negative NPV indicates that the project would fail to make the expected return of 10%

Project II: The positive NPV indicates that the project will earn at more than the required rate of return of 10%.

Conclusion: Project II has an NPV of N6,600 while project II has NPV of N9,914 all positive. All things being equal, Project III should be undertaken in preference to project III.

Although the total returns form project II (N250,000) is greater than the total returns from project III (N240,000), the timing of the returns i.e the N140,000 earned in year one by project III should influence the decision in favor of project III.

Decision Rule: The decision rule in NPV method of investment appraisal is to invest in all projects that give NPV greater than zero.

In a mutually exclusive project the rule is to invest in the project with highest NPV.

Advantages of NPV

a. It recognizes the time value of money

b. It gives an absolute guide to how much an investor's wealth has increased by accepting the project
c. It is useful in ranking projects in a capital rationing situation

Disadvantages of NPV

a. It relies heavily on current estimates of the cost of capital;
b. It is not a percentage return and therefore it is not easy for a manager is divisionalised organization to admire;
c. It does not take the risk involved in each project into consideration

6.06 Internal Rates of Return (IRR)

The IRR method of discounted cash flow is to determine the rate of interest (i.e. internal rate of return) at which the NPV is zero. This is usually calculated through "trial and error" by determining from tables. Two values know to be respectively too high and too low and then to interpolate between them. When the IRR of a project exceeds the company's target rate of return from investment, the project is considered acceptable.

Illustration:

Find the IRR of a project given below and state whether the project should be accepted. The investor requires a minimum of 24%.

Yr	Cash Flows
	N
0	(40,000)
1	14,000
2	15,000
3	17,000

4 19,000

Solution:

Yr.	D/F	C/F	PV	D/F	PV
	21%	N	N	25%	N
0	1	(40.000)	(40.000)	1	(40.000)
1	0.8264	14.000	11.567	0.8000	11.200
2	0.6830	15.000	10.245	0.6400	9,600
3	0.5645	17.000	9.597	0.5120	8.704
4	0.4665	19.000	0.864	0.4096	7,714
			273		(2,714)

Let x represent positive NPV

Let y represent negative NPV

Let a represent smaller discount factor

Let b represent higher discount factor

$$IRR = a + \frac{X(b-a)}{X+Y}$$

(Note: Ignore negative sign for z when adding x and y

By interpolation $IRR = 21\% + \frac{273(25 - 21)}{273 + 2714}$

= 21% + 0.37

IRR = 21.32%

The IRR 21.37% is less than the required rate of return of 24% hence the project is not acceptable.

Note: 21% discount rate was first used which resulted in positive NPV of 273.
The next step is to choose another higher discount rate that can throw NPV. Here 25% can be chosen as well.

Advantages of IRR

a. Like ARR it is a percentage return and very useful in divisionalised organization as most managers are conversant with returns
b. It takes into consideration the tie value or money
c. It gives an idea of the margin of error in the cost of capital estimates e.g. where the cost of capital is 10% and IRR is 15% the margins of error is therefore 5% that is the sensitivity or a project to error is determined.

Disadvantages of IRR

a. IRR does not take risk into account
b. It is not useful in capital rationing situation
c. Where we have mutually exclusive project the IRR may give a misleading result and may conflict with NPV technique techniques
d. Where cash flow is unconventional, we may get more than one IRR

6.07 Capital Rationing

Capital Rationing is a term used in describing a situation in which finance is limited for investment in relation to the requirement of all acceptable projects with positive NPV.

Limitation of finance may be artificial or real. It is artificial if it is imposed by the establishment itself but real if the limitation is imposed by the providers of finance i.e they could not provide the required finance. Capital Rationing is therefore a technique of ranking project in the order of acceptability until the organization has many projects with positive NPV's but combined initial outlay exceeds the available fund to the company.

Objectives of Capital Rationing

The Objective of Capital Rationing is to maximize returns i.e. to maximize the wealth of investors. Therefore, accepted projects must provide highest returns within the available funds in order to achieve this objective.

Single Period Capital Rationing (Assumptions)

The following assumptions are made under single period capital rationing:

i. That once a project is rejected in the period of capital rationing such project loses the opportunity for ever.
ii. That there is complete certainty about the outcome of each project i.e. the choice between projects is not affected by risk element.
iii. That projects are divisible so that it is possible to undertake half of project 'A' and effect make a gain of half of NPV of project 'A'

Steps to be Taken

The following steps are taken in Capital Rationing:

i. Identify the years of capital restriction
ii. Computer the NPV where it is not given
iii. Rank the project in line with profitability index concept.

Profitability Index (PI) is a contribution per limiting factor method in which the initial outlay is the limiting factor and the NPV is the contribution. It may be described as

"Naira per expenditure" approach or the "Benefit Cost Ratio" it is a ratio of the initial outlay required during the year of restriction.

(i) $$PI = \frac{\text{NPV of the Project}}{\text{Initial outlay required in the year of restriction}}$$

(ii) $$PI = \frac{\text{GPV of the Project}}{\text{Initial outlay required in the year of restriction}}$$

Where: GPV = NPV + initial outlay

(iii) Allocate the available funds to the projects in the declining order of their PI.

(iv) If a project does not require finance during the year of restriction the denominator becomes zero i.e initial outlay (1.0) = o which means that GPV/NPV is divisible by zero given an infinite amount. This implies that such project must be accepted first.

(v) Ranking of projects must be done using PI instead of the NPV whenever there is limitation on finance. This is because when PI method is used the total NPVs of the projects accepted would be higher than the total NPVs of the projects accepted using the NPV to rank the projects.

Illustration:

Mekunu Local Government Council is considering 4 projects namely

i. Market Stalls (S)
ii. Recreation Centre (R)
iii. Motor Park (P) and

iv. Transport Service (T)

PROJECT	Yr.0	Yr.1	Yr.2
	N	N	N
S	(150,000)	90,000	105,000
R	(300,000)	210,000	150,000
P	(450,000)	150,000	420.00
T	(600,000)	450,000	300,000

The cost of capital is 10%, assuming there is restriction to the amount of finance available so that only N900,000 is available in year O. you are required to determine the project (s) in which the Local Government Council would maximize the NPV generated per naira spent in year 0.

Solution:

Year	D/F	S	PV	R	PV	P	PV	T	PV
	10%	N	N	N	N	N	N	N	N
0	1	(150.000)	(150,000)	(300,000)	(300,000)	(450,000)	(450,000)	(600,000)	(600,00
1	0.9091	90,000	210,000	219,000	190.911	150,000	136,365	450,000	409,09
2	0.8264	105,000	150,000	150,000	123,911	420,000	347,088	300,000	247,92
	NPV		18,591		14,871		33,453		57,015
NPV Per Naira Spent (P)			0.124		0.049		0.074		0.095
Ranking			1st		4th		3rd		2nd

Allocation of Funds to Projects		NPV
	N	N
Accept Projects S	900,000	
	(150,000)	18,591
	750,000	
Accept project T	(600,000)	
	150,000	57,015
Accept 1/3 of Project P	150,000	11,151
	86,767	

Note: If NPV method had been used for the ranking the result would have been

Allocation of Funds to Projects		NPV
	N	N
Available Funds	900,000	
Accept project T	(600,000)	57,015
	300,000	
Accept 2/3 of Project P	300,000	22,302
		79,317

Thus, using the NPV to rank produce a loss of NPV by N7,440 (86,757 – N79.317)

Indivisible projects: Where projects are not divisible, it must be stated by the examiner and thus no part of a project can be accepted.

It means that the company can only invest in projects whose initial outlay can be fully absorbed by the available funds. Where the remaining funds is less than the initial outlay of the next project we cannot undertake that project and therefore the possibility is to invest the balance fund in short-term investment deposit in bank or executive the next best project that can absorb the whole surplus fund.

Repeatable Projects: Where projects are repeatable the practices is to undertake the project with highest PL as many times as possible subject to the divisibility of that project. Where the project is not divisible, the balance funds not enough to repeat the project should be transferred to the project that can absorb the balance fund otherwise such fund should be invested in bank deposit.

Mutually exclusive projects: Where two or more projects are mutually exclusive i.e. only one can be chosen between them it is better to rank the two projects separately in different groups. In otherwise, the two projects should not be included in the same group.

Mutually dependent projects: when two or more projects are dependent on each other, the practice is to group the projects together. When this is the case, the PI of the projects concerned is reconstructed to get combine PI for them.

e.g.	Project	PI	Initial outlay
	X	1.4	200,000
	Y	1.2	300,000

To get a combined PL

Project X = $\underline{200,000}$ x 1.4 = 0.56

500,000

Project Y = $\frac{300,000}{500,000}$ X 1.2 =0.72

Combined PI = 1.28

Therefore, when ranking the projects, projects X & Y would be grouped together using combined PI 1.28

6.08 Cost-Benefit Analysis (CBA)

Definition

Cost-Benefit Analysis is a project appraisal method designed to evaluate and compare costs and benefits identifiable with a project a view to assessing the viability or the rational basis for its adoption/selection. The Cost-Benefit Analysis is often applied to public project appraisal like road construction, irrigation projects, dam construction, sitting of airports etc.

Main Features of Cost-benefit Analysis

The main striking features of the cost-benefit analysis (CBA) are:

- It is a methodology of rational choice involving public programme decisions.
- Cost Benefit Analysis is an analytical tool in decision-making requiring a systematic identification and comparison of the possible benefits and costs associated with a project.
- It is a monetary valuation exercise requiring the estimation in money terms the cost of undertaking a project and the value and benefits that could arise from the operation of such projects.

- Discounting is an integral aspect of cost-benefit analysis. Introduced to take care of time value of money of the streams of costs and benefits of project.

Uses of Cost-Benefit Analysis

- Cost –Benefit analysis is used to ascertain whether or not a specific project should be undertaken or perhaps more frequently. It is used to ascertain which project(s) should be selected from a possible array of projects.
- Cost-benefit analysis is particularly widely employed in the appraisal of public projects or public programme decisions.
- It is a technique designed to facilitate optimal allocation of scare resources in such public sector services as education health and environmental management.
- It can use as a guideline to study whether a particular programme should be initiated. Expectedly all possible options should be examined to ensure that the cost-benefit Analysis points to the best option.
- Cost-benefit analysis provides information to help evaluate the pros and cons of a programme, but it is only a guide towards making what is ultimately decision.
- It can be undertaken to evaluate the effectiveness of potential government programme in the light of overall development policy objectives.

Problems of Cost-Benefit Analysis

The following under-listed are the striking problems associated with the use of cost-benefit analysis.

a. **Data constraint**: The methodology of CBN requires full or complete enumeration of cost and benefit identifiable with a project. This could be very tasking and in most cases constrained by lack of relevant data for such analysis.

b. **Valuation of costs**: the Valuation of costs is expected to be all embracing, comprising both direct/explicit and indirect (implicit) costs. Computation of indirect costs is particularly more problematic and conceptual. Being subject to valuators perception the whole exercise becomes highly subjective and therefore arbitrary.

c. **Valuation of intangible Benefits**: In the same manner, valuation of projects benefit is bedeviled with the issue of what benefits to include and those to exclude. Both tangible and intangible benefits are expected to be included. The problem is that of obtaining an objective valuation of these diverse benefits, some of which do not have market values e.g. what value should be attached human lives that would be saved as a result of improved road conditions.

d. **Choosing the Appropriate Discount Rate**: The choice of appropriate discount rate is also a critical issue in the sense that the rate significantly influences the viability or otherwise of a project. In principle, the adopted discount rate should inflect time-value of money from the view point of decision-makers. Such in practice is a matter for political consideration and therefore subject to some maneuvering.

e. **Handling of Non-Economic Issues**: The methodology of CBN favor to a considerable extent, economic efficiency criterion. For public projects, there are other non-economic considerations that are of paramount importance. Incorporation of such (e.g. equity regional imbalance social integration) is always problematic. A tool proof and scientific way of handling socio-political issues in public project appraisal is yet to evolve.

Terms Used in Cost-Benefit Analysis

1. Shadow price: Some goods or services have no readily identifiable market price simply because they are not trade in the market. Shadow priced is the name given to the imputed value for such transactions. It may be regarded as the opportunity cost of producing or consuming a good or services bought in the market place.

2. Social opportunity cost of capital: This is the name given to the rate of return on the project forgone that allows the project whose cost benefit analysis is being evaluated to go on.

3. **Social time preference rate: T**his is another rate suggested to be used as appropriate discount rate in cost-benefit analysis. It represents the discount rate at which people equate future consumption with consumption now.

4. **Cut off points:** this is where costs and benefit cease to be significant in the context of the project.

5. **Primary/Direct benefit: T**hese are the values of goods and services resulting from project conditions. They are those goods and services resulting from project conditions.

They are those benefits that related closely or principally to the main project objective. For instance, an irrigation project has its immediate objective, the promotion of farm output/yields. Therefore, additional corps due to irrigated land is direct or primary benefit.

6. **Secondary/Indirect Benefit: -** These are benefits either arise from or are induced by the project but are not directly resulting from the projects. For instance, benefit derived of an irrigation project such as reduced soil erosion.

7. **Primary/Direct costs:** This are costs that relate closely and principally to the main project objectives. For instance, in irrigation project direct costs are the expenses on the purchase of pipes, construction of dams, and other irrigation equipment.

8. **Secondary/Indirect costs**: These are costs associated/identifiable with the by-product of a project. For instance, on irrigation project, indirect cost is the diversion of water with attendant externalities such as dislocation of settlements.

9. **Tangible benefits:** These are the benefits that can be valued or ascertained readily in the market. For instance, increased output is a tangible benefit in an irrigation project.

10. **Tangible costs:** These are costs that can be ascertained readily in the market, for instance, cost of pipes dams equipment etc. are tangible costs in irrigation projects.

11. **Intangible benefits**: These are other relevant benefits that cannot easily be valued in the market. For instance, the beautifications of the irrigation and possible increase in farming population, etc. are intangible benefits.

12. **Intangible costs:** These are other relevant or associated costs that cannot easily be ascertained in the market. For instance, cost of natural, relocation/displacement of some communities in the irrigation area, are intangible costs.

6.09 Review Questions

Recently, the Nigeria Bureau of Statistics quarterly report indicates that the rate of inflation in Nigeria is still on the increase despite efforts to keep the inflation at a single digit. As a proficient investment analyst, what strategies do you think should be adopted to stay afloat in the face of rising costs and the reality of the current economic recession

MODULE 7

7.00 FINANCIAL REPORTING IN GOVERNMENT

7.01 Learning Outcomes

On successful completion this Module, Students should be able to:

i. Appraise the concept of monthly transcripts;
ii. Critically discuss the financial reporting process in the public sector;
iii. Examine the various methods of financial statement preparation;
iv. Analyze the basics of preparation of accounts for corporations and parastatals.

7.02 The Transcript

A Transcript is a financial statement prepared by a ministry or department detailing out a periodic (usually monthly) summary of receipts and payments of the ministry or departments classified into above – the- line and below-the-line Account. Transcript is the summary of total receipt and payment as posted in the cash book in a month. It is usually prepared by a Sub/Self Accounting Officer of a Sub/Self Accounting Unit. It is the final account of ministries sent to office of the Accountant General. A transcript represents the final account of the self-accounting and sub accounting unit.

Steps in Preparing Transcript

1. Obtain cash book / receipt and payment vouchers
   a. All vouchers must be cross-checked with the cash book to ensure correct posting/entries in the cashbook
   b. Coding of receipts and payment – correct classification coding must be checked against cash book to ensure data are correctly processed for a computerized system.
2. The vouchers must be classified and arranged according to heads/sub-heads for

purpose of pre-listing so that totals for each classification are obtained through casting.

3. These totals are then posted into an analysis book and balanced on daily or weekly basis. The total balance should then be compared with the cash book which must agree, otherwise error must have been committed.
4. The transcript is then prepared from the analysis book. The closing balance must agree with the cash book closing balance.

FORMAT

FEDERAL MINISTRY OF COMMERCE

TRANSCRIPT FOR THE MONTH ENDED 31/1/90

RECEIPT **PAYMENT**

Head	Sub head	Description	Amount #	Sub total	Total	Head	Sub head	Description	Amount #	Sub total	Total
	C_1		X				D_1		X		
	C_2		X	Xx			D_2		X	Xx	
		Total			xxxx			Total exp			xxxx
		revenue			x			Bal c/f			x
		Bal c/f			xxx						xxx

Illustration

Prepare the monthly transcript for the month of March 2009 for the Federal Ministry of Health from the following information:

CODE	DESCRIPTION	#
2/7	Rent on government property collected	200,000
3/10	Fees received	180,000
3/11	Cash received from tender	150,000
3/14	Registration fees by the contractor	180,000
7/4	Public hall hire collected	55,000
<u>Below the line</u>		
2006	Use of government vehicles	25,000
2009	Fees for temporary occupation	52,000

Payment for the month of March, 2009		N
12/2	Labour cost	380,000
14/7	Utility services	130,000
13/2	Office and General	75,000
14/9	Maintenance of premises	65,000
<u>Below the line</u>		
4004	Stress running cost	8,500
4006	Grass cutting flowers	33,000
Opening balance as at 1st March 2009 was		105,000

Solution:

Federal Ministry of Health

Transcript for the Month of March, 2009

Head	Sub-Head	Description	Amount #	Sub-Total #	Total #	Head	Sub-Head	Description	Amount #	Sub-Total #
		Bal. b/f			105,000	12	2	Labor Cost		380,00
2	7	Rent; Govt. Prop.		200,000		13	2	Office /Gen.		75,000
3	10	Fees	180,000			14	7	Utility Service	130,000	
	11	Tender	150,000				9	Maintenance	65,000	195,00
	14	Reg. Fees	180,000	510,000						
7	4	Hall Hire		55,000						
		Below the Line Receipts						Below the Line Exp.		
	2006	Govt. Vehicles	25,000				4004	Stress Cost	8,500	
	2009	Fees Temp. Occupation	52,000	77,000	842,000		4006	Flower	33,000	41,500

								Bal. c/d		
					<u>947,000</u>					
		Bal. b/d			<u>255,500</u>					

7.03 Government Annual Financial Statements

The Final Account unit of the treasury is directly saddled with the responsibility of the preparation, production and publication of monthly and annual statement of accounts.

The statements are as follows:

i. Statement of National Debts = Statement No.1
ii. Statement of Assets and Liabilities = Statement No.2
iii. Statement of Consolidated Revenue Fund = Statement No. 3
iv. Statement of Revenue = Statement No. 3.1
v. Statement of Recurrent Expenditure = Statement No. 3.2
vi. Statement of Development Fund = Statement No. 4

STATEMENT NO.1 = Statement of National Debts

This is the statement of national debts, divided into Internal and External debts. External debts comprise purchase bills in form of letters of credits certified by the Federal Government, and this constitute the bulk of the debts owed to London and Paris Clubs.

It also includes money borrowed from the IMF, World Bank, ADB and other foreign friendly countries. Internal debts on the other hand comprise Treasury Bills, Treasury Certificate and loan stock raised and retired within the country.

Statement No. 2 = Statement of Assets and Liabilities

This is the balance sheet of the Federal Government. It shows the various funds account on the liability side while investments and cash held against such funds appear on the asset side with comparative figure for the previous year.

A typical hypothetical example of balance sheet under the cash basis is shown below:

Public Funds	N'000	Assets Employed	N'000	N'000
CRF	xxx	Cash		xxx
Development Fund	xxx	Fixed Deposits	xxx	
Contingencies Fund	xxx	Investments		xxx
Others	xxx	Advances		xxx
Deposits	xxx			
	xxx			xxx

Statement No.3 = Statement of CRF

This shows movement in the fund, from commencement of a financial year to date, reflecting receipt and payments. As well as the actual balance of the fund, which represents the part of the internal reserve of the nation with comparative figures for the previous year?

Statement No. 3.1 = Statement of Revenue Returns

This shows the actual cumulative figures of revenue collected to date, with comparative figures for the previous year.

Statement No.3.2 = Statement of Recurrent Expenditure

This shows the actual cumulative figures of recurrent expenditure incurred to date, with comparative figures for the previous year.

Statement No.4 = Statement of Development Fund

This shows movement in the funds from the commencement of a financial year to date reflecting receipt and payment as well as the actual balance of the fund, which also represent part of the internal reserve of the Nation. Although the main statutory financial statements are eleven with eight supporting sub-statements, the most important ones among them are the six items on which comprehensive notes have been given above.

7.04 Accounting for Government Parastatals, Corporations and Institutions

Many organizations exist primarily to engage in philanthropic or welfare activities for the benefit of their members or general public. They are set up **not** to make profit. They can be classified as follows:

- Government: e.g. Ministry, extra-ministerial department
- Education: Government established nursery, primary, secondary, and tertiary institution etc.
- Health and Welfare: Government established hospital, clinics and
  Charitable Organisations: e.g. Clubs and Societies.
  Religious Organizations: e.g. Christian and Muslim Organizations.
- Foundations: e.g. fund established for charitable, education or research purposes.

The final accounts prepared by the above organizations are:

i. Receipts and Payments Account
ii. Income and Expenditure Account, and
iii. Statement of Asset and Liabilities or Balance Sheet.

Receipts and payments account is more or less a summary of the cash book. This is because entries in the cash book be it capital or recurrent are incorporated into the receipts and payment account. On the other hand, income and expenditure account is prepared in place of trading profit and loss account found in private commercial organization. The income and expenditure account takes record of all the revenue and expenditure items of the organization for a given period irrespective of whether cash has been received or paid in respect of them.

The term Parastatals means government organizations which are separate and distinct from ministries and departments. Organizations like Water Boards, PHCN, Public Hospitals, Tertiary Institutions etc. fall into this category. For the purpose of accountability, the same set of final accounts prepared by the non-profit making organizations is prepared by parastatals i.e. Receipt & Payment Accounts, Income & Expenditure Account and the Balance Sheet.

Illustration:

The Federal University of Agriculture, Makundo, launched an appeal fund for the construction of a standard stadium for the hosting of NUGA games on 15th January, 2006 and the following transactions took place:

	#
Donations from Federal Government	10,000,000
Donation from States and Local Government	4,000,000
Donations from Individuals and Companies	4,000,000
Launching Expenses	200,000

Advertisement Expenses	80,000

From 16th January, 2006 to 31st December, 2006 before the event took place, the following transactions were recorded:

	#
Construction of Sports Building	4,000,000
Construction of Arena and Spectators' Stand	3,500,000
Purchase of Sports Equipment	5,000,000
Purchase of Sports Bus	2,000,000

It was agreed that the sport equipment and sport bus be depreciated at the rate of 20%. You are required to prepare the following for submission to the Vice-Chancellor and the Audit Department of the University:

a. Receipt and Payment Account,

b. Income and Expenditure Account

c. Statement of Affairs as at 31st December, 2006.

Solution:

a.

Federal University of Makundo

Receipt and Payment Account for 31st December, 2006

	#	#
Receipts		
Donation from Federal Govt.	10,000,000	
Donation from States and Local Govt.	4,000,000	
Donation from Individuals and Companies	4,000,000	18,000,000
Payments		
Launching Expenses	200,000	

Advertisement Expenses	80,000	
Construction of Sports Building	4,000,000	
Construction of Arena and Stand	3,500,000	
Purchase of Sports Equipment	5,000,000	
Purchase of Sports Bus	2,000,000	14,780,000
Bal. c/d (to Balance Sheet as Cash)		3,220,000

b.

Federal University of Makundo

Income and Expenditure Account for year ended 31st December, 2006

	#	#
Income		
Donation from Federal Govt.	10,000,000	
Donation from States and Local Govt.	4,000,000	
Donation from Individuals and Companies	4,000,000	18,000,000
Expenditure		
Launching Expenses	200,000	
Advertisement Expenses	80,000	
Depreciation	1,400,000	1,680,000
Net Surplus (carried to Balance Sheet)		16,320,000

c.

Federal University of Makundo

Statement of Assets as at 31st December, 2006

	#	#
Assets Employed		

Fixed Assets		
Buildings		4,000,000
Arena and Stand		3,500,000
Equipment	5,000,000	
Less Depreciation	1,000,000	4,000,000
Bus	2,000,000	
Less Depreciation	400,000	1,600,000
Current Assets		
Cash		3,220,000
		16,320,000
Financed by:		
Surplus		16,320,000

7.05 Review Questions

As a professional accountant what are your suggestions as to ways of improving the quality of financial reporting in Nigeria.

MODULE 8

8.00 PENSION SCHEME ACCOUNTING IN THE PUBLIC SECTOR

8.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Examine the concept of pension and pension scheme accounting in Nigeria;
ii. Evaluate the various provisions of the Pension Reforms Act as amended with regards to retirement planning in Nigeria;
iii. Deconstruct the role of the key players involved in the new pension regime in Nigeria;
iv. Analyze the complexities of pension fund administration especially in the public sector in Nigeria.

8.02 General Overview

The motivational theorists have made the summary of the basic need of man to be food, clothes and shelter but as man is ageing he depreciates just like any asset. Though he can neither be replaced nor be discarded but has to be looked after because he may not be able to provide for himself hence, the pension scheme.

In Nigeria, there have been several enactments and professional pronouncement which deal with pension. Some of which are stated below. Decree 102 0f 1979 as amended which consolidates all enactments before then and made pension scheme non-contributory (i.e. the cost is fully borne by the government). The Nigerian pension Act, now CAP 346 of the laws of the federation of Nigeria 1990 which define pension and gratuity as follows:

Pension is a Social contract entered into by the employer to pay retirement benefits to his former employees who are no longer productive to his organization or the monthly salary paid to a retiree until death. Note that the qualifying period for the payment of pension in the public sector is ten years. Gratuity is the Lump sum of money payable to a retiring officer who has served for a minimum of five years. The Nigeria Social Insurance Trust Fund (NSITF) Act 1993 provides a guaranteed minimum pension and other social security benefits to all retirement saving accounts holders. The IAS 19 prescribes the following:

When the cost of providing retirement benefits should be recognized as an expenses and the amount that should be recognized; the information should be disclosed in the enterprise's financial statements.

8.03 Pension Act 1990

For an employee who had put in an acceptable period of time into the organization, the organization compensates him in two ways- **by way of gratuity and by way of pension**.

Gratuity is the lump sum granted immediately upon the retirement of the officer. In Nigeria, the qualifying period for the payment of gratuity in the public sector is **five years**.

Pension can be defined as "a periodic payment made by an employer to his retired employee, until his or her death in consideration of past services rendered by the former employee".

In normal situations a pensionable retiree could only begin to enjoy pension payments on attaining the age of 45 years. The act also defines pension administration as the totality of plans, procedures; legal and administrative processes of security and setting aside the social obligation owed which employers owe to their employees on retirement (CAP346).

Conditions for Granting Retirement Benefits

The following are the conditions under which retirement benefit can be granted:

* On voluntary retirement after qualifying service of 10 years to qualify for pension and 5 years to qualify for gratuity.
* On compulsory retirement for the purpose of facilitating improvement in organization.
* On compulsory retirement for attaining the retiring age of 60 years or 35 years in service, whichever is earlier.
* On Health grounds.
* On total permanent disablement while in service.
* If the officer is requested to retire by the public service commission in the interest of public.

Statutory age of retirement

All officers shall retire on reaching the age of 60 years. But an officer may retire at any time on reaching the minimum age of 5 years in service subject to 3 months' notice in writing or 3 months' salary in lieu of notice.

Qualifying service for Pension and Gratuity

For gratuity and pension, an officer must have served at least 10 years. However, pension is only payable when retiring officer reaches the age of 45 years with exception of ill health or compulsory retirement of officer in public interest, when pension becomes payable immediately without the officer reaching the age of 45 years.

War service

Services in connection with internal security, maintenance of law and order or any other service as may be declared from time to time by the President is counted as war service.

For each completed year of war service, it is counted as two years. Periods of war service exceeding 4 months but below 6 months is counted as 6 months. Period of war service exceeding 6 months is counted as a year.

However, a period of service (other than war service) for a period of 6 months would be approximated to 1 year, provided the officer has served the qualifying service in the first instance.

Gratuity and pension is payable to officers who have served in the armed force between 27/5/67-1/6/70.

Pension and Gratuity Table between June 1st, 1992 and 2004

Year of Qualifying Service	Gratuity as % of Final Pay	Pension as % of Final Pay
5	100%	
6	108%	
7	116%	
8	124%	
9	132%	
10	100%	30%
11	108%	32%

12	116%	34%
13	124%	36%
14	132%	38%
15	140%	40%
16	148%	42%
17	156%	44%
18	164%	46%
19	172%	48%
20	180%	50%
21	188%	52%
22	196%	54%
23	204%	56%
24	212%	58%
25	220%	60%
26	228%	62%
27	236%	64%
28	244%	66%
29	252%	68%
30	260%	70%
31	268%	72%
32	276%	74%
33	284%	76%
34	292%	78%
35	300%	80%

Note:

1. Where an officer dies in service after the completion of the minimum period of qualifying service, the pension and gratuity is paid to his next of kin or designated survivors as if he retired at the time of his death.
2. If the officer dies before the completion of the qualifying period of five years, his next of kin will be paid his/her one year's salary as death gratuity.

8.04 Pension Reform Act 2004

However, as a result of the shortfalls in the administration of the Pension Act 1990, which both the government and retirees bore the brunt, the Pension Reform 2004 was promulgated and it the abolished Pension Act 1990.

The New Pension Reform Act 2004 (amended 2014) provides for both private and public sectors' scheme and made it contributory. This means that the employers and the employees are expected to contribute a minimum of 10% and 8% of the employees' monthly emolument towards the retirement of the employee. This may be reviewed upwards from time to time between employer and employee upon agreement.

Objective of the new pension reform act 2004 (S.2)

- To provide a robust, sustainable and efficiently managed pension to employees in the public and private sectors.
- To assure continuity in the standards of living of the employees in both public and private sectors on retirement from active service
- To assist in providing individuals by ensuring that they save in order to cater for their livelihood during old age.
- To ensure that every pensioner who worked in either the Public Service of the Federation. Federal Capital Territory or Private sector receives his retirement benefits as at when due.
- To establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for both the public and ` private sector.
- To set a high standard of probity and accountability.
- To ensure that pension contributions, which takes many years to mature into payment are fully protected before the retirement of the contributor.
- To ensure the provision of a life assurance policy for all contributors and provide necessary flexibility that the industry needs to be effective.
- To encourage the improvement of the pension management structures in Nigeria and create job opportunities for Nigeria.
- To ensure that Pension Fund Administration open a mandatory retirement savings accounts for pension beneficiaries and provides customer service to them including steady statement of accounts which reflect their contribution and earning.

Exemption from the New Pension Act, 2004 (S.8)

1. Employees with 3 or less years to retire.
2. Judicial Officers as contained in section 291 of the 1999 Constitution

3. Full funded pension scheme including defined contribution scheme (Private Sector old and new employees).

Pensionable employees exempted above are to derive their benefits from the old pension scheme.

Contribution Rates of Pension Reform Act, 2004 (S.9)

Section 9 (1). Federal government- Public Service, Ministries, Parastals etc.

Employer: Minimum of 10% of monthly emoluments,

Employee: Minimum of 8% of monthly emoluments

(2) Military Employer: Minimum of 12.5% of monthly Emolument.

Employee: Minimum of 2.5% of monthly Emolument.

However, under the 2014 amendment of the act, the military personnel are exempted from the contributory scheme.

Emolument for the Military is defined as Basic Salary, Housing and Transport

(3) Private Sector: Employer; 10% of monthly Emolument, Employee; 8% of monthly emolument.

The rates of contribution may however, be revised upwards from time to time upon agreement between the employer and employee. The employer shall maintain life insurance policy, which must be 3 times the total emolument for the employee.

The Pension Reform ACT 2004 (S.11)

1. Every employee is to maintain an Account with any Pension Fund Administration (PFA) of his or her choice.
2. Not more than one transfer from one PFA to another in a year is allowed without any reason.
3. Each employee must notify their employer of his choice of PFA.

4. Employers are to deduct at source and remit to the Pension Asset Custodian (PAC) specified by the PFA of the employee not later than 7 days.
5. Pension Fund Custodian is to notify the PFA of the receipt of contribution so that PFA can credit employee's accounts accordingly.

Withdrawal from retirement savings account (S.3)

1. Withdrawal is not allowed until the employee has attained the age of 50 years, except on grounds of ill-health or permanent disability.
2. Withdrawal can be allowed before the age of 50 years, if retirement is in accordance with the terms and conditions of his employment.

Retirement Benefit of the Pension Reform ACT, 2004 (S.4)

The accumulated fund in the Retirement Saving Account shall be utilized as follows:

1. A lump sum cash withdrawal that will not affect the purchase of Annuity for life of not less than 50% of annual remuneration at retirement. Fund programmed withdrawal is an alternative to annuity.
2. Programmed monthly or quarterly withdrawals is calculated on the basis of an expected life span.
3. Retirement before the age of 50 years, qualifies the beneficiary to withdraw only or less 25% of Account balance after 6 months of retirement and not in another employment.

Death Benefits: Section 5 of the Pension Reform ACT, 2004

Where an employee dies, his entitlements under the life insurance, (which is 3 times Annual Total Emoluments under a group life Assurance cover plus contributions and returns to date will be paid en-bloc to his or her Next of Kin (NOK) or designated survivors a gratuity and pension, calculated in accordance with Section 33.

TAX Exemption-Section 7 of the Pension Reform ACT 2004

1. Retirement benefits shall not be taxable
2. Where Additional voluntary contribution made, is withdrawn before the end of 5 years;
3. Contributions to the scheme are tax deductible expenses.

Establishment and Objects of the Pension Fund Commission-Section 124 & 15

The principal object of the commission shall be to regulate, supervise and ensure the effective administration of pension matters in Nigeria. The Commission was established by Section 14 (1) of the Pension Reform Act, 2004.

Composition of membership of the commission: Section 16

Section 16(1) states that the commission shall consist of:

1. A part-time chairman who shall possess a University degree or its equivalent not less than 20 years' experience;
2. A Director-General who shall:
    i. Be the Chief Executive Officer responsible for the day-to-day administration of the Commission
    ii. Possess professional skill and with not less than twenty years cognate experience relating to pension matters and or Insurance, Actuarial Science or other related field,
    iii. Be a fit and proper person;
3. Four full-time Commissioners who shall each:
    Possess professional and cognate experience in Finance and Investment or Accounting or Pension Management or Actuarial science or Business Administration or other related field.

2. Part-time members of the Commission who shall be representatives each of:
    a. The Head of the Civil Service of the Federation
    b. The Federal Ministry of Finance
    c. The Nigeria Labor congress
    d. The Nigeria Union of Pensioners
    e. The Nigeria Employers Consultative Association
    f. The Central Bank of Nigeria; and
    g. The Securities and Exchange Commission

Section 16 (2) States that the commission shall have four specialized Departments namely:

i. Technical

ii. Administration

iii. Inspectorate and

iv. Finance and Investment to be headed by 4 Commissioners

Functions of the Commission: Section 20

Section 20 of the Pension Reform Act states the functions of the commission as to:

1.. Regulate and supervise the scheme established under this act;

2. Issue guidelines for the investment of pension funds;

3. Approve, license, regulate and supervise pension fund administrators, custodians and other institutions relating to pension matters as the Commission may from time to time determine;

4. Establish standards, rules and guidelines for the management of the pension funds under this Act;

5. Ensure the maintenance of a National Data Bank on all pension matters;

5. Carry out public awareness and education on the establishment and management of the scheme;

6. Promote capacity building and institutional strengthening of Pension Fund Administrators custodians;

7. Receive and investigate complains of impropriety leveled against any Pension Fund Administrators, custodian or employer or any of their staff or agent and

8. Perform such other duties which, in the opinion of the Commission are necessary or expedient for the discharge of its functions under this Acts.

Powers of the Commission: Section 21

Section 21 of the pension reform act states that the powers of the commission include:

1. Formulate, direct and oversee the overall policy on pension matters in Nigeria

2. Fix the terms and conditions of service including remuneration of the commission;

3. Request or call for information from any employer of pension administrator or custodian or any other person or institution on matters relating to retirement benefit;

4. Charge and collect such fees, levy or penalties, as may be specified by the commission,

5. Establish and acquire offices and other premises for the use of the Commission in such locations as it may deem necessary for the proper performance of its functions under this Act;
6. Establish standards, rules and regulations for the management of the pension funds under this Act;
7. Investigate any pension fund administrator, custodian or other party involved in the management of pension funds;
8. Impose administrative sanctions or fines on erring employers or Pension Fund Administrators or Custodians; and
9. Order the transfer of management or custodian of all pensions' funds or assets being managed by a pension fund administrator or held by a custodian whose license has been revoked under the Act or subject to insolvency proceedings to another pension fund administrator or custodian.

Pension Fund Administrator (PFA): Section 24

For purpose of Pension Fund Administration, the Pension Fund Administrator, which must be licensed by the National Pension Commission shall:

i. Be a limited Liability Company set up to manage pension fund only(Except Life Insurance Offices for 2 years).
ii. Have a minimum of N150 million paid capital;
iii. Have professional capacity to manage funds and administer retirement benefits.

Functions of Pension Fund Administrator (PFA) Section 25;

1. Operate retirement savings Accounts with Personal Identification Number (PIN);
2. Invest and manage pension funds and Assets through Pension Fund custodian;
3. Maintain books of account on all transactions;
4. Provide relevant information on investment strategy, market returns and other performance indicators to the National Pension Commission (NPC) and employees or beneficiaries of the Retirement Savings Accounts (RSA);
5. Provide customer service support;
6. Ensure that retirement benefits are paid as at when due;
7. Carry out computations of retirement benefits;

8. Carryout any other functions as may be directed from time to time by the National Pension Commission.

The National Pension Commission who had right to license the Pension Fund Administrators also has the power to withdraw the license or de-license them.

Requirements for Pension Asset Custodian (PAC) Section 46;

1. A Pension Asset Custodian must be a licensed financial institution set up to hold pension funds and assets on trust.
2. Have a minimum net worth of N5 billion or owned by a company with net worth of N5biillion.
3. Must have a Balance Sheet position of N125 billion or owned by a licensed financial institution with N125 billion balance sheet position
4. Must possess professional and technical capacity and adequate operational system.

Functions of Pension Asset Custodian: Section 47

1. Receives contributions on behalf of the Pension Fund Administrator,
2. Holds pension funds and assets in safe custody;
3. Execute investment activities on behalf of the Pension Fund Administrator;
4. Reports to the National Pension Commission and Pension Fund Administrator.

Investment of Pension Fund: Section 72

All contributions shall be invested by the Pension Fund Administrator (PFA), with the objectives of safety and maintenance of fair returns.

Section 73 stated that, subject to guidelines issued by the National Pension Commission, pension funds and assets shall be invested in any of the following:-

1. Bonds, bills and other securities guaranteed by the Federal Government of Nigeria and CBN;
2. Bonds, debentures, shares and debt instruments issued by corporate entities and listed on the Stock exchange;
3. Ordinary shares of Public Limited Company (PLC) on the Stock exchange;

4. Bank deposits and bank securities
5. Real estate investments;
6. Overseas investment: This is subject to the subsisting CBN Foreign Exchange rules and the approval of the President; PFA may invest pension funds and assets outside Nigeria.

Investment Outside: Section 74

A Pension Fund Administrator may invest the pension fund assets in units of any investment funds: Provided that such investment fund may only be invested in the categories of investments set out in subsection (1) of this section and in real estate.

Restriction Investment: Section 75

A Pension Fund Administrator shall not invest pension fund assets in the shares or any other securities issued by:

a) The Pension Fund Administrator or custodian; and
b) A shareholder of the Pension Fund Administrator or custodian

Restriction on Sale of Pension Fund Assets: SECTION 76

The Pension Fund Administrator shall not:

Sell pension fund assets to

a. Itself
b. Any shareholder, Director or affiliate of the Pension Fund Administrator,
c. Any employee of the Pension Fund Administrator,
d. The spouse of any of the persons referred to in paragraphs (i) to (ii) of this paragraph or those related to the said persons
e. Affiliates of any shareholder of the Pension Fund Administrator.
f. The custodian holding Pension Fund assets to the order of the pension fund Administrator

1. Purchase any pension fund assets; and
2. Apply pension fund assets under its management by way of loans and credits or as collateral for any loan taken by any person.

Additional Restriction on Investment: Section 77

Section 77 (1) stated that the Commission may, by regulation, impose additional restrictions in investments by Pension Fund Administrators where such additional restrictions are imposed with the objects of protecting the interest of the beneficiaries of the retirement savings accounts.

For the purpose of complying with any guidelines set by the Commission as to the quality of instructions pension fund assets may be invested in, and to ensure the safety of Pension Fund Assets in general, every Pension Fund Administrator shall have due regard to the risk rating of instruments that has been undertaken by a risk rating company registered under the investments and Securities Act 1999.

Penalty for Non-Compliance: Section 78

Any Pension Fund Administrator who fails to comply with any provision of this Act shall be liable to a penalty of an amount to be determined by the Commission but in any case shall not be more than N 500, 000 for each day that the non-compliance continues and the Pension Fund Administrator shall forfeit the profit from that investment to the beneficiaries of the retirement savings accounts and if the investment has led to a loss, the Pension Fund Administrator shall be made to make up for the loss.

List of Licensed PFAs

Below is the list of Pension Fund Administrators in Nigeria:

1. AllCO Pension Managers Limited
2. Amana Pension Managers Limited
3. APT Pension Managers Limited
4. ARM Pension Managers Limited
5. Citi Trust Pension Managers Limited
6. CRIB Trust Fund Managers Limited
7. Crusader Sterling Pension Limited
8. Evergreen Pension Limited
9. Fidelity Pension Managers Limited
10. First Alliance Pension and Benefits Limited
11. First Guarantee Pension Limited
12. `Future Unity Glanvils Pension Limited
13. IEI-Anchor Pension Managers Limited

14. IGI Pension Fund Managers
15. Lead way Pension PFA Limited
16. Legacy Pension Managers Limited
17. NLPC Pension Fund Administrators Limited
18. OAK Pension Fund Limited
19. Penman Pension Limited
20. Pension Alliance Limited
21. Premium Pension Limited
22. Royal Trust Pension Limited
23. Stanbic IBTC Pension Managers Limited
24. Sigma Pensions Limited
25. Standard Alliance Pension Managers Limited
26. Trust Fund Pension Limited

List of Licenses PFCs

Below is the list of Pension Fund Custodians in Nigeria as at January, 2010

1. Diamond Pension Custodian Limited
2. First pension Custodian Limited
3. Oceanic pension fund Custodian Limited
4. UBA pension fund Custodian Limited
5. Zenith pensions custodians Limited

List of Licenses CPFAs

Below is the list of Closed Pension Fund Administrator (CPFAs) in Nigeria as at January, 2010. They are organizations that were already managing their own pension fund for their employees, who with the permission and licensing of PENCOM are given the authority to continue:

1. Chevron Closed PFA Limited
2. Nestle Nigeria Trust Limited
3. Nigerian Agip CPFA Limited
4. Progress Trustee CPFA Limited
5. Shell Nigeria Closed Pension Fund Administrator Limited

6. Total (E & P) Nigeria CPFA Limited
7. UNICO CPFA Limited

Illustration

Mallam Ojotiwon's service career span over 30 years as follows:

01/01/1970 to 31/10/1991 Federal Civil Service

01/12/1992 to 31/12/2003 Kwara State Government

On retirement, his basic salary was N 180, 000 while his total allowances stood at N220, 000. However, he has the following outstanding loans and advances against him.

i. Car Loan N 20, 000
ii. Car Refurbishment N 40, 000
iii. Housing Loan N 140, 000
iv. Surety in respect of Mr. Total who absconded from service N 200,000

Required

a. Apportion his pension and gratuity between the Federal Government and Kwara State.
b. Define Pension and Pensionable Emoluments.
c. What are the conditions for granting retirement benefits?
d. What are the safeguards against fraudulent payment of pension and gratuity?

Solution:

Mallam Ojutiwon

(a) Apportionment of pension and gratuity.

	Federal Govt.		Kwara St. Govt	Total
i. Gratuity	$\frac{22}{33}$ X 836,000	+	$\frac{11}{33}$ x 836,000	
	= 557,333	+	278,667	**<u>836, 000</u>**
ii. Pension	$\frac{22}{33}$ x 304, 000	+	$\frac{11}{33}$ x 304,000	
	= 202, 667	+	101, 333	**<u>304, 000</u>**

Workings:

Computation of Pension and Gratuity payable:

Year in service	**Federal Govt.**	**Kwara State**		**Total**
1/1/70 to 31/10/91	21 years,10 mths	-		**21 yrs, 10 mths**
1/12/92 to 31/12/03	-	11 years		**11 years**
			Approx.	**33 years**

(1) **Computation of gratuity:**

At 33 years, gratuity = 284% of total package

= 284% of (180,000 + 220,000) =		**1, 136,000**
Less: outstanding and advances:		
Car Loan	20,000	
Car Refurbishment Loan	40,000	
Housing Loan	40,000	
Surety P.R.O Mr. Tolu	200,000	300,000
		836,000

(ii) Computation of pension:

At 33 years = 76% of 400,000 **304,000 PA**

(b) Pension is a monthly salary paid to a retired officer until death. Pensionable emoluments are the salary attached to a retiring substantive rank excluding allowances, but with effect from 1/6/92 to date, it includes allowances.

(c) The following are the conditions for granting retirement benefit:

i. On voluntary retirement after qualifying service period.

ii. On compulsory retirement for the purpose of facilitating improvement in the office or department

iii. On compulsory retirement for attaining the retirement age of 60 years

iv. Retirement on health ground

v. Retirement on total or permanent disability while in service

vi. Retirement in public interest

d. The following are the safeguards against fraudulent payment of pension and Gratuity:

i. The retiring officer must submit four passports photograph for identification
ii. The retiring officer must be identified by a senior not below the rank of Chief Auditor or Chief Accountant and others
iii. The computation of Pension and gratuity is done at different office other than that in which the retiring officer worked
iv. The computation is subject to pre-auditing
v. The retiring officer will be given a crossed cheque marked 'Accounts Payee Only'
vi. The retiring officer is paid through bank; he is expected to renew his mandate once every quarter
vii. Where he is paid by cash, he must present himself physical once every year
viii. The problems of producing suitable decision package, which are self-contained and understood by managers particularly in complex multipurpose organization.
ix. The amount of staff time and organization necessary to introduce the system
x. A possible lack of organizational social fit.

8.05 Review Questions

As man is ageing, he depreciates just like any asset. Though he can neither be replaced nor be discarded, but he has to be looked after because he may not be able to provide for himself, hence the need for a pension scheme arises'

Critically discuss the above statement in the light of the failure and lack of sustainability of pension scheme arrangements in Nigeria. As a professional accountant in training, what should be uppermost in your mind as you prepare for disengagement from active service.

MODULE 9

9.00 FUND ACCOUNTING

9.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Discuss the meaning and concept of Fund and Fund Accounting in government accounting;
ii. Disintegrate the various classifications and types of Funds and their implications for accounting purposes;
iii. Identify the various uses and applications of Funds;
iv. Examine the various sources of government revenue and the revenue application formula in force.

9.02 The Concept of Fund

Fund is described by Smullen and Nicholas (2005) as a separate pool of monetary and other resources used to support designated activities.

To Granof and Khumaliala (2011) fund is a fiscal and accounting entity with self-balancing of accounts from which financial statements can be prepared.

Oshisami and Dean (1984) as cited by Fasua (2014) described fund as a separate fiscal and accounting entity in which resources are held, governed by special regulations, segregated from other funds and established for special purposes on which resources of the fund may be expanded.

The analysis of these definitions to them shows that funds is having the following characteristics:

i. It has dual technical meaning i.e. fiscal and accounting entity
ii. It is governed by special regulations
iii. It is separated from other fund
iv. It is established for specific purpose
v. It is a pool of resources.

9.03 The Origin of Funds

The origin of fund in Nigeria can be traced to section 154 A of the Nigeria (constitution) order in council 1954 which established the Consolidated Revenue Fund of the federation.

Thus, the management of the Consolidated Revenue Fund was conducted in accordance with the provision of the constitution order as well as the provisions of Financial (Control and Management) Act 1958 No 33. Since that period to date, the number of the Nigeria government funds and the amount has grown tremendously.

Public Funds

1. Consolidated Thomas Scholarship Fund
2. Federation Account
3. Local Government Account
4. Contingencies Fund
5. Development

Special Funds

1. Ademola Thomas Scholarship Fund
2. African Staff Housing Scheme Fund
3. Armed Forces Comfort Fund
Fund
4. Cocoa Research Institute of Nigeria fund
5. Federal Institute of Industrial Research Fund
Funds
6. Fire Service Reward Fund
7. Government Servants Provident Fund
8. Motor Vehicles Advances Fund
Pensions Fund
9. National Provident Fund
10. National Provident-Reserve Fund
11. Nigerian Ex-servicemen's Welfare Fund
Police Reward Fund
Children's

12. Petroleum Technology Development Fund
Police Award
13. Post Office Savings Bank fund
Fund
14. Prison Warders' Rewards Fund
Fund
15. Revolving Loans Fund for Industry
16. Revolving Loans Fund-Tin Buffer Stock
17. Treasury 8 ¾ % Loan Fund
Fund

Treasury Clearance Funds

1. Personal Advances Fund
2. State Government Account
3. Local Government Account

Public Trustee Funds

1. Jos Tin Areas Trust Fund
2. Dr. J. Randle's Trust
3. J. M. Woods Trust
4. Nigerian Railway Provident

Local Government

1. Local Government Fund
2. Renewals Fund
3. Local Government

4. Special Rate Reserve Fund

Miscellaneous Fund

1. Deceased Officers'
Education Grant Fund

2. Justice Nigel Reed
Fund
3. K.W. Merchant Memorial

4. Nigerian Army Benefit

5. Nigerian Navy Benefit Fund
6. Sir Alfred Jones Bequest
7. Stock Transfer Stamp Duty
8. Veitch Memorial Fund

Source: Anyafo (2002)

9.04 Reasons for Government Fund Accounting

The reason for fund accounting is the establishment and maintenance of two types of financial entities in the government:

i. **As a fiscal entity**: Since it is a pool of resources, it receives public money into it and disbursement is also made from it for purposes allowed under the statutes governing it. In essence, money meant for a fund cannot go elsewhere, any expenditure chargeable to a fund cannot be charged elsewhere and each fund is made separate from other entities.

ii. **As an accounting entity**: For each fund a separate sets of books and accounts are maintained, since separate financial operation and position to be reported on periodically are based on books and accounts kept for the fund.

9.05 Classifications of Funds

Fund can in principle be classified into three broad categories as follows:

i. **Government Fund:** These are funds used for accounting for resources derived from the general taxing and revenue powers of government e.g. Consolidate Revenue Funds; Special/Contingency Fund and Development Fund

ii. **Proprietary Fund:** This is referred to as Treasury Fund in Nigeria. They are funds which are used to account for resources used and (if applicable) accretions thereto from business like operation of the government i.e. fund used for parastatals.

iii. **Fiduciary Fund:** These are funds used to account for resources held and managed by the government in the capacity or custodians of trustees' e.g. Trust Funds, Deposit Funds and Agency Funds.

Types Of Fund

1. **General Fund (Consolidated Revenue Fund)**. This is a fund established under section 80 and 120 of the Federal Republic Constitution 1999 to account for resources devoted to financing the general administration or services of the government.

In this account, all relevant receipts are credited and all recurrent expenditure debited. The incoming revenue are classified and credited to various heads of revenue accounts in line with their corresponding budget classification.

The balances on the summary accounts are then transferred monthly to the surplus and deficit account. At the end of the year, the total balances in this account are then transferred to the Consolidated Fund to represent the excess of receipts over expenditure for the relevant years, plus the balance brought forward from the previous year. In fact, it becomes necessary at times to transfer or allocate a percentage of the balance in the Consolidated Revenue Fund and crediting such to the Development fund.

The items of expenditure in the statement of Consolidated Revenue Fund are:

a. Personnel
b. Pension and Gratuity
c. Consolidated Revenue Fund Charges
d. Overhead Cost
e. Public Debit Charges
f. Grants and Subvention
g. Miscellaneous Expenses, and others

Features of the format of CRF

The new format contains the following features:

i. Actual of previous year
ii. Description of the key item
iii. Budget current year
iv. Actual current year
v. Variances in percentage
vi. Opening and closing balance
vii. Notes to the statement

Format of the Statement of Consolidated Revenue Fund Statement No. 3

Statement of Consolidated Revenue Fund for the year ended December 31, 2007

Actual Previous year	**Description notes**	**Budget Current year**	**Actual Current year**	**Variance**
		Nm	Nm	
%				
XX	Opening Balance	XX	XX	
XX				
XX	Add: Revenue Fund (income	XX	XX	
XX				
XX	Fire and Fees 22	XX	XX	
XX				
XX	Earning and Sales 23	XX	XX	
XX				
XX	Rent on Government Property 14	XX	XX	
XX				
XX	Interest and Dividend 24	XX	XX	
XX				
XX	Taxes (Direct and Indirect) 25	XX	XX	
XX				
XX	Statutory Allocation	XX	XX	
XX				
XX	Miscellaneous 26	XX	XX	
XX				
XX	**Total Revenue (a)**	XXX	X XX	
XXX				
	Less: Expenditure			
XX	Personnel	XX	XX	
XX				
XX	Pension and Gratuities	XX	XX	
XX				

XX	Consolidated Revenue Fund	XX	XX	XX
XX	Charges 27	XX	XX	XX
XX	Overhead cost	XX	XX	XX
XX	Public Dept charges 28	XX	XX	XX
XX	Recurrent Grants and Subventions	XX	XX	XX
XX	Subsidies	XX	XX	XX
XX	Miscellaneous	XX	XX	XX
XXX	Total Expenditure (b)	X XX	XXX	XXX
XXX	**Operating Balance**	**XX**	**XXX**	**XXX**
Appropriation/Transfers				
XX	Capital Development Fund	XX	XX	XX
XX	Loans Repayments Fund	XX	XX	XX
XX	Closing Balance	XXX	XXX	XXX

2. **Development Fund (Capital Project Fund**)

The receipts and disbursement of all fund used for the acquisition of capital assets are accounted for by capital project fund. All the funds for financing capital projects are usually from the contributions of Consolidated Revenue Fund and sometimes Contingency Funds which are credited to the Capital Project Fund (Development funds).

Other services of revenue credited to the Development fund are internal and external loans, proceeds from VAT for development purpose, and miscellaneous.

Expenditure (debit entries) in the Development Fund are segregated into sectors which include:

a. Economic Sector
b. Social services sector
c. Regional development sector
d. Administrative sector

Types of expenditure in each sector are as follows:

A. **Economic sector**

i. Agriculture (Live stocks; Forestry; Fisheries etc.)
ii. Manufacture
iii. Power
iv. Commerce and finance

B. Social services sector

i. Education
ii. Health
iii. Housing
iv. Others

C. Regional services sector

i. Niger Delta Development Commission
ii. River Basin Authority

D. Development Fund Format

Statement No……………………………….

Statement of Development Fund Account for year ended 20xx

	N	N
Balance b/f		xx
Transfer from Consolidated Revenue Fund		xx
Add Capital Receipts:		

External loans	xx	
Internal loans	xx	
External grants	<u>xx</u>	<u>xx</u>
Total Capital Receipts		xxx
<u>Less Capital Expenditures:</u>		
Loans on-lent	xx	
Ministry of Agric	xx	
Ministry of Information	xx	
Army Min.	xx	
Parastatals	<u>xx</u>	<u>xxx</u>
Balances as at 31/12/20xx		<u>xxx</u>

Contingency Fund

The fund was first established by the constitutional Amendment order 1958, section (1) with an initial fund of 1 Million pound to be transferred from the Consolidated Revenue Fund for its creation although this amount has since been increased.

The operation of the fund is prescribed by schedules 3 of the Finance (Control and Management) Act 1958; sections 83 and 123 of the Federal Republic constitution of 1999 and FR 407 (2000). The fund is operated on the imprest system.

After a transfer of money from the fund, an equivalent sum is later transferred from the Consolidated Revenue Fund to replenish the contingency fund to the previous balance, usually standing at a fix level. Any imprest occurring on the balance in that fund is finally transferred to the Consolidated Revenue Fund.

A warrant must be issued by the Minister of Finance or Commissioner to the Accountant-General of the Federation or State authorising him to transfer a sum to the Contingency Fund from the Consolidated Revenue Fund. No money is expected to accrue to the fund from any other source other than money appropriated by an Act/Law.

Any part of the contingencies fund which may be invested shall form part of Investment General referred to in section 10 of the Finance (Control and management) Act, 1958 No 33.

On no account should charges be made from contingency fund except where virement is not possible and where on application provision reveals such a high degree of urgency that the issue of funds cannot be delayed without causing serious injury to public interests. It cannot be postponed until supplementary appropriation act can be passed. However, authority will be conveyed for issuance fund warrant to the AGF.

Rules Governing Contingency Fund

The following rules govern the contingency fund as stated by Fasua (2014):

i. There must have been problem of natural disaster

ii. The Contingency Fund warrant must be released to transfer amount required from the Contingency Fund into Consolidated Revenue Fund. This is because money cannot be expended directly from the Contingency Fund except through Consolidated Revenue Fund.

iii. All withdrawal from the Contingency Fund must be reported to the National Assembly for subsequent re-imbursement

iv. No money shall accrue directly to the Contingency Fund.

Pro- forma Statement of Contingency Fund

Statement No………. **Contingencies Fund**

Statement of Account for the year Ended 31st December…	N		
Balance of Fund as at 31st December...	XXX		
Less			
Issues to the Consolidated Revenue Fund during the Year		XXX	XXX
Add Reimbursement from the Consolidated Revenue Fund			XXX
Balance as at 31st December…		XXX	

Signature:…………………….. Date:………………

Accountant-general

Office of the Accountant-General, Ministry of Finance

9.06 Sources of Government Revenue

In order to sustain itself and perform its duties to the nation, the government must earn some money through some fiscal measures. The money required by the government to perform its duties must be obtained from a source and utilized on Recurrent and Capital Expenditure.

There are two main sources of Nigerian government revenue namely: **Oil Revenue** and **Non-Oil Revenue**.

The revenue derived from various sources is classified into various Heads and Sub-heads.

The Federal Government has the following revenue classification:

i. Federation Accounts Revenue Head

ii. Federal Government Account Revenue Head

These were modified in 1994 fiscal year as follows:

i. Federation Accounts Revenue head.
ii. Value added Tax (VAT)
iii. Federal Government Account Revenue

a. Federation Accounts

Federation Account was established by the Constitution of the Federal Republic of Nigeria, 1999, the Finance (Control & Management) Act of 1958, and the Audit Ordinance of 1956. It was also strengthened by the Civil Service and Local Government Reforms Decree 43 of 1988.

Federation Accounts is a special account into which shall be paid all revenue collected by the government of the Federation, except the proceeds from the PAYE of Armed Forces Personnel, Police Personnel, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja and other Federally Independent Revenue.

Federation Account is **a distributable pool account** being rationed among the Federal, State and Local Government on such terms and in manners prescribed by the law. Currently it is distributed using the Revenue Allocation Formulae below:

Federal	-	52.68%
State	-	26.72%
Local Govt.	-	20.60%
Derivation	-	13%

13% Derivation is not part of the percentage for sharing amongst the three tiers of government. The derivation is the percentage amount for the oil producing states before the sharing of the balance.

Federation Accounts Revenue Heads

Head 1 - Direct Taxes

These are taxes on individuals and companies e.g. companies' income tax, petroleum profit tax, capital gain tax, capital transfer tax, etc.

Head 2 - Indirect Taxes

These are taxes raised from goods and commodities in the form of customs and excise duties e.g. Import duties, export duties, excise duties, tariffs, forfeiture, penalties, VAT etc.

Head 3 - Mining

These are oil pipeline license fees, rent of mining rights, mining fees and royalties on minerals, NNPC earnings from direct sales of crude oil for domestic consumption, sales of crude oil for export, penalties for gas flaring, rent of oil well, rent of oil ground, royalty for extraction of oil etc.

The revenue is shared by the Federation Account Allocation Committee on monthly basis along with the Federation Account Revenues.

i. Federation Account Allocation Committee

This Committee was set up to ensure that the provisions of the Act are strictly adhered to and the committee is mandated to carry out the following functions:

a. To ensure that allocation made to the States from the Federation Account are promptly and fully paid into the Treasury of each State on such basis and term prescribed by Act or Decree.
b. To submit annual report of its performance/ activities to the National Assembly.

Composition:

i. The Federal Minister of Finance (Chairman)
ii. Accountant- General of the Federation
iii. All State Commissioners for Finance
iv. All State Accountants- General
v. A representative of Custom & Excise Department
vi. A representative of NNPC

vii. Representative of Federal Inland Revenue service
viii. Representative of National Planning Commission
ix. Representative of Central Bank of Nigeria.

b. State Joint Local Government Account Allocation Committee

This Committee was set up to ensure that the statutory allocations to Local Governments from the Federation Account and from the States' own revenues are duly paid to the various Local Government Areas.

Composition:

i. The Permanent Secretary for Local Government Affairs
ii. All the Chairmen of Local Government in the State
iii. A Representative of the Accountant-General of the State
iv. The Federal Pay Officer in the State

9.07 Legal Basis for Operation of Funds in Nigeria

In a developing economy, a common feature is the regulation of all facets of economic activities through standardized rules that bring about a presumed uniformity of actions. The management and operation of government financial activities is one facet that needs certain regulations in order to achieve the set financial objectives of the government.
These objectives are:

a. The provision of useful information necessary for the efficient, effective and economic management of the financial resources of the government
b. Provision of information necessary by the executives to report on the discharge of their responsibilities in relation to the collection, custody and disbursement of public funds entrusted into their care
c. Provision of proofs of reasonableness of the financial transactions; and
d. Ensuring compliance and strict adherence to the laid down rules and regulations.

The civil service, through which the government operates, is a large and complex organization that needs predetermined standards (financial and otherwise) for uniformity of action in order to achieve the financial and other objectives of the government. Procedures for revenue collection, security of cash and properties as well as the categories of officers that are supposed to be responsible for each action should be set out in the civil service for the desired effectiveness and efficiency in the management of government financial resources. Nigeria, as a Third World country, has had more than a fair share of the desired regulations necessary for achieving the set financial objectives of the government, at least on paper. The country has been having different financial regulations in different forms right from when it was totally dependent on its colonial master and after "flag" independence. These rules and procedures, which regulate the financial activities of the Federal Government, are enshrined in various legal documents of the government, such as the Constitution of the Federal Republic of Nigeria of various dates, Finance Act 1958, Audit 1958 Act or Decree, Appropriation Act or Decree, the annual Budgets etc. This paper attempts to review and critically assess the financial regulations as contained in the various legal documents of the Federal Government and articulates some of the major problems hampering their implementation and challenges for the future.

The 1999 constitution is the amended version of the 1979 Constitution of the Federal Republic of Nigeria, which was an offshoot, not only of the 1963 Constitution but, of the other Pre-independence Constitutions. So, its provisions are in most respects similar to those of its predecessors (or ancestors). The Constitution was reviewed in 1989 and 1994, with no hope for implementation until May 1999 when the new civilian government was sworn in. It was promulgated as constitution of the Federal Republic of Nigeria (Decree No 24), 1999 and published in the Federal Republic of Nigeria official Gazette on 5th May 1999 in Lagos. The Constitution is supposed to be a legal document that regulates not only government accounting but the whole aspects of financial management in government.

In Chapter V, part 1 (E) of the Constitution, the National Assembly was given certain powers and control over public funds as a way of regulating and controlling the operation of the different types of government funds. Section 120(1), which is on the Establishment of Consolidated Revenue Fund (CRF), says "All Revenues or other moneys raised or received by the Federation (not being revenue or other moneys payable under this constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Fund of the Federation".

On the withdrawal of money by the government for public services, section 120(2) says "No moneys shall be withdrawn from the Consolidated Revenue Fund of the Federal except to meet expenditure that is charged upon the fund by this Constitution or where the issue of those moneys has been authorized by an appropriation Act. Supplementary Appropriation Act or an Act passed in Pursuance of Section 121 of this constitution"

These two sub-sections formed the basis for the idea of Fund Accounting which was defined as the method of accounting which reports in terms of funds rather than in terms of organizations. Other sections with the objectives of financial regulations at Federal government level are on withdrawal of money from other Public fund Section 120 (3), Authorization of expenditure in default of Appropriation Section (127), Contingencies Fund

Section (123), Remuneration of the President and certain other officers Section (127) and Audit of Public accounts Section (125).

All the sections of the constitution mentioned above are meant to give a perfect guidance as to the financial planning and control of the federal government. The constitutional emphasis on the concept of check and balance between the legislature and the executive arms of government is enough concern for a need to instill proper accountability and sound control over the Public Funds. But unfortunately, the constitution is almost always under suspension by the Military. Decrees, which would be skewed towards the interest of the military junta, are, in the greater part of Nigeria's post-independence period, the supreme laws of the land. The constitutional provisions, which are determined by the representatives of the masses and implemented by them, are a better means of attaining accountability and control over public funds. The question is when would the Provisions have way for effective financial regulations at the Federal Government level?

9.08 Fund Accounting: Illustrative Questions

The following was extracted from the office of the Accountant-General of the Federation for the month ended 31st May, 2020

	₦'000
Capital Gains Tax	450,000
Companies Income Tax	300,000
Petroleum Profit Tax	2,105,000
Excise Duties	102,000
Import Duties	210,000
Export Duties	115,000
PAYE Deductions from the Emoluments of:	
• Armed Forces	12,000
• Nigeria Police Force	7,000
• Staff of Ministry of External Affairs	6,000
• Residents of Federal Capital Territory	4,000
Rent of Government property	3,000
Interest on Investments	1,000
Re-imbursements	11,000

The following expenditure items and appropriations were affected during the year:

	₦'000
Transfer to Contingencies fund	25,000
Transfer from Contingencies fund	18,000
Transfer to Development fund	42,000
Recurrent Expenditure	830,000
Salaries and allowances of:	
• Supreme Court Judges	22,000
• Auditor-General for the Federation	4,000

- Federal Court of Appeal Judges 18,000
- Nigeria Law Reform Commission 5,000

The revenue allocation formula is as follows:

- Federal Government 52. 68%
- State Government 26.72%
- Local Government 20.6%

You are required to prepare:

- The Federation Account.
- The Consolidated Revenue Fund Account for the month of May 2020.

SUGGESTED SOLUTION

THE FEDERATION ACCOUNT FOR THE MONTH OF MAY, 2020

	₦'000	**₦'000**
Capital Gains Tax	450,000	
Companies Income Tax	300,000	
Petroleum Profit Tax	2,105,000	
Excise Duties	102,000	
Import Duties	210,000	
Export Duties	115,000	3,282,000
Less:		
STATUTORY ALLOCATION (OF N3,282,000,000)		
Federal Government 52.68%	1,728,958	
State Government 26.72%	876,950	
Local Government 20.6%	676,092	
		(3,282,000)
Balance		**NIL**

CONSOLIDATED REVENUE FUND ACCOUNT FOR THE MONTH OF MAY, 2020

	₦'000	**₦'000**
Federation Account Allocation	1,641,000	
Payee Deductions (W1)	29,000	
Rent of Government Property	3,000	
Interest on Investments	1,000	

Re-imbursement	11,000	1,685,000
Transfer from Contingencies Funds	18,000	
Transfer to Contingencies Fund	(25,000)	(7,000)
		1,678,000
APPROPRIATIONS/CHARGES/EXPENDITURE		
Recurrent Expenditure	830,000	
Salaries and Allowances of Statutory officers (w2)	49,000	
Transfer to Development Fund	42,000	(921,000)
Balance as at 31st May, 2020		757,000

- Working 1 Payee Deductions: N(12,000 +7,000 + 6,000 + 4,000) ₦29,000
- Working 2 Salaries/Allowances of Statutory Officers: ₦(22,000 + 4,000 + 18,000 + 5,000) = ₦49,000

9.09 Review Questions

There have been arguments over the years on the workability of the current revenue allocation formulae in use in the country. Some argue that it do not represent a fair template for the distribution of federally-generated revenues.

As a professional Accountant in training, you are expected to argue objectively for or against the above position stating clearly your reason(s) for the adequacy or otherwise of the current revenue allocation formulae in use in Nigeria.

MODULE 10

10.00 LOCAL GOVERNMENT ACCOUNTING

10.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Identify the sources and functions of Local Government revenue in Nigeria;
ii. Evaluate the roles and functions of the Principal Officers of Local Government Councils in Nigeria;
iii. Analyze the various types of expenditure incurred by Local Governments in Nigeria;
iv. Assess the statutory allocation formula applicable to the third-tier of governance in Nigeria;
v. Objectively examine the concept of budgets and budgetary control in local governments in Nigeria.

Local Government is the government that relates directly with the people in the society or in a community. It is the government through which the populace has their aspirations and grievances attended to by the Federal Government. While the Federal Government has control over them, the State Government too have considerable influence over them.

This system in its optimal state is a driver for national development. Mbam (2012) notes that local government councils in Nigeria being the closest to the people occupy a peculiar position as promoters of grassroots mobilization and participation in governance, catalyst for rural transformation and development, suggesting that well administered local government system is key to national development.

10.02 Meaning of Local Government

The Federal Government of Nigeria, through the 1976 Local Government Reforms, explained Local Government as follows: "Local Government is Government at Local level exercised through representative councils established bye Law to exercise specific power within defined areas" (Government print: 1976).

The United Nations Office for Public Administration explained Local Government as: "A political division of a nation (in a Federal or State system) which is constituted by Law and has substantial control of Local affairs including the power to impose taxes to exact labour for prescribed purposes.

W. A. Robson, (2006) in the Encyclopedia of the Social Services, defines Local Government as involving: "The conception of a territorial, non-sovereign community possessing the legal right and the necessary organ to regulate its own affairs. This, in turn, presupposes the existence of a Local authority with the power to act independently of external control as well as the participation of the local community in the administration of its affairs".

The Encyclopedia Americana, International Edition (1978), volume 17, defines Local Government as: "a political subdivision of national government or in the case of Federal Systems, a subdivision of regional Government".

It is the sub-political administration of the smallest sub-divisions of a country's territory and population. Ugwu, (2002) defines Local Government as "the lowest unit of administration to whose laws and regulations communities who live in a defined geographical area and with common social and political ties are subject.

10.03 Features of Local Government

i. Local Government is government at the local level;
ii. It has its autonomous existence and is endowed with a legal status;
iii. Specific powers are reserved for it;
iv. It can impose taxes and incur expenses;
v. It exists within a defined territory;
vi. It is seen as a distinct tier of Government;
vii. It must provide authority over a given population;
viii. It must provide avenues for the promotion of the welfare of the members of the community;
ix. It comprises elected members, such as chairmen and councilors.

10.04 Functions of Local Government

1. Formulation of economic policies which will bring about rapid development in the area and making recommendations where necessary to the state government.

2. Establishment and maintenance of cemeteries, destitute homes and provision of basic needs to the aged who are infirmed.
3. Issuance of licenses in respect of motor cycles, cars, bicycles and keeping of pets.
4. Registration of all births, marriages and deaths.
5. Naming of streets, roads and crescents and numbering of houses
6. Construction, maintenance and running of markets, motor parks, machine parks and public conveniences.
7. Provision and maintenance of basic facilities for refuse disposal and public conveniences.
8. Construction and maintenance of roads and street drainage systems.
9. Analysis and assessment of properties and bill boards for accurate charges and collection of tenement rates and advertisement rates.
10. Provision and maintenance of primary health care services to the community.
11. Establishment and maintenance of rural water supply system e.g. sinking of boreholes.
12. Control and regulation of lock up shops, restaurants and kiosks.
13. Licensing, regulation and control of the sale of liquor.
14. Participating in the provision and maintenance of primary education
15. Control and regulation of out-door advertisement.

Functions of Local Government Officers

Chairman

i. He is responsible for decision making as regards finance and accounting in the local government hence he is the Chief Executive and Accounting Officer.

ii. He is to preside over all council meetings and to cast vote when the situation demands.

iii. He is responsible for all funds and property entrusted in his care.

iv. He is to prepare the Local Government's annual estimates and budgets and submit to the Legislature for approval.

v. He is to prepare monthly statements of accounts to the Legislative House for examination and comment.

vi. He is required to have documentary evidence of all receipts and disbursement of public funds

vii. The Chairman is to prepare and present annual reports of his Local Government to show that he is accountable for the funds and property entrusted in his care. The account is to be presented to the Public Accounts Committee.

viii. He is to ensure that all the rules and regulations guiding the receipts and disbursements of government funds and property are strictly adhered to

ix. He is to ensure there is palpable peace and harmony between the neighboring communities in his Local Government

x. He is to make positive, effective and commendable impacts on the populace in his community.

xi. He shall abide by any other rules, regulations and guidelines governing the functions of an executive local government chairman.

Vice-chairman:

i. He is to preside over council meetings in the absence of the Chairman.

ii. He is to be closely involved in the running of the Local Government by assisting the Chairman.

iii. He is to attend to matters of utmost urgency where the Chairman is available but engaged and relate same to the Chairman for decision making.

iv. He is to perform any other function as may be directed by the Chairman.

Secretary:

i. To intimate the Chairman, Vice-Chairman and the council with the **notice** of meetings when the situation demands.

ii. To record the minutes of the Council meetings

iii. To settle amicably any differences between officers in the Local Government and the councilors.

iv. To deliberate on financial, social and political issues with "The Council" i.e. the legislature as they affect the Local Government.

v. To receive and dispatch all correspondence between the Local Government and the public or State Government.

vi. To perform any other function as may be prescribed by law or assigned to him by the Council

Treasurer (DFS):

i. He is responsible for all the receipts and disbursement of funds.

ii. He is responsible for keeping accurate and timely accounting records of funds received or disbursed.

iii. He must ensure that all records kept by his subordinate officers are checked routinely for accuracy.

iv. He is to intimate the Local Government of any economic policy that will increase the Internally Generated Revenue (IGR) of the council.

v. He must ensure that all revenue collectors exploit the opportunities available for collection of all forms of revenue as specified in the budget estimate.

vi. He is to see that all the laid out procedures as regards disbursement of funds are followed.

vii. He should assist in the preparation of annual and supplementary budgets.

viii. He is to be actively involved in the appraisal of all capital projects before they are executed.

ix. He is to make recommendations to the council in his capacity as financial adviser.

x. He is responsible for ensuring that the liquidity position of the council is favourable at all times.

xi. He should ensure that payment vouchers are validly prepared and presented for payment.

xii. He should maintain all records of account in a form suitable for decision making by the council

Head of personnel management:

i. He is to serve as a signatory, on behalf of the council, on all vouchers and cheques.

ii. He is to approve by signing all contractual agreements and Local Purchase Order relating to contracts and supplies respectively on behalf of the Council subject to prior approval by the Chairman

iii. He is responsible for the control and supervision of the civil servants in the Local Government.

iv. He is to assist the Audit Alarm Committee in performing its functions whenever it is constituted.

v. He is to act as the Clerk of the Legislature of the Council in their deliberations.

Legislature

i. To promulgate laws guiding the administration of the Local Government as may be allowed by the constitution.

ii. To analyze, debate, approve and amend the Local Government annual estimates and budgets.

iii. To critically examine, consider, approve and monitor the execution of all capital projects and programmes in the annual estimate.

iv. To examine and make comments on the monthly financial statement of the council as presented by the Chairman.

v. To consult, intimate and advise the Chairman on matters affecting the development of the council.

vi. To serve the chairman notice of impeachment and thereafter proceed on the procedures for impeachment where he is found to have committed an impeachable offence.

vii. To receive, debate on and examine the annual audited report of the council submitted by external auditors.

viii. To perform any other function as may be directed by the State House of Assembly.

10.05 Sources of Local Government Revenue

Statutory Sources of Local Government Revenue

Statutory allocations from the Federation Account, 20% of the federally collected revenue accrues to the Local Government Councils, paid directly by the Federal Government. 10% of the State's internally generated revenue. Fees and other charges imposed by the Council under its instrument of creation and Acts of Parliament promulgated from time-to-time

Permissive Sources of Local Government Revenue

i. According to Act No. 21 of 1998, Local Government Councils may collect the following taxes and levies, only:

ii. Shop and kiosk rates

iii. Tenement rates

iv. On and Off Liquor fees

v. Slaughter slab fees

vi. Marriage, birth and death registration fees

vii. Naming of street registration fees, excluding any street in the State Capital

viii. Right of Occupancy fees on land in the rural areas, excluding those collectable by the Federal and State Governments

ix. Market taxes and levies, excluding any market where State finance is involved

x. Motor park levies

xi. Domestic animal license fees

xii. Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck

xiii. Cattle tax payable by cattle farmers only

xiv. Merriment and road closure levies

xv. Radio and television license fees (other than on radio and television transmitter)

xvi. Vehicle radio license fees (to be imposed by the Local Government Council of the State in which the car is registered)

xvii. Wrong parking charges

xviii. Public convenience, sewage and refuse disposal fees

xix. Customary burial ground permit fees

xx. Religious places establishment permit fees

xxi. Signboard and advertisement permit fees

Incidental Sources of Local Government Revenue

i. Proceeds from economic projects undertaken, such as farming.

ii. Grants from the Federal or State Government.

iii. Investment incomes, e.g. interest and dividends received.

iv. Proceeds of sale of seized goods, boarded vehicles, etc.

v. Donations.

10.06 Principles of Effective Financial Management at the Local Government

i. Set the financial objectives of the local government

ii. Prepare plans of action and select policies for achieving the objective

iii. Develop financial plans and incorporate these into the overall plans of the local government.

iv. Check the achievement of the objectives and evaluate deviations from the plan

v. Establish causes for deviations

vi. Take corrective action and/or redesign policy or revise the objectives to start a new cycle

What Local Government Financial Management entails:

a. Improving Local Government financial planning

b. Improving Local Government assets and liabilities management

c. Improving Local Government liquidity management

d. Improving Local Government infrastructure funding strategies

Financial Control of Local Government Councils

Internal Controls:

a. Issuance of financial authorities, e.g. Supplementary Warrants.

b. Appointment of Committees for different services

c. Centralization of all payments.

d. Preparation of standing orders and instructions on the signing of cheques issued, payments on accounts, etc.

e. Establishment and maintenance of Internal Audit

f. Preparation of estimates of income and expenditure for the year.

g. Budgetary control and feedback processes.

Financial Control of Local Government Councils:

External Controls:

a. Legislative control (National Assembly and State Assembly)

b. Federal Government and State Executive Control.

c. Control by the general public, comments by individuals on Local Government Councils.

d. External auditor control: Control from (i) Auditor-General for the Local Government. (ii) Auditor-General for the State; and (iii) Auditor-General for the Federation of Nigeria.

Conditions/Procedures for Disbursing Money

a. All expenditure approvals by an official shall be reported within a week to a higher officer.

b. Every officer who authorizes expenditure will be personally liable for expenditure approved by him.

c. Approval of expenditure is subject to the normal budgetary appropriation.

d. Contracts above of Local Government Council limit should be approved by the Ministry for Local Government.

Local Government Councils Spending Limit

INTERNAL GENERATED REVENUE (N)	COUNCIL CHAIRMAN (N)	VICE CHAIRMAN (N)	HEAD OF PERSONNEL MANAGEMENT (N)	HEAD OF DEPARTMENT (N)
ABOVE 2M	250,000.00	50,000.00	10,000.00	5,000.00
1-2M	100,000.00	20,000.00	5,000.00	3,000.00
BELOW 1M	50,000.00	10,000.00	3,000.00	2,000.00

Types of Expenditure Incurred by the Local Government Councils

a. A Local Government Council incurs expenditure on a day-to-day running of its affairs. Examples are:

   (i) Personnel costs.

   (ii) Maintenance and repairs, petrol costs, rents, electricity and water bills.

b. Capital expenditure is incurred in constructing roads, motor parks, toilet facilities, etc.

c. Expenditure are classified into the main heads and appropriate sub-heads, departmentally

Budgeting and Budgetary Control

a. The Executive Arm of Government prepares the budget for the approval of the Legislature, which is given assent to by the Council Chairman.

b. The following are the budgetary control procedures:

c. **Approval**: Payments must be approved before spending.

d. **Monthly Reports**: These are prepared to compare actual figures with the budgets and extract variations.

e. **Internal Audit**: From time to time, the Internal Auditors verify the integrity of the accounts and write reports appropriately.

f. **External Audit**: The Auditor-General for Local Governments verifies the records of all Local Government Councils in the State.

g. **Limit of Expenditure**: Individual Local Government Officers have limits of expenditure payments which they must not exceed.

h. Actual actions are taken to correct the errors or reflect variations.

The New Statutory Financial Statements to Be Prepared and Published by Each Local Government Council Are Made Up of:

a. **Declaration of responsibility** for the financial statements by the Treasurer of the Local Government Council stating, among other matters, that the financial statements have been prepared in accordance with the provisions of the Finance (Control and Management) Act Cap 144LFN 1990 and that they comply with the general accepted accounting practice.

b. **Auditor-General's Certificate** stating in his opinion whether or not the financial statements present a true and fair view of the financial position and operation of the Local Government Council as at and for the year ended 31st December 2xxx.

c. **Statement No 1:** Cash Flow Statement

d. **Statement No 2:** Statement of Assets and Liabilities

e. **Statement No 3:** Statement of Revenue and Expenditure

Highlights of the Accounting Procedures

a. The sum total of the amounts disbursed under the Sub-heads of a particular Head is aggregated at the end of the financial year. The numbering of the subheads under a particular Head varies from one expenditure to another. In some cases, they may be over twenty.

b. The capital expenditure of a Local Government Council is written off in the years incurred. Memorandum entries only are kept for expenditure incurred on fixed assets. Consequently, the balance sheet of a Local Government Council will not disclose any information on the fixed assets acquired.

c. Capital or proprietorship interest as in the case of private organization is not shown.

d. The differences between receipts and payments are referred to as General Revenue Balance or surplus, rather than profit or loss. The reserve or excess of income over expenditure is transferred to the Statement of Assets and Liabilities.

e. What we have in the Statement of Assets and Liabilities is an array of current assets and liabilities.

Financial Memoranda for Local Government

The Financial Memoranda for Local Government is a publication by the Federal Government which contains the administrative guidelines, the existing systems of checks and balances as well as the roles of all the officers from the Chief Accounting Officer i.e. the Chairman to the officer at the lowest cadre

Objectives of the Financial Memoranda

a. To serve as administrative guidelines which facilitate day-to-day running of Local Government

b. To expressly highlight the implications of disbursing government fund and property without proper authority, approval and unjustly.

c. To facilitate recording of Local Government financial transactions in the appropriate accounting method.

d. To serve as a learning tool for officers on first appointment or on transfer to a new section

10.07 Auditing in Local Government

According to Gupta (2005), the objectives of audit of local government accounts are to ensure:

i. That there is provision of funds for the expenditure duly authorized by a competent authority;

ii. That in the case of audit of receipts sums due are regularly recovered and checked against demand and sums received are duly brought to credit in the accounts;

iii. That in the case of audit of stores and stock, where a priced account is maintained, stores are priced with reasonable accuracy;

iv. And that expenditure conforms to the general principles which have, for long, been recognized as standards of financial propriety

v. That the charge is correctly classified and that if a charge is debit-able to the personal account of a contractor, employee or other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account;

vi. That the articles are counted periodically and otherwise examined for verification of the accuracy of the quantity balances in the books and that the total of the valued account tallies with the outstanding amount;

vii. That the expenditure is in accordance with a sanction properly accorded and is incurred by an officer competent to incur it;

viii. That payment has, as a fact, been made to the proper person and that it has been so acknowledged and recorded that a second claim against government on the same account is impossible;

Objectives of Internal Auditing of Local Government

i. To evaluate the effectiveness of the internal control procedure.

ii. To ensure that the financial memoranda is strictly complied with as regards receipts and disbursement of funds.

iii. To ascertain, verify and confirm the existence of fixed assets.

iv. To embark on special investigations where fraud is established.

v. To check the validity, reliability and timeliness of accounting information submitted as report.

Objectives of External Auditing of Local Government

i. To ascertain whether all the activities of the Local Government are in conformity with due process.

ii. To ascertain whether the activities are conducted in an effective way in compliance with relevant laws guiding their operation.

iii. To ascertain whether the funds and property entrusted in the care of the executive are effectively utilized.

iv. To ascertain whether all payments made are justified and properly authorized.

The Office of the Auditor-General for Local Governments

The office of the Auditor-General for Local Governments was established from the state Auditor-General in 1989 to primarily undertake the audit of books and accounts of local government councils and their investments. The Public Accounts Committee of the State House of Assembly is responsible for overseeing the report of the Auditor-General as established in Section 125(5) of the 1999 Nigerian Constitution. The Public Accounts Committee and the Office of the Auditor General for local government together represent the external control function in the financial administrative process of local government operations.

10.08 Local Government Finance

Local government finance is one of the aspects of public finance in Nigerian Public Sector system. It deals with the generation of revenue, expenditure and utilization of financial resources in order to bring positive impact of governance closer to people at the grassroots. Put differently, finance is essential in enabling local governments transform the lives of rural dwellers, through the provision of social services and infrastructure, such as the construction and maintenance of rural roads, markets, schools, health centres etc.

Limitations of Local Government

a. Local Government Councils are not allowed to raise tax or introduce a new form of tax without express permission from the State Government.
b. They have limited revenue sources.
c. They cannot raise loans or maintain loan funds without permission.
d. Because they cannot raise loans, Councils find it difficult to execute essential capital development projects.
e. Poor revenue collections may cause delay in the payment of staff salaries and difficulty in executing essential capital development projects.
f. The non-payment or delay in payment of Federal/State Government grants or shares of oil revenues to the local authorities.
g. The non-viability of certain local authorities, especially those whose areas have small population figures.
h. Rising cost and increasing demand for improved services.
i. Ineffective financial and management controls, internally and externally

10.09 Review Questions

'Local Government is the government that relates directly with the people in the society or in a community. It is the government through which the populace have their aspirations and grievances attended to by the Federal Government'. Despite the above assertion, there have been agitations from certain quarters for the scrapping of this tier of governance in

Nigeria. Present your position for or against the agitation from an accountant's point of view.

MODULE 11

11.00 STORES AND STORES ACCOUNTING

11.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Evaluate the meaning and significance of Stores in Public Sector Accounting;
ii. Discus the concept of Stores Accounting in the public sector especially within the context of Nigeria;
iii. Examine the various classifications of stores in Public Sector Accounting;
iv. Identify the methodologies for stores control in the public sector.

Stores are vital in any organization, be it industry, commerce, service or government. All these organisations have causes to acquire stores at varying degrees, descriptions, quantities and for different purposes. The primary reason for stores and stores accounting is to facilitate provision of service. This also, indirectly, translates into the enhancement of efficiency in service delivery. In addition, Stores, when managed properly, directly contribute to significant savings in time and costs.

11.02 Meaning of Stores

Stores refer to all movable property purchased or otherwise acquired by an entity. "A store is a place specifically maintained for the purpose of keeping items purchased to be used later" (Okoye, 1996).

Stores in public sector accounting simply refer to stock of materials purchased with government money for government use (Adams, 2002). The FGN (2006: No. 2201:137) states: "Stores include all moveable property purchased from public funds or otherwise acquired by government". In some texts, Stores are called materials. Store, stock, and inventory will be used synonymously in this module.

11.03 Stores Classification

These are stores which the money used for their procurement are already provided for or budgeted for in the approved estimates. The cost of allocated stores is **charged** to the sub-head that is responsible for the expenditure of the stores. Allocated stores may be purchased directly from outside or taken from the stock of items in unallocated stores.

'Allocated stores' are stores the costs of which are **chargeable direct** to and remain a charge to the sub-head of expenditure in which funds for their purchase are **provided for in the budget estimates**. They may be either purchased direct or obtained from the ‘unallocated stores' stock. They are taken on numerical charge and may be placed in an Allocated Stores or put to immediate use.

Purpose of Allocated Stores

a. To make provision for acquisition of quality stores and make them available always when required.
b. To create the required storage space always. This is by adhering to the policy of holding the minimum stocks required.
c. To ensure that those stores which are always needed is made available always.
d. To incur minimum cost as regards acquisition of stores.

Stores Classification: Unallocated Stores

Unallocated Stores are those purchased for general stock rather than for a particular work or service, for which the final vote of charge cannot be stated at the time of purchase. The cost of purchase is debited to an Unallocated Stores sub-head in the expenditure estimates. They are held on charge by both value and unit and when issued for use, are charged to the appropriate sub-head of expenditure as Allocated Stores. The corresponding credit entry is made in the Unallocated Stores sub-head.

Further Classification of Stores

Non-expendable stores are of a permanent nature like plant and machinery, motor vehicles, furniture, which have a considerable number of years of serviceable life.

Expendable stores are stores of a semi-permanent nature such as shovels, paintbrushes and machetes which are of short period of serviceable life.

Consumable stores are those with items which, once used, cease to exist as store items. Examples are soap and stationery.

11.04 Reasons for Holding Stocks

The main reasons for holding stocks can be summarized to include:

i. Ensuring that sufficient goods are available to meet anticipated demand;

ii. Absorbing variations in demand and production; providing buffer between production processes (this is applicable to work-in-progress stocks which effectively decouple operations);

iii. Taking advantage of bulk purchasing discounts; meeting possible shortages in the future;

iv. Absorbing seasonal fluctuations in usage or demand; enabling production processes to flow smoothly and efficiently; because stocks constitute a necessary part of the production process, e.g., the manufacturing of whiskey;

v. As a deliberate investment policy particularly in times of inflation or possible shortage (Lucey, 1994). Broadly put, three main reasons account for Stores acquisition. These are: transactional, precautionary, and speculative purposes

11.05 Meaning of Stores Control

The fact or process of ensuring that appropriate amounts of stock are maintained by a business, so as to be able to meet customer demand without delay while keeping the costs associated with holding stock to a minimum. The major objective of stock control is to create a balance between ordering cost and holding cost.

The main objectives of Stores control are to:

1. Minimize carrying cost
2. Minimize ordering cost
3. Ensure regular supplies and avoid stock out

4. Avoid wastage, pilfering and obsolescence; and
5. Achieve economy, efficiency and effectiveness in the use of resources

Mechanics of Control

The basic control mechanics for Stores control include:

a. Compliance with laid down rules and regulations with respect to Stores;

b. Allocating responsibilities for Stores functions; establishing appropriate procedures for use and routing of documents;

c. Identifying and designing of appropriate forms that are in use in Stores control;

d. Applying the mechanics of control to various organisations of government with necessary adaption.

Stores Control Cycle

The Stores control cycle involves the following phases of activities:

a. Authorization
b. Receipt
c. Storage and security
d. Requisition
e. Issues, stock-taking and valuation

11.06 Stock Control: Maximum and Minimum Stock Levels

The Store Officer has to fix the maximum and minimum levels of the unallocated store holdings. He has to work out the re-order level for each item of stores. Once fixed, the maximum limit of the value of the stores which may be held in stock at any one time may not be exceeded without the authority of the Minister of Finance

I. Minimum Stock LEVEL:

Re-Order Level – (Average Usage X Average Lead Time)

II. **Maximum Stock Level:**

Reorder Level + EOQ – (Minimum Usage X Minimum Lead Time)

III. **Re-Order Level:**

Maximum Usage X Maximum Lead Time

IV. **Re-Order Quantity:**

(Maximum Stock Level – Re-Order Level) + (Minimum Consumption **X** Minimum Lead Time).

V. **Average Stock Level:**

$$\frac{\text{Opening Stock Level} + \text{Closing Stock Level}}{2}$$

Illustration

The following information is available in respect of stock of maize in the Federal Grains Reserve:

i.	Re-order Quantity	=	7,200
ii.	Lead Time	=	6 – 10 weeks
iii.	Minimum Consumption	=	600 units
iv.	Maximum Consumption	=	1,800 units
v.	Normal (Average) Consumption	=	1,200
vi.	Opening Stock Level	=	1,800
vii.	Closing Stock Level	=	1,200

Required: Calculate:

i. The Re-order level

ii. The Minimum Stock Level

iii. The Maximum Stock Level

iv. The Average Stock Level

Cost of Stores

The cost of Unallocated Stores for accounting purpose is obtained as follows:

a. **For imported stores** - the invoice price (fob), freight inspection fees, marine insurance and customs duty.

b. **For stores purchased locally** - the full purchase price less discount, if any two other methods of arriving at the value at which stores are to be taken on charge are:

i. Fixed Price Method: The arithmetic mean of the value of the items in stock and the known or estimated price of the stores is taken and an approximate unit price is picked. The hypothetical unit price will remain as a fixed valuation price until there is a variation in the cost of a replacement.

ii. Last Known Price Method: The articles may be taken on charge at the last known price when the details of the full landed cost are not immediately available.

Storekeeper's Record

The storekeeper should keep a separate tally card or bin card for each item in the store to correspond with items recorded in the stores ledgers. A tally card has to bear the relevant ledger folio, to facilitate reference. Tally cards should be immediately available for entries and checking. Receipts and issues have to be posted to the bin cards immediately the stores are physically received or issued.

Functions of Store Keeper

a. Maintenance of proper books of accounting records to timely reflect the transactions.

b. Diligent arrangement of the store.

c. Ensuring cleanliness of the store.

d. Invitation of purchase requisitions from the needy department.

e. Collection of store items from the supplier to ensure that the items supplied agree with the specification and the agreed price stated on the Local Purchase Order (LPO).

f. Updating the bin or tally cards.

g. Issuing of items out of the store, on the strength of properly authenticated store requisitions.

h. Preparation of store receipt and issue vouchers.

i. Ensuring that there is adequate security over the custody of the store materials.

Receipt of Stores

The sources of store items are from the following:

a. Acquisitions through local purchase orders.

b. Transfers from other stores.

c. Converted or manufactured goods.

d. Acquisitions through letters of awards.

e. Returned stores.

f. Excess taken on charge

g. Other avenues.

h. There must be efficient internal check in the ordering, collection of deliveries and payment_procedures.

Payment for Stores

a. The storekeeper has to certify that stores have been received and taken on charge in the appropriate ledger.

b. A payment voucher has to be supported with a copy of the purchase order, invoice and a copy of stores receipt voucher issued by the storekeeper.

c. Expendable and consumable stores obtained in small quantities for immediate use (that is, not for stock) e.g., soap, brooms and uniforms, should be taken on charge. A certificate should be inserted in the payment voucher to the effect that the stores were required for immediate use and not taken on charge.

d. For some types of consumable stores, records of consumption may be necessary for purposes of control and to guide against misappropriation, for example, logbooks record the issues of liquid fuel for vehicles and the mileage covered.

Transfers of Stores

a. Stores may be transferred from one warehouse to another. There should be appropriate vouchers to ensure postings into the ledger.

b. A stores transfer paper is raised by the requisitioning store in duplicate, the original of which is forwarded to the issuing store.

c. A stores issue voucher in duplicate, one copy of which will be receipted and returned, accompanies the stores transferred.

d. The second copy serves as a receipt voucher and is numbered and filed away

Issues of Stores

a. Requests for stores should be signed only by the officer authorized to incur expenditure, or so authorized in the departmental stores instruction to do so.

b. The Officer has to ensure that funds are available. Demands must be made on the prescribed stores requisition forms.

c. Stores requisition sheets and issue vouchers support all issues of stores.

d. The requisition is made in the prescribed forms, in ink or indelible pencils. Stores Issue Vouchers are always prepared in duplicate.

e. After issue, the storekeeper will post his tally card at the actual time of issue.

Stores Issue for Manufacture or Conversion

a. Conversion Vouchers are used to evidence stores and materials issued within the same store for conversion or manufacture.

b. The original copy serves as an issue voucher for the article after manufacture, after which it is returned to store and taken on charge.

c. Receipt and issue sides of the voucher show the quantities and values, where necessary

Condemned Stores

Where a Board of Survey has condemned some items of stores and approval given to write them off, a store issue voucher has to support the issue of the stores, duly authenticated

Issue of Stores: On Payment

Government property must not be sold, except where specifically authorized by the Minister of Finance. To arrive at the selling price, the cost of such stores is made up of the gross cost (allocated store) or current issue price (Unallocated Store) plus a ratable percentage store charge approved by the Minister. Stores may be issued on the payment only of the appropriate selling price when the Head of a Ministry or Extra-Ministerial Department is satisfied that such sales are in the public interest.

Store Issue Vouchers take care of stores-on-payment releases, but such stores will not be issued until the purchaser presents to the schedule officer, a Treasury Receipt, for the payment on the stores and all associated additional costs, including stores and transport charges. The Treasury Receipt number is entered on the Store Issue Voucher. Where credit facility has been authorized, the store issue voucher bears reference to the authority.

Procedures for Stores Procurement

a. Upon receipt of the purchase requisition initiated by the Store Keeper or authorized Department, the Purchasing Department will:

b. Obtain approval for the purchase of the items from the Officer controlling the vote.

c. Carry out a market survey or obtain quotations/tenders from prospective suppliers

d. Indicate a closing date for submission of tenders.

e. Constitute a Contract Tenders' Board, after the closing date.

f. Issue Local Purchase Orders to the contractors for the supply of the goods within the time frame agreed. The duty of the Tenders Board is to determine the lowest bidder and recommend award of the contract accordingly. The Head of Department is to approve the recommendation of the Board

Hand Over of Stores

When an officer hand over the custody of stores to another, the in-coming Officer will ensure that the physical count agrees with the figures shown in the bin cards/store ledger. If there are no differences, both officers will jointly sign a certificate or Store Form 10. However, in the absence of the outgoing Officer, a Stock Verifier or Board of Survey may have to check and do the handing over to the in-coming Officer.

The out-going Officer is answerable for any discrepancy reported at the time of hand-over while the incoming Officer will account for any deficiency not discovered at the time of hand over, but which was later uncovered

Procedures for Reporting Loss of Stores

a. Loss of stores may be written off under the personal authority of the Accounting Officer, provided that:

b. The original cost of each item is not more than N5,000 and the total sum of the value of the items does not exceed 420,000.

c. There is no weakness in the internal control system.

d. There is no evidence of fraud or theft.

e. Where negligence is involved, the offending Officer has been disciplined according to the laid down rules and regulations.

Stock Taking

i. Stock taking is a common requirement of a periodic inventory system, and may also be required as part of a company's annual audit.

ii. In short, a basic stock taking results in a summary-level document that contains a list of the quantities on hand for every inventory item as of a specific point in time.

Steps in Stock Taking

a. Clearly identify what stock is owned by the business and where it is

b. Make sure the stock room is clean and tidy and inventory items are clearly laid out

c. Tools for the stock take(Clipboards, Stock sheets, Write-off sheets, Pens, Calculators, Hand held scanners)

d. Discourage radios, mobile phones, iPods, idle chit chat and other forms of distractions

e. Count every item of your inventory. Don’t estimate!

f. Check the physical count against accounting records. Recheck discrepancies

g. Update your records (Hard and Soft Copies) after the stock take.

11.07 Review Questions

Considering the importance of stores to the existence of an entity, suggest ways by which management can effectively control stores for maximum service delivery.

MODULE 12

12.00 PROCUREMENT IN THE PUBLIC SECTOR

12.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Examine the concept of procurement in the public sector;
ii. Evaluate the provisions of the Public Procurement Act of Nigeria as amended (2007);
iii. Understand the procedures for awarding such contracts;
iv. Assess the role of Tender Boards in the award of contracts in Nigeria;
v. Examine the accounting procedure for the award of contracts in Nigeria.

12.02 General Overview

The public procurement Act (PPA) 2007 provides detailed requirements and guideline for procurement contracts in respect of goods and services in the public sector i.e. ministers, extra – ministerial offices and other arms of governments.

The National Council on Public Procurement and the Bureau of Public Procurement (BPP) which were established as regulatory authorities responsible for monitoring the oversight of public procurement and harmonizing the existing Government policies and practice by regulating, setting standards and developing the legal framework and professional capacity for public procurement in Nigeria and for related matters, was enacted by the National Assembly of the Republic of Nigeria. The bill was passed by the senate on 17th May, 2007 and by the House of Representative on 20th May, 2007 and was signed in to law by the President late Alhaji Umaru Musa Yar'adua on the 4th of June, 2007.

Good Public Procurement

The principal hallmarks of proficient public procurement are:

Economy: Procurement is a purchasing activity whose purpose is to give the purchaser best value for money. For complex purchases, value may imply more than just price, for example, since quality issues also need to be addressed. Moreover, lowest initial price may not equal to lowest cost over the operating life of the item procured. But the basic point is the same: the ultimate purpose of sound procurement is to obtain maximum value for money.

Efficiency: The best public procurement is simple and swift, producing positive results without protracted delays. In addition, efficiency implies practicality, especially in terms of compatibility with the administrative resources and professional capabilities of the purchasing entity and its procurement personnel.

Fairness: Good procurement is impartial, consistent, and therefore reliable. It offers all interested contractors, suppliers and consultants a level playing field on which to compete and thereby, directly expands the purchaser's options and opportunities.

Transparency: Good procurement establishes and then maintains rules and procedures that are accessible and unambiguous. It is not only fair, but it is seen to be fair.

Accountability and Ethical Standards: Good procurement holds its practitioners responsible for enforcing and obeying the rules. It makes them subject to challenge and to sanction, if appropriate, for neglecting or bending those rules. Accountability is at once a key inducement to individual and institutional probity, a key deterrent to collusion and corruption, and a key prerequisite for procurement credibility. In sum, proficient public procurement is not difficult to describe in principle or to distinguish from its antithesis in practice. But it does require varied professional and technical know-how to establish, as well as discipline and determination to administer.

Why Is Sound Public Procurement So Important?

Public procurement is the process by which governments buy inputs for vital public-sector investments. Those investments, both in physical infrastructure and in strengthened institutional and human capacities, lay foundations for national development. In procurement terms, those inputs are generally grouped into three categories:

i. **Civil works** — for example, bridges and buildings, highways and basic physical infrastructure;
ii. **Goods** — typically equipment, material and supplies, commodities, textbooks, medical supplies; and
iii. **Services** — expert advice and training, as well as such things as building maintenance, computer programming, etc.

The quality, timeliness, suitability and affordability of those procured inputs can largely determine whether the public investments will succeed or fail.

So, the beneficial impact and contribution of the input, particularly in the case of technical assistance services, can exceed their direct costs. Yet procurement costs can be substantial, consuming scarce resources of tightly constrained government budgets. Often the required funding must be borrowed. Moreover, the process also consumes scarce skilled public-sector human resources.

It takes time, not merely for procurement planning and contracting but also for contract supervision and execution. And much of this process is highly visible, as well as controversial; exposing public sector executives and civil servants to scrutiny and second-guessing for procurement choices they made deferred or discarded.

There are five basic concerns that govern procurement policies:

i. To ensure that goods and services needed are procured with due attention to economy and efficiency;
ii. To ensure that public fund is used to buy only those goods and services needed for national development;
iii. To give all qualified bidders an equal opportunity to compete for contracts;
iv. To encourage development of local contractors and manufacturers; and
v. To ensure that the procurement process is transparent.

12.03 Establishment of National Council on Public Procurement

The National Council on Public Procurement is the governing body on issues relating to public procurement in Nigeria. It is a high level organ with approval powers on issues relating to the administration and management of public procurement under the Public Procurement Act of 2007.

Members of the National Council on Public Procurement

The following are members of the National Council on Public Procurement (the Council) who are to be appointed by the President:

i. The Minister of Finance as Chairman
ii. The Attorney-General of the Federation and Minister of Justice
iii. The Secretary to the Government of the Federation

iv. The Head of Service of the Federation

v. The Economic Adviser to the President

vi. Six part-time members to represent:

   a. Nigeria Institute of Purchasing and Supply Management
   b. Nigeria Bar Association
   c. Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture
   d. Nigeria Society of Engineers
   e. Civil Society
   f. The Media
   g. The Director-General of the Bureau who shall be the Secretary of the Council.

Functions of the Council:

The Council shall perform the following functions:

ii. Consider, approve and amend the monetary and prior review thresholds for the application of the provisions of this Act by procuring entities.

iii. Consider and approve policies on public procurement.

   a. Approve the appointment of the Directors of the Bureau.
   b. Receive and consider, for approval, the audited accounts of the Bureau of Public Procurement.
   c. Approve changes in the procurement process to adapt to improvements in modern technology.
   d. Give such other directives and perform such other functions as may be necessary to achieve the objectives of this Act.

Note:

a. Members of the Council who hold public office shall cease to be members at the expiration of their tenure or appointment in that other public office
b. The Council can invite or co-opt other persons to attend its meeting but such person shall not have casting vote.
c. Council only has approval powers. Formulation of policies is done by the Bureau of Public Procurement (BPP)
d. The BPP serves as the secretariat of the Council.

e. In principle, the Council ought to have limited oversight on BPP.

12.04 Establishment of the Bureau of Public Procurement

BPP is the Bureau of Public Procurement (also known as the Bureau) which is the agency charged with the implementation of the Public Procurement Act and the regulation of every aspects of public procurement involving the federal government and its agencies, as well as all projects involving other bodies were not less than 35% of project costs is proposed to come from the Federal Budget.

Features of BPP:

a. BPP is set up as a body corporate (legal entity) with perpetual succession and a common seal
b. As a legal entity, it may sue and be sued in its corporate name; and
c. It can acquire, hold or dispose of any property, movable or immovable for the purpose of carrying out any of its functions under this Act.

Objectives of BPP

a. The harmonization of existing government policies and practices on public procurement and ensuring probity, accountability and transparency in the procurement process.
b. The establishment of pricing standards and benchmarks.
c. Ensuring the application of fair, competitive, transparent, value for money standards and practices for the procurement and disposal of public assets and services.
d. The attainment of transparency, competitiveness, cost effectiveness.
e. Professionalism in the public sector procurement system.

Functions of the BPP

The functions given to the BPP in the Act can be divided into the following five categories:

a. **Public procurement policy formulation, management and oversight**
    i. Formulate the general policies and guidelines relating to public sector procurement for the approval of the Council.

ii. Periodically review the socio-economic effect of the policies on procurement and advise the Council accordingly.

iii. Supervise the implementation of established procurement policies.

iv. Monitor the prices of tendered items and keep a national database of standard prices.

b. **Research and Publication**

i. Publicize and explain the provisions of this Act.

ii. Publish the details of major contracts in the procurement journal.

iii. Publish paper and electronic editions of the procurement journal and maintain an archival system for the procurement journal.

c. **Establishment and enforcement of public procurement Standards**

i. Prevent fraudulent and unfair procurement and where necessary apply administrative sanctions.

ii. Prepare and update standard bidding and contract documents.

iii. Perform procurement audits and submit such report to the National Assembly bi-annually.

d. **Information management and dissemination:**

i. Maintain a national database of the particulars, classification and categorization of federal contractors and service providers.

ii. Collate and maintain in an archival system, all federal procurement plans and information.

iii. Introduce, develop, update and maintain related database and technology.

Iv. Establish a single internet portal that shall serve as a primary and definitive source of all information on government procurement containing and displaying all public sector procurement information at all times.

e. **Capacity building:**

i. Organize training and development programmes for procurement professionals.

ii. Co-ordinate relevant training programs to build institutional capacity.

f. **Implementation and enforcement of the Provisions of the Act**

i. Enforce the monetary and prior review thresholds set by the Council for the application of the provisions of this Act by the procuring entities

ii. Grant or refuse the granting of "Certificate of No Objection" for a procurement activity falling above the set threshold approved by the Council.

Iii. From time to time stipulate to all procuring entities the procedures and documentation pre-requisite for the issuance of Certificate of 'No Objection' under this Act.

iv. Prevent Fraudulent and unfair procurement and apply administrative sanctions including debarring any supplier, contractor or service provider that contravenes any provision of this Act and regulations made pursuant to this Act.

g. **Power of inspection and review:**

i. Cause to be inspected or reviewed any procurement transaction to ensure compliance with the provisions of this Act.

ii. Review and determine whether any procuring entity has violated any provision of this Act.

iii. Call for such information, documents, records and reports in respect of any aspect of any procurement proceeding where a breach, wrongdoing, default, mismanagement and or collusion has been alleged, reported or proved against a procuring entity or service provider.

h. **Information management:**

i. Maintain a national database of federal contractors and service providers and to the exclusion of all procuring entities prescribe classifications and categorizations for the companies on the register.

ii. Maintain a list of firms and persons that have been debarred from participating in public procurement activity and publish them in the procurement journal.

iii. Request for and obtain from any procurement entity, information including reports, memoranda and audited accounts, and other information relevant to its functions under this Act.

i. **Making recommendations to the Council**

Where there have been "persistent or serious breaches of the Act or regulations or guidelines" made under it, the BPP shall recommend the following measures to the Council:

i. The suspension of officers concerned with the procurement or disposal proceeding in issue.

ii. The replacement of the head or any of the members of the procuring or disposal unit of any entity or the Chairperson of the Tenders Board as the case may be.

iii. The discipline of the Accounting Officer of any procuring entity.

iv. The temporary transfer of the procuring and disposal function of a procuring and disposing entity to a third party procurement agency or consultant.

j. **Power to receive and address complaints under the PPA. In this regard, the Bureau may:**

i. Give notice of the complaint to related procuring or disposing entities and all interested parties (bidders) taking account of their representations before taking a decision.

ii. Declare rules or principles governing the action, confirm or reverse the decision of the procuring entity or

iii. Nullify the whole or any part of any procurement proceeding or award which is in contravention of this Act.

k. **Ancillary powers:**

i. Enter into contract or partnership with any company, firm or person which in its opinion will facilitate the discharge of its functions

ii. Liaise with relevant bodies or institutions national and international for effective performance of its functions under this Act.

iii. Do such other things as are necessary for the efficient performance of its functions under this Act.

Officers of BPP

The Director-General

i. He/she is the Chief Executive and Accounting Officer of BPP and responsible for its day to day administration and execution of the policies
ii. Must have a professional qualification of 15 years
iii. Shall hold office for 4 years and may be re-appointed for another term of 4 years and no more.
iv. May be removed from office by the President “on the basis of gross misconduct of financial impropriety, fraud, and manifested incompetence proven by the Council.

Principal staff

i. Principal staff shall be appointed after a competitive selection process.
ii. They shall have the requisite qualification and experience required for the effective performance of the functions of BPP and their respective Departments.

Other staff

i. The Council may appoint such officers and other employees as may, from time to time, deem necessary for the purposes of the Bureau.
ii. The Council shall also appoint “either on transfer or on secondment from any public service in the Federation, such number of employees” as may be needed for effective operations in BPP.
iii. The Council shall determine the terms and conditions of service of officers and employees of BPP.
iv. The provisions of the Pension Act shall apply to all employees of the BPP.

The Council and staff Operations and Regulations

i. The Council shall have power to modify the operational structure of the Bureau as may be necessary to enhance the Bureau's duties and functions under this Act.
ii. The Council has power to make staff regulations relating generally to the conditions of service of the employees of (appointment, promotion, disciplinary control and appeals).

Financial Provisions

1. Funds of BPP: The following shall be sources of revenues/funds for BPP:
   a. Annual budget appropriations
   b. Subventions, fees and charges
   c. Other assets which may from time to time accrue to BPP
2. The Council shall make regulations governing the management and utilisation of this fund.
3. The Bureau shall apply this fund to administrative, maintenance, human resource and other costs.
4. The Bureau shall observe the same financial as the federal government.
5. Reports shall be submitted by the Bureau to the Council:
   a. Estimates of expenditure for the financial year
   b. Annual reports of activities and audited accounts
6. The Council shall keep proper accounts and audit same in accordance with the Auditor-General's guidelines

12.05 Scope of Application

Thresholds are set under sections 7(1)

i. Thresholds refer to limits in the amount of values of procurement which a procuring MDA through its accounting officer is allowed approving authority. For , it could be stated in the regulation that a Permanent Secretary shall not approve any procurement above ten million naira.
ii. Thresholds are usually set by the Bureau through regulations and wherever this is the case, every request for funds from the procuring entity must be "accompanied by a certificate of "No Objection" to an award of contract duly issued by the Bureau." (section 16(2))
iii. Any award of contract falling above a given threshold which does not have a **"Certificate of No Objection'** to Contract Award" duly issued by the Bureau is null and void.

These qualifications are in addition to others provided in the bidding documents.

1. Procurement of goods, works and services by the Federal government and its agencies or any procurement by any other entity or government in Nigeria of which at least 35% of the amount for funding the procurement will be sourced from the Federal Budget.
2. Exception: The Act will not apply where goods, works and services involve national defense or security except with the approval of the President.

12.06 Fundamental Principles for Procurements

General Rules and Conditions for conducting Public Procurement are:

i. Compliance with laid down thresholds set from to time by the Bureau.
ii. Procurement must be based only on procurement plans supported by prior budgetary appropriations.
iii. The procuring MDA must obtained a certificate of "No Objection' to Contract Award" from the Bureau if the value of procurement falls above the set threshold (limits).
iv. The procurement must be by open competitive bidding (subject to some exceptions).

General Qualification of Bidders

Every bidder interested in a procurement contract or who has been offered a contract must possess the following necessary qualifications or meet these conditions:

a. Professional and technical qualifications to carry out particular procurements
b. Financial capability.
c. Adequate equipment and other relevant infrastructure to implement the contract.
d. Adequate personnel to perform the obligations of the procurement contracts.
e. Legal capacity to enter into the procurement contract.
f. Not be in receivership or subject to any form of insolvency, bankruptcy or winding up petition or proceedings.
g. Have fulfilled all necessary taxes, pensions and social security obligations and contributions.

Definitions and Liabilities Relating to Bidders

1. A supplier, contractor or service provider may be a natural person (any human being), a legal person (a legally recognized entity such as company or a business concern) or a combination of the two.
2. Suppliers, contractors or service providers acting jointly are jointly and severally (separately) liable for all obligations and or responsibility arising from this Act and the non-performance or improper performance of any contract awarded pursuant to this Act.

Grounds for Disqualification or Exclusion of Bids

A bidder may have its bid or tender excluded from any particular procurement proceeding if the Bureau is satisfied of any or a combination of the following:

a. Evidence of monetary, gift or other form of inducement of employee of a procuring entity or the Bureau by a supplier, contractor or consultant "to influence any action, or decision making of any procurement activity."
b. Failure to perform or to provide due care in performance of any public procurement within the past three years.
c. The bidder is in receivership or is the subject of an insolvency bankruptcy proceeding.
d. Non-payment of due taxes, charges, pensions, or social insurance contributions, unless such bidders have obtained a lawful permits with respect to allowance.

General Rules of the Procurement Process

Form and Language of communication:

All communications and documents issued by procuring entities and the Bureau shall be in English language and shall be in writing or such other forms as the Bureau may stipulate.

Records of procurement activities

a. Procuring entities must keep electronic and file (hard copy) records of contracting for at least 10 years from the date of contract award.

b. Within 3 months of the end of each financial year, procuring entities shall transmit all procurement related records to BPP showing the parties, date and value of contract as well as other information relating to the procurement proceedings that BPP may request.

c. Procurement related activity records are open to public inspection, on payment of fees prescribed by BPP unless classified.

No change of rules in the middle of the game: The criteria announced to contractors to govern any contracting activity or process cannot be changed midstream.

Other rules of Public Procurements

a. Contracts will be awarded to bidders with the lowest quotes provided their bids are substantially responsive to the bid solicitations.

b. BPP retains the right, in appropriate circumstances of failed or inchoate contracting process, to cancel the process or require the procuring entity to repeat it.

c. Accounting officers of procuring entities are generally responsible for ensuring legal and regulatory compliance in government contracting.

d. Conflicts of interest must be avoided: Persons who partook in organizing or preparing a particular procurement process or contracting transaction cannot participate in the bid process.

e. Procuring entities must not recommend contractors or sub-contractors to bidders.

f. The monetary value of procurement must be stated in naira or if in foreign currency, converted to naira “using the exchange rate of the Central Bank of Nigeria valid on the day of opening a tender or bid.

12.07 Organisation of Procurements

Approving Authority for Public Procurements	
Type of Government Institution	Approving Authority

A Government Agency, Parastatal, or Corporation	A Parastatals Tenders Board
A Ministry or Extra-Ministerial entity	The Ministerial Tender Board.

Procurement Planning and Implementation

Process of procurement planning: Every procuring entity shall plan its procurement following these processes:

a. Conduct assessment and evaluation of the particular needs of the procuring entity.

b. Identification of goods, works or services required

c. Conducting market and statistical surveys and then prepare analysis of the cost implications of the proposed procurement

d. Aggregating its requirement both within the procurement entity and between procuring entities, to obtain economy of scale and reduce procurement cost.

e. Integrating its procurement expenditure into its yearly budget.

Process for Implementation of Procurement:

The following procedures shall be observed by a procuring entity in implementing its procurement plans:

a. Advertise and solicit for bids in adherence to this Act and guidelines as may be issued by the Bureau.

b. Invite two credible persons representing a private sector organization and a non-governmental organization working in accountability and anti-corruption as observers in every procurement process. 27

c. Receive, evaluate and make a selection of the bids received in adherence to this Act and guidelines issued by the Bureau.

d. Obtain approval of the approving authority before making an award.

e. Debrief the bid losers on request.

f. Obtain a "Certificate of ' No Objection' to Contract Award" from the Bureau, if activity is within the approved threshold.

Accounting Officer

The accounting officer of a procuring entity shall be the person charged with line supervision of the conduct of all procurement processes.

Accounting Officer for Public Procurements	
Type of Government Institution	**Accounting Officer**
A Ministry	Permanent secretary
Extra-Ministerial departments and corporations	The Director-General or officer of co-ordinate responsibility.[30]

Functions of the accounting officer

a. **General function:** The Accounting Officer shall have overall responsibility for the planning, organization, evaluation of tenders and execution of all procurements.

b. **Other functions:** The Accounting Officer shall also perform the following functions:

i. Ensure compliance with the provisions of this Act by his entity and is liable in person for its breach or contravention or those of any regulation made under the Act.

ii. Constitute the Procurement Committee and its decisions.

iii. Ensure that adequate provisions are made in the Federal budget to cover the procurement.

iv. Ensure that no reduction of values or splitting of procurements is carried out such as to evade the use of the appropriate procurement method.

v. Constitute the Tenders board in accordance with rules made by the Bureau.

Procurement Planning Committee

Section 21 mandates every procuring entity to establish a Procurement Planning

Committee each financial year.

Members of Procurement Planning Committee	
Chair	**Other Members**
Officer of the procuring entity or his representative	representative of the following units in the procuring entity: a. The procurement unit of the procuring entity who shall be the Secretary. b. The particular unit in need of the procurement. c. The financial unit. d. The planning, research and statistics unit. e. Technical personnel of the procuring entity with expertise in the subject Matter for each particular procurement. f. The legal unit.

Establishment of the Tenders Board:

i. The Tenders Board created under the Act shall be responsible for the award of goods, works and services. The Bureau shall prescribe procurements guidelines for membership of the Tenders Boards.

In all cases of pre-qualifications, the Chairman of the Tenders Board shall constitute a technical evaluation sub-committee made up of professional staff of the procuring entity and the Secretary of the Tender Board as the Chair and charged with the responsibility for the evaluation of bids.

Pre-qualification of suppliers, contractors or service providers

i. Every procuring entity shall decide on a minimum qualification for suppliers, contractors or service providers and shall set out these qualifications in the request/advert for pre-qualification as well as apply these criteria in its selection.
ii. Procuring entities requests shall supply a set of prequalification documents to every bidder that requests them. These documents shall contain:
    a. Instructions relating to the preparation and submission of prequalification applications including the mode, deadline and time for the submission of

applications taking into cognisance the need for bidders to prepare adequately.

b. Terms and conditions required for the procurement contract to be entered into.

c. Other information evidencing qualification of bidders.

d. Any other requirement from the procuring entity on the preparation and submission of prequalification applications.

Request for Clarifications

1. Every bidder is entitled to make a request for clarification not later than ten days to the dateline for submission of documents to the procurement

12.08 Procurement Methods (Goods and Services)

Open Competitive Bidding

Meaning:

…the process by which a procuring entity, based on previously defined criteria, effects public procurements, by offering to every interested bidder equal simultaneous information and opportunity to offer the goods and works needed.

The General Rule:

…all procurement of goods and works by all procuring entities shall be conducted by open competitive bidding.

The winning bid: This shall be the lowest evaluated responsive bid with regards to work specification and standard.

Invitations to bid

Systems of Invitations to bid	**Modes of advertisement**	**Deadline**
International Competitive Bidding	(i). At least two national news papers (ii). One relevant internationally recognized publication,	Not less than six weeks before the deadline for submission of the bids for the goods works.

	(iii). Any official website of the procuring entity and Not less than six weeks before the deadline for submission of the bids for the goods works	
National Competitive Bidding	i). On the notice board of the procuring entity, (ii). Any official website of the procuring entity (iii). At least two national newspapers (iv). The procurement journal	Not less than six weeks before the deadline for submission of the bids for the goods works

Bid Security

1. Subject to the monetary and prior review threshold as may be set by the Bureau, the procurement value in excess of the sum prescribed by the Bureau would require Bid Security in an amount not more than 2% of the bid price.
2. The bid security shall be deposited in the form of a Bank Guarantee from a reputable bank.

Submission of Bids

1. Bids are to be submitted in writing, signed and placed in a sealed envelope.
2. All submitted bids shall be deposited in a secured tamper-proof bid box.
3. All bids submitted shall be in English language.
4. Bid shall be registered in a bid submission register at the time of submission.
5. The procuring entity shall issue a receipt showing the date and time the bid was delivered.

Rejection/Cancellation of Bids

The procuring entity can reject all bids at any time prior to the acceptance of a bid or cancel the procurement proceedings in the public interest without incurring any liability to the bidders.

Validity Period of Bids

1. The period of validity for a bid shall be the period specified in the tender documents.
2. A procuring entity may request bidders to extend the period of validity.
3. If the request is refused, the bid will terminate upon the expiration of the original period of effectiveness.

Modification and Withdrawal of Bids

1. Bidders may modify or withdraw bid.
2. Such modification or withdrawal is effective if it is received by the procurement entity before the deadline for the submission of tenders.

Bid Opening

1. All bids shall be submitted before the deadline or date specified in the tender documents or any extension of the deadline for submission and the procuring entity shall observe the following:
    a. Permit the attendees to examine the bid envelopes to ascertain that they have not been tampered with.
    b. Have the bids opened in public in the presence of the bidders or their representatives and other interested member of the public.
    c. Ensure that the bid opening takes place immediately following the deadline stipulated for submission.

Examination of bids

Preliminary examination of bids is meant to ascertain the following:

1. Conformity with the minimum eligibility.
2. Signature in bid documents.
3. Substantially responsiveness of bids to the bidding documents.
4. General compliance.

Major and minor deviations

	Examples	Effect/Result
Major Deviations	1. Clauses in an offer: (a) Unacceptable sub-	1. Rejection of bid

	contracting (b) Unacceptable time schedule if time is of essence (c) Unacceptable alternative design (d) Unacceptable price adjustment. 2. Status of the bidder: (a) Ineligibility or non-pre-qualification (b) the fact that he is uninvited 3. An unsigned bid 4. Time, date and place of submission: (a) Receipt of bid after the deadline stipulated in the solicitation document (b) Submission of bid at the wrong location. [Section 31(7)]	2. The bid shall not be considered any further 3. Where unopened, shall be returned as such to the bidder. [Section 31(8)]
Minor Deviation	1. The use of codes 2. The difference in standards 3. The difference in materials 4. Alternative design	1. Shall be clarified. [Section 31(6)] 2. A written clarification may be obtained from the

	5. Alternative workmanship 6. Modified liquidated damages 7. Omission in minor items 8. Discovery of arithmetical errors 9. Sub-contracting that is unclear and questionable 10. Different methods of construction 11. Difference in final delivery date 12. Difference in delivery schedule 13. Completion period where these are not of essence 14. Non-compliance with some technical local regulation 15. Payment terms 16. Any other condition that has little impact on the bid. [Section 31 (10)]	supplier or contractor 3. An offer made for the correction of the minor deviation. [Section 31(12)]

Notes:

1. In cases of doubt as to whether a deviation is major or minor, regards would be had to the impact of the deviation on the cost.
2. Any rejection as a result of the above shall be communicated to the bidder and no further amendments shall be entertained from the bidder.
3. If a bidder does not accept the correction of a minor deviation, his bid shall be rejected.

Evaluation of Bids

1. What is the objective of evaluation of bids? To determine and select the lowest evaluated responsive bid from bidders that have responded to the solicitation.

2. For the purpose of evaluation and comparison of bids, no other criteria shall be used except as stipulated in the solicitation documents.

3. Process for the evaluation of bids

   a. Checking of deviations
   b. Checking of omissions with quantification of same
   c. Application of discounts, as applicable
   d. Clarification with bidders of questionable minor deviations
   e. Quantification in monetary terms of such questionable deviations

Notes:

1. Every other factor that shall be considered in the process of evaluation of bids shall be as stated in the solicitation documents.
2. When bid prices are denominated in other currencies, they shall be converted to naira based on the rate at date specified in the solicitation documents.
3. In cases where pre-qualification was carried out, verification/confirmation of qualification may be carried out after selection and a bidder who no longer has the resources or qualification may be denied award.

Acceptance of bids

1. General rule: The successful bid shall be that submitted by the lowest cost bidder from the bidders responsive to the bid solicitation.
2. Exception: The selected bidder needs not be the lowest cost bidder provided the procuring entity can show good grounds derived from the provisions of this Act to that effect.
3. Notice of the acceptance of the bid shall immediately be given to the successful bidder.

Domestic Preferences

1. A procuring entity may grant a margin of preference in the evaluation of tenders in the following instances:
   a. When comparing tenders from domestic bidders with those from foreign bidders.
   b. When comparing tenders from domestic suppliers offering goods manufactured locally with those offering goods manufactured abroad.
2. If domestic preferences will be allowed, the procuring entity must state this fact in the bidding documents including the eligibility information for domestic suppliers and contractors.
3. Margins of preference shall apply only to tenders under international competitive bidding and the Bureau shall by regulation set the limits and the procedure for the computation of margins of preference and determine the contents of goods manufactured locally.

Mobilisation Fees

1. The Act permits a mobilisation fee of not more than 15% to be paid a supplier or contractor upon the presentation of the following:
   a. For a National Competitive Bidding, an unconditional bank guarantee or insurance bond issued by an institution acceptable to the procuring entity
   b. For an International Competitive Bidding, an unconditional bank guarantee issued by a banking institution acceptable to the procuring entity.
2. After the mobilization fee has been paid, the supplier or contractor shall receive no further payment unless an interim performance certificate has been issued in accordance with the contract agreement.
3. A Contract Performance Guarantee of not less than the mobilization fee or 10% of the contract value (whichever is higher) shall be provided before the award of any procurement contract upon which any mobilization fee is to be paid.

Interest on Delayed Payments

1. Payment for the procurement of goods, works, and services shall be settled promptly and diligently.

2. Any payment due for more than sixty days from the date of the submission of the Invoice, valuation certificate or confirmation or authentication by the procuring entity of satisfactory completion, shall be deemed a delayed payment and shall attract interest at the rate specified in the contract document.

Record of Procurement Proceedings

1. Every procuring entity shall maintain a record of the comprehensive procurement proceedings.
2. Such records shall on request, be made available to:
    a. Any person after a tender, proposal, offer or quotation has been accepted
    b. Suppliers, contractors or consultants after a tender, proposal, offer or quotation has been accepted
    c. Any person, suppliers, contractors or consultants after procurement proceeding have been terminated without resulting in a procurement contract
3. A court can order the disclosure of procurement proceeding records prior to award of contract. Such records will not be disclosed if it will be illegal, prejudicial to legitimate interests of the parties or if it will impede law enforcement.
4. No liability shall arise on the part of the procuring entity to suppliers, contractors or service providers for damages due to failure to maintain a record of the procurement proceedings.

Code of Conduct:

Guiding Principles

1. Every person involved with public procurement and disposal of public property, whether as official of the Bureau, a procuring entity, supplier, contractor or service provider shall at all times be governed by principles of honesty, accountability, transparency, fairness and equity.
2. All public officers involved in the conduct of public procurements shall subscribe to an oath as approved by Council.

3. Where a transaction involves the disposal of assets, principles of honesty, accountability, transparency, fairness and equity shall continue to apply to the same extent as in procurement.

4. These principles shall apply at all times, particularly when:
   a. Making requisition for or planning of procurements.
   b. Preparing solicitation documents.
   c. Receiving offers in response to any form of solicitation towards a procurement or disposal.
   d. Evaluating and comparing offers confidentially and in complete neutrality.

5. All public officers shall handle public procurement and disposal of assets by:
   a. Ensuring adequate time for preparing offers.
   b. Complying with this Act and all derivative regulations.
   c. Maintaining strict confidentiality until completion of a contract.
   d. Maintaining the highest standards of ethics in their relationships with individuals and companies who seek to do business with government whether as a bidder, supplier, contractor or service provider.

Conflict of interest situations

a. Possessing an interest outside his/her official duties that materially influenced the outcome of the tender

b. Possessing a direct or indirect interest in or relationship with a bidder, supplier, contractor, or service provider that is inherently unethical or that may be implied or constructed to be, or make possible personal gain due to the person's ability to influence dealings

c. Entertaining relationships which are unethical, rendering his/her attitude partial towards the outsider for personal reasons or otherwise inhibits the impartiality of the person's judgments.

d. Placing by acts or omissions the procuring entity he/she represents or the Government in an equivocal, embarrassing or ethically questionable position

e. Entertaining relationships compromising the reputation or integrity of the procuring entity he/she represents or the Government

Offences

1. Collusion or collusive agreements whether or not enforceable.
2. Procurement fraud using undue influence, favor, bribery, threats, promises, agreement etc.
3. Directly or indirectly trying to influence in any manner the procurement process to gain an unfair advantage.
4. Bid Rigging – Pre-arrangement of offers where winners have been predetermined.
5. Splitting of tenders to evade thresholds.

Prosecution of Offences

Prosecution of offences under this Act shall be instituted in the name of the Federal Republic of Nigeria by the following:

a. Attorney-General of the Federation or such other officer of the Federal Ministry of Justice as he may authorize.

b. The Attorney-General of a state or any other officer of the Ministry of Justice of that state.

c. Upon request by any relevant authority, any legal practitioner in Nigeria.

Trial of Offences shall be by the Federal High Court

Punishment upon Conviction

	A natural person not being a public officer (e.g., individual contractors, consultants, suppliers etc.)	Imprisonment term of not less than 5 calendar years but not exceeding 10 calendar years without an option of fine. [Section 58(1)]
	An officer of the Bureau, or any procuring entity	A cumulative punishment of: i. A term of imprisonment of not less than 5 calendar years without any option of fine ii. Summary dismissal from government services.

		[Section 58(5)]
	A legal person (e.g., registered businesses, companies or corporations)	A cumulative penalty of: i. Debarment from all public procurements for a period not less than 5 calendar years. ii. A fine equivalent to 25% of the value of the procurement in issue. iii. A term of imprisonment not less than 3 calendar years but not exceeding 5 calendar years without an option of fine for every director of the company as listed on its records at the Corporate Affairs Commission. [Section 58(6) and (7)]

Notes

1. To determine presumption, considerations shall be given to the suspect's ability to control the outcome of the procurement proceedings in question, whether total or partial.

2. In proving undue influence, proof that a reasonable business person should have known that his action would result in his company or firm having an undue advantage over other bidders to the detriment of the national treasury is sufficient.

12.09 Highlights of the Public Procurement Act, 2017

1. Establishment of the National Council on Public Procurement and its Membership
2. Functions of the Council
3. The Establishment of the Bureau of Public Procurement
4. Objectives of the Bureau
5. Functions of the Bureau
6. Powers of the Bureau
7. Director-General and Staff of the Bureau
8. Principal Officers of the Bureau
9. Other Staff of the Bureau
10. Staff Regulations

11. Pension Provisions
12. Funds of the Bureau
13. Financial Year, Budgeting and Annual Report
14. Legal Proceedings
15. Scope of Application
16. Fundamental Principles for Procurement
17. Approving Authority
18. Procurement Planning
19. Procurement Implementation
20. Accounting Officer
21. Procurement Planning Committee
22. Tenders Board
23. Pre-Qualification of Bidders
24. Open Competitive Bidding

12.10 Review Question

The BMPIU of the presidency has not had any impact on transparency in government procurement functions considering the magnitude of corruption in that area. Discuss.

MODULE 13

13.00 PUBLIC FINANCE

13.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Effectively discuss the various theories of Public Finance viz; public expenditure, revenue allocation, reasons for increase in Government expenditure, price stability, and full employment;
ii. Examine the principles of taxation and fiscal policy in Nigeria;
iii. Analyze the causes of revenue allocation problems in Nigeria;
iv. Determine an appropriate revenue allocation formula for Nigeria.

13.02 Public Finance Defined

Public finance is a field of economics concerned with how governments raise money, how that money is spent, and the effects of these activities on the economy and on the society.

It studies how governments at all levels (Federal, State and Local Government) provide the public with desired services and how they secure the financial resources to pay for these services. It is an examination of government spending, taxation, borrowing and managing the public debt, since these are the operations of government pertaining to the use of scarce resources (Sharp and Sliger, 1970:5-6).

13.03 Components of Public Finance

The subject-matter of public finance consists of the following five parts:

i. **Public Income**

This part includes the study of the methods of raising public revenues and the principles of taxation.

ii. **Public Expenditure**

This consists of the study of the principles and the effects of public expenditure.

iii. **Public Debt**

This part studies the causes and the methods of public borrowing as well as public debt management.

iv. **Financial Administration**

This includes the preparation and sanctioning of the budget, auditing, etc.

v. **Economic Stabilization**

This part studies the use of fiscal policy to bring about economic stability in the country.

It should be emphasized here that the above five parts are not distinct and separate from one another but are intimately related to one another.

13.04 Theories of Public Finance

Fiscal theorists have given different concepts of the nature of public finance. Seligman and many others speak of the **Pure Theory** of public finance which deals with the problems of public income, expenditure and public debt in an objective manner without any relation to the concept of welfare; the pure theory of public finance, for instance, cannot demand the state should do away with the inequality of wealth. On other hand, the **Socio-Political Theory** of public finance as expounded by Wagner, Edgewater and Pignut insists that the state should, through fiscal policy, transfer incomes from the rich to the poor with the object of maximizing social welfare of the community.

13.05 The Scope of Public Finance

The scope of Public Finance is logically concerned with the operations of the Public Treasury. It also deals with how the Public Treasury operates and the repercussions of the various policies which the Treasury might adopt. Public tax and expenditure measures affect the economy in a number of ways and may be designed to serve many purposes. The underlying policy objectives may be categorized into four:

i. Allocation of resources.
ii. Adjustments in the distribution of incomes and wealth.
iii. Stabilization of prices and employment, and

iv. Attaining balance of payments equilibrium.

Any discourse in Public Finance is inconclusive if consideration is not given to how the private sector reacts to the various fiscal measures, such as taxation, expenditure and public debt. It has to be emphasized that detailed know ledge of the various components of fiscal policy and relevant institutional factors have to be taken into consideration in the analysis.

As modern Government operates at different levels, so also does the scope of Public Finance deal with the financial aspects of different Governments and inter-governmental financial relations.

13.06 Theory of Public Revenue

Public Revenue can be defined **as the fund required by government to finance its activities.** Such funds are generated from the various sources such as taxes, borrowing, fees, fines, income from public undertakings, sales of government assets, rents, mining and royalties.

According to Professor Dalton, [YEAR] it is useful to make a distinction between public revenue and public receipts. While public receipts include all sources of incomes to Government. Public revenue is of much narrower definition and does not include borrowing, sales of government assets or income from the “printing press” (printing of more money by the Central Bank). This distinction is also emphasized in the 1979 Constitution of the Federal Republic of Nigeria in which Section 149 refers to ‘revenue’ and Section 74(1) refers to ‘other monies.

The main sources of revenue of Government can be divided into **oil revenue and non-oil revenue sources**.

Oil revenue sources include sales of crude oil, petroleum profits tax, rent, royalties, and Nigerian National Petroleum Company earnings. Non-oil revenue comprises company income tax, customs and excise duties, and independent revenue sources which include fees, licenses, rent on Government property, etc. The above sources of revenue can also be classified into: Direct Taxes, Indirect Taxes and Mining revenues. Direct taxes comprise petroleum profit and company income taxes while indirect taxes include customs and excise duties. Prior to the oil boom of early 1970's, agriculture was the mainstay of the Nigeria economy. The sector's contribution to Gross Domestic Product was about 70%.

This contribution has now fallen to less than 30%, with the advent of the oil. Since the arrival of oil, the "black gold," the trend has changed in favor of the latter. It is the oil revenue that now contributes the larger percentage of the Federal Government revenue. With respect to indirect taxes, import duties are predominant as the economy is highly dependent on foreign goods and technology.

13.07 Revenue Allocation in a Federal System of Government

The problem of how best to allocate or share the revenue in the Federation Account among the component parts is a controversial issue in all countries that practice the federal system of government like Nigeria. Revenue sharing in Nigeria is faced with series of problems. This situation arises from the fact that States lack the authority to either raise certain types of tax or collect the proceeds. Consequently, the problem has not on who should raise taxes but how the proceeds should be shared. This problem of revenue sharing is not peculiar to Nigeria. Older Federations such as Australia, Canada and United States have faced similar problems. These older Federations were able to solve their problems in their own way, given their stable economic and political environment.

Furthermore, these Federations have settled constitutional history as none is still undergoing the kind of changes in the number of fiscal units as it is the case in Nigeria where the number has risen from 3 to 4, 12 to 19, 21 to 30 and to 36 States within a space of three and a half decades. The primary motivation of revenue sharing in older Federations is economic. It is to assist those States which are financially and fiscally weak, with the federally collected revenue. In these Federations, federally collected revenue forms a small fraction of the State resources. Consequently, federally generated revenue is a supplementary rather than a primary source of resources for the States.

In Nigeria, the above scenario is not the case since revenue sharing reflects to a great extent the political power of the parties to the bargain. Besides, many of the States are economically weak to fund their activities. To solve this problem of revenue sharing, a number of Commissions and ad-hoc Committees were set up at various times in the past.

13.08 Causes of Revenue Allocation Problems in Nigeria

The factors causing perennial revenue allocation problems in Nigeria include:

1. Political and Economic Instability

The political and economic instability in Nigeria have led to the absence of planning. This situation slows down economic growth and development. The instability is evidenced by the large number of Heads of State who had governed the country from the time of independence to date.

2. Constitutional Framework:

The absence of a stable Constitution is a significant aspect of the problem of revenue allocation in Nigeria. The situation has not abated as there have been continued calls for constitution review. This is one of the key issues which the National Assembly is now grappling with.

3. Financial Weakens

Since most of the physical units were created without guiding political and economic philosophy, they are financially weak to stand on their own. Consequently, the States are always agitating for increase in the share of the proceeds of the Federation Account.

4. Insincerity:

There is an observation in insincerity on the part of the Judiciary, Legislature and the Executive to address the problems of revenue allocation once and for all. The issue of the goose that lays the golden egg can also not be wished away.

13.09 Nigeria`s Experience in Revenue Allocation

Successive governments realized that revenue allocation is always a thorny issue in the country hence the setting up of several revenue allocation Commissions and committees to design an ideal formula for revenue distribution among the component parts of Nigeria. Notable revenue allocation Commissions are:

1. **Philipson Commission (1946)**

The constitutional change introduced in 1946 by Richardson created the need to formulate proposals to enable the newly created regions of West, East and North, perform their new political and economic functions.

The Philipson Commission was charged with the responsibility of formulating financial and administrative procedures to be adopted under the new Constitution. The Commission divided regional revenues into two categories, namely: "DECLARED" and "NON-DECLARED." Declared revenues' were those locally collected by the regional authorities, such as direct taxes (personal income tax), licenses, fees, income from property and rent.

It was the central Government that determined what portion of the non-declared revenue was to be shared among the Regions. For the sharing of the non-declared revenues among the Regions, Philipson considered three basic principles: Derivation, Even-Progress and Population**.**

2. **The Hick-Philipson Commission (1951)**

The changes envisaged by the 1951 McPherson Constitution and the dissatisfaction with the Philipson's scheme led to the appointment of Prof. John Hicks and Sir Sidney Philipson to develop a new scheme that would achieve a more equitable sharing of revenue.

The Commission recommended that the Regions should have power to raise, regulate and appropriate to themselves certain items of revenue. The commission proposed that revenue should be shared on the principles of Derivation, Need and National Interest.

3. **Chick Commission (1953)**

The Constitutional conference of 1953 gave an opportunity for the review of the previous allocation schemes. Sir Louis Chick was then appointed to ensure that the total revenue available was allocated in such a way that the principle of derivation was followed and compatible with the needs of the Central as well as the Regional Governments.

CHICK did not merely adhere to the instruction; he **expanded the allocation scheme to include not only import and excise duties, but also export duties, mining, rent and royalties and personal income taxes.**

4. **Raisman Commission (1958)**

The Commission was appointed to review the tax jurisdiction as well as the allocation of revenue from these taxes such that the Regions could have the maximum possible proportion of the funds within their exclusive competence. To facilitate the sharing of some federally collected revenues, the Commission created the 'Distribution Pool Account' now called Federation Account, for the purpose of equitable sharing among the Regions. However, two principles were proposed, namely: Derivation and Need.

5. **Binns Commission (1964)**

The Commission was set up under Section 164 of the 1963 Republican Constitution. The terms of reference of the Commission were to review and make recommendations with respect to the allocation of mining rent and royalties, and the sharing of funds in the distributable pool account among the Regions. **The Commission applied the principle of financial comparability which was somewhat of a hybrid between NEED and EVEN-DEVELOPMENT.**

6. **Military Era (1967-1975)**

The period of 1967 to 1975 was characterized by series of military pronouncements. Act No.15 of 1967 resolved the problem of revenue sharing by allocating equally the percentage that belonged to the Northern Region, among the six new States created. The problem of the East and West appeared resolved among the new States, on the basis of population.

7. **Dina Entrim Revenue Allocation Review Committee (1968)**

The Committee was appointed in 1968 to probe into the existing system of revenue allocation as a whole and make necessary suggestions. The Committee was also to determine new revenue sources for both the Federal and State Governments.

The Committee renamed the distributable pool account as "State Joint Account." It established a special grants account and recommended a permanent Planning and Fiscal Commission to administer the account, undertake continuous study and review of revenue allocation schemes. The report was rejected by the Federal Military Government and was therefore not published.

Act No.13 of 1970 adopted a two-factor formula, namely: Population and Equality of States, while Act No. 9 of 1971 gave to the Federal Military Government absolute right to revenue from `off-shore' rent and royalties.

Act No. 6 of 1975 emphasized that all revenue to be shared by the States should pass through the distributable pool account, except 20% of the `on-shore' mining rents and royalties due to the State of origin, on the basis of the principle of derivation.

8. The Aboyade Technical Committee (1977)

In line with the political programme, the Technical Committee on revenue allocation was set up in 1977 to review the existing allocation scheme. The Committee recommended that all federally collected revenue without distinction be paid into the Federation Account and that the proceeds of the account be shared among the Federal, State and the Local Governments, in the following proportions:

a.	Federal Government	60%
b.	State Government	30%
c.	Local Government	10%

13.10 Fiscal Policy and Tax Administration

Fiscal policy which consists of the application of taxation, public expenditure and public debt to realize certain economic objectives is an important instrument for influencing the level of economic activity. It is now generally accepted that the main problem of industrial or high income economies is stability in business conditions while rapid progress and structural changes are the basic needs of an underdeveloped economy. Fiscal policy has come to assume significance, as effective means of stabilization in an advanced economy and, therefore, for high income countries it is now generally held that no other measure of economic planning is better than adoption of a correct fiscal policy.

13.11 Public Finance in Underdeveloped Economies

In a sense, the objectives of fiscal policy are more or less the same in developed and underdeveloped countries. Fiscal policy aims at promoting investment and maintaining economic objective as an important instrument for influencing the level of economic activity.

Fiscal policy aims at promoting investment, maintaining economic stability and reducing inequalities of wealth and income, and these objectives are not basically different from the economic objective of a locative efficiency, economic growth and stability and optimum income distribution. It cannot, however, be denied that there are almost basic differences between advanced and underdeveloped or developing economies.

In fact, while the main economic problem of an advanced economy is one of stability, that of an underdeveloped, economy is the scarcity of productive resources and paucity of capital formation and investment. Some fiscal theorists argue that fiscal policy may not be effective in an underdeveloped economy, since modern economic and financial institutions are not so well developed. However, it cannot be denied that fiscal policy has a positive and significant role to play in an underdeveloped economy.

In the first instance, the state is called upon to play active and important role in promoting economic development, especially through control and regulation of economic life. It is found that fiscal policy is the most powerful and the least undesirable weapon of control which the state can employ to promote economic development.

Secondly, capital accumulation is the key problem of an underdeveloped economy and this can be done through taxation.

Finally, fiscal policy has an important role to play under democratic planning; financial plan is as much important as physical plan and the implementation of the financial plan will obviously depend upon the use of fiscal measures.

Consequences of Fiscal Operations

In the 18th and 19th centuries, the full implications of fiscal operations - viz. taxation, public expenditure and public debt management were not fully appreciated. It was only in the 20th century and particularly after Keynes demonstrated the necessity of state interferences for stabilizing an economy and to bring about full employment that the full importance of fiscal operations of tax, public expenditure and public debt policy was appreciated.

Here we shall briefly refer to the functions of fiscal operations, viz., **the allocation function, the distribution function and the stabilization function.**

Functions of Fiscal Operations

Allocation Function: The governmental operations basically involve the efficient provision of government funds in maximizing the welfare of the community. The government taxes the public and uses the amount in providing certain facilities and services considered essential by the people and the community.

Distribution Function: In a free enterprise economy, distribution of income and wealth is unequal and many times it is grossly unequal resulting in exploitation of the lower income groups.

Inequality of incomes and concentration of economic power in the hands of few are responsible for distorting production in favor of the rich and for reducing the social welfare of the community.

These operations have been used to reduce the incomes and wealth of the rich (through progressive taxation) and using the money collected to raise the income and standard of living of the lower income groups (through public expenditure).

Stabilization function: Modern economies are subject to economic fluctuations, viz business booms and inflations on the one side and business recessions and depressions on the other.

Such fluctuations are not in the interest of a country. Fiscal operations have been used to moderate these fluctuations and, if possible, to eliminate them altogether.

For instance, business booms and inflations are sought to be controlled through heavier taxation while business recession is sought to be checked through public expenditure.

National Income

The measurement of the performance of a nation's economy is necessary for practical formulation of policies so that decisions can be taken. There is need to measure the **total output of goods and services**, and also the **total income received by all the people**. It is also necessary to **measure how much people have spent on various expenditure**. It is these **outputs**, or **income** or **expenditure** that is known as National income. National Income therefore, is the **summary of a country's economic performance by measuring the aggregate income and output of goods and services or expenditure within specified period of time, usually one year**.

Gross Domestic Product (GDP): Gross Domestic Product refers to the total production of goods and services in a country without regards to who did the production (i.e. no distinction between Foreigners and Nationals). That is to say, it is the total sum of the monetary value of goods and services produced by the residents or people living in a given country irrespective of their Nationalities.

This means that **all goods imported into the country are excluded**. It helps in determining:

i. Domestic production capacity and,
ii. Level of employment of a country.

Gross National Product (GNP): Gross National Product or Gross National Income (GNI) is a nation's total production of goods and services usually for a year, valued in terms of market prices plus the Net Income from abroad.

Net income from abroad refers to the amount of income received by foreigners from Nationals. That is, GNP is the summation of all monetary value of goods and services produced by the Nationals or indigenes of a given country irrespective of where they are living or resident. This measures the contribution of Nationals to the economy in terms of production of goods and services.

GNP can also be determined by using GDP. This is done by adding the Net income from abroad (the difference between the income received by Nigerian investors abroad and the income received by other National who invested within Nigeria) to the GDP.

Net National Product: Net National Product or Net National Income is simply GNP minus depreciation i.e. wear and tears of machines.

Per Capita Income: This is measured by dividing GNP by population. This helps in measuring the purchasing power of individuals that are resident in a country**.**

It is also used to **measure the standard of living of the citizen of a country to see whether it is improving or degenerating.**

Personal Income: This is the total income received by the individuals of a country from all sources before direct taxes in one year. The formula is **National Product + Transfer Payment – Earnings not paid to persons.**

Disposable Income: This is the income received by households and available for spending or savings. This is equal to Personal Income – Direct Taxes (Y – T).

Comprehensively: Disposable Income **= NY – Business Savings – Taxes + Subsidies – Social Security + Transfer Payment + Net Income from abroad.**

Private Income

The income obtained by private individuals from any source, productive or otherwise, and the retained income of the corporations.

Determinants of the Size of National Income

The following factors determine the size of National Income:

1. **Natural Resources Availability:** The highness or smallness of the size of the National Income depends on the availability and utilization of its natural resources, such as mineral resources, good fishing water, electricity supplies, fertile land and good climate, that will ensure high output of goods and services.

2. **Technology:** Time and cost are reduced or saved through the use of modern technology in production. These increases efficiency in the economy and hence increase in National Income.

3. **Age Stratification:** A country with a good and educated working class age group that are growing will help increase production. This is in contrast with the old age groups that are only consumption inclined.

4. **Political stability:** This promotes economic activities and attracts foreign investment.

5. **Government Monetary and Fiscal Policy** helps if it is favorable, in increasing National Income.

6. **Benefit of International Trade**

   When demand for export of goods and services increases, it leads to increase in foreign earning which in turn lead to increase in National Income.

7. **International Assistance**

This is in form of Aids, grants, loans etc. that helps to increase production of goods and service that will lead to increase in National Income.

Use of National Income

National Income is used by any nation for the following purposes:

i. Measurement of standard of living
ii. Measurement of sectorial contribution
iii. Determines growth rate
iv. International contribution like the IMF, World Bank depends on whether the National Income is high or low.
v. It is an indicator of the planning effectiveness of a nation. High National Income indicates that there is good planning in the economy, while low National Income indicates an economic slump.

13.12 Approaches to Calculating National Income

The following approaches are used in calculating National Income:

Output Approach

This measure National Income as the total value of goods and services produced in a year. The production of goods and services can be aggregated sectorial like Agriculture, Manufacturing, and Communication etc.

Output is measured on the basis of value added to avoid double counting. Double counting is the process of counting the value of the product at the intermediate input thereby over stretching the value of the product. Only income received or payment made for current legitimate supplies of goods and service are considered, so transferred payment, gifts, and grants are to be excluded.

The issue of intermediate and final product must be defined. To a baker, bread is a final product while to a restaurant operator it is a raw material for toast bread.

Steps:

Items	#
Transportation and Communication	XX
Mining	XX
Manufacturing	XX
Building and Construction	XX
Agriculture	XX
Banking and Insurance	XX
Other Services	XX
Gross Domestic Product	XX
Add Income **from** Abroad	XX
Less Income **to** Abroad	(XX)
Less Stock Appreciation	(XX)
Less Capital Consumption	(XX)
Gross National Product (GNP)	XX

Less Depreciation	XX
NNP	XX

Illustration

Items	**Amount**
# (m)	
Agriculture	200
Fishing	100
Ministry of quality	50
Manufacturing	100
Communication of in respect	150
Wholesale & Retail trade	100
Government services (Health, Education Defense)	250
Banking & Finance	200
Building and Construction	200
Gross Domestic Product	1,350
Net Income from Abroad (less)	(200)
Gross National Product (GNP}	1,150

Income Approach

This method measures National Income in terms of factors of income. The incomes generated in the course of production by factors of production are aggregated. These are **wages, rents, interests and profits**. However, **gifts, donations, pensions, grants and social security payments are excluded from the calculation**. These are not payments for services rendered; including them in the National Income measurement will amount to double counting.

Items:	#
All Incomes from employment	XX
All Income from Self-Employment	XX
All Rent	XX
All Profits of Public and Private Corporations	XX

All Imputed Charges for Consumption of non-trading Capital		XX
Gross Domestic Income		XX
Less Stock Appreciation		XX
Less Residual Error		XX
Gross Domestic Income at Factor Cost		XX
All Income from Abroad		XX
Less Income Spent Abroad		XX
Gross National Income at factor cost	XX	
Less Depreciation		(XX)
Net National Income		XX

Items		**Amount (N)**
Capital Consumption Allowance		100
Indirect Business Tax		200
Compensation of employees		400
Rents		500
Interests		200
Proprietors Income		100
Corporate Income Tax	100	
Dividends		500
Undistributed Profit		600
Gross National Product (GNP)		**2,700**

The factors of production have the following rewards:

Land - Rewards is Rent

Capital- Rewards is Interest

Labor- Rewards is Wages & Salaries

Entrepreneur- Rewards is profit (R)

Mathematically **NI = R + I + W + R**

Expenditure Method

This approach measure National Income as the **aggregate of individual consumption expenditure, investment expenditure, and Government expenditure** i.e. Y = C + I + R

Where: Y = National Income

C = Individual Consumption Expenditure

I = Investment Expenditure

G = Government Expenditure

It is measured as the expenditure on final goods. Intermediate input expenditure is excluded to avoid double counting. Indirect taxes are deducted while subsidies are added. Also arriving at the value of domestic production, expenditure on the purchase of imports has to be deducted.

Generally therefore:

GNP = C + I + G +(X-M)

Where:

C = Individual Consumption expenditure

I = Investment Expenditure

G = Government Expenditure

x = Export value

M = Import value

Steps

Items		**#**
All Consumers Expenditure on goods and services (c)		XX
All Investment Spending by Organisations (I)	XX	
Fixed Capital Formation (Replacement)		XX
Increase in Stock of Capital (Inventories)		XX
All Government Expenditure (G)		XX
Gross Domestic Product (GDP) = C+I+G		XX

Add Export and Income from Abroad	XX	
Less Import and Income to Abroad		(XX)
Gross National Product (GDP+X-M)		XX
Less: Taxes on Expenditure (T)		XX
Add All Subsidies		XX
Less Capital Consumption (Depreciation)		XX
NNP		XX

Illustration:

RECEIPTS	**AMOUNT**
	#M
Personal consumption expenditure	100
Government purchase of goods & services	50
Gross private domestic product-	150
Net exports (Added)	40
Gross National product (GNP)	190

Problems of National Income Computation

The following problems of National Income computation are encountered:

i. Statistics required for the computations are encountered. National income figure are not readily available. For example, it is very difficult to estimate the amount of Net Income from abroad.

ii. In Nigeria like most developing countries, majority of the population are engaged in subsistence production. It is therefore difficult to determine the output or income of such persons.

iii. There is also a problem of valuation of items to be included in the National Income computation. For example, how does one value work done for oneself, income of self-employed services of a house wife, income of rents on owner occupier house etc?

iv. The problem of double counting is encountered while using the three approaches to computation of National Income. When using the output approach, the final product as well as the intermediate product is counted in error. Also, transfer payments are normally included in error in National Income figures based on the income approach. While intermediate goods expenditures are included in the expenditure approach in error.

v. The National Income statistics are not prepared on time probably due to bureaucratic bottleneck thereby rendering information useless when they are finally computed.

vi. Accessibility to rural areas is difficult thereby making the computation of National figures difficult if not impossible.

vii. There are Illegal activities that bring income to participants but are not legal which cannot be identified nor computed e.g. smuggling and stealing.

vii. The value of depreciation of Fixed Assets which is wear and tear of machines is difficult to determine.

Aggregate Demand

Aggregate demand of a whole country is synonymous with the national income of that country. It is the demand of all the goods and services provided for in a country. This is composed of:

i. Individual consumption expenditure – C
ii. Investment expenditure – I
iii. Government expenditure -G

We therefore have **Y = C + I + G.**

Where Y= National Income or Aggregated Demand

This is an assumption that we are in a **closed economy** (economy without any interaction with the outside world)

If on the other hand we are in an **open economy**, then Aggregate Demand will be

Y = C + I + G + (X-M)

Where X = Export

M = Import

An open economy is one that trades with the outside world.

Individual consumption expenditure

A major component of aggregate demand is individual consumption expenditure - C. The major factor that influences consumption is the disposable income.

Y disposable income simply means income less tax plus transfer payments.

i.e. $Yd = (Y - T) + R$

where Yd = Disposable Income

Y = Income

T = Taxation

R = Transfer payment

Mathematically, consumption function can be written as:

C = Co = C1 Yd

Where:

C = Consumption

Co = Autonomous consumption Expenditure

C1 = Marginal propensity to consume

Yd = Disposable Income

Taxation is also assumed to be influenced by level of income

Marginal Propensity to Consume: This is a change in consumption or the ability to consume as a result of change in income.

Average Propensity to Consume: It is the Ratio of consumption to income. It is that function or percentage of any given total income which is consumed.

Saving: Savings is that part of disposable income (Yd) which is not spent in the current period consumption but kept for future use. Every economic agent uses its disposable income in two ways either for consumption or for savings. Factors that determine savings include level of disposable income, rate of interest, the government policy on taxation, government subsidy and inflation rate.

Factors that Determine Saving

i. Level of disposable income
ii. Rate of interest
iii. The government policy on taxation
iv. Government subsidy
v. Inflation rate.

Marginal Propensity to Save

It is the ratio of change in savings as a result of change in the disposable income

Average Propensity to Save

It is Ratio of savings to disposable income

Relationship between Consumption and Savings

Any amount of disposable income that is not consumed is automatically saved, hence the marginal propensity to consume and marginal propensity to save sum up to unity.

Investment Expenditure

Investment expenditure is expenditure on the production of goods and service which are not required for immediate consumption but for the production of capital goods. This means expenditure on new plants, capital requirement and machines.

The determinants of investment are **the rate of interest, the expected rate of net profit, the level of technology, willingness and ability to save within the economy and the level of income**.

This can be understood better if we look at the investment rate as the price for rented capital. The higher the price, the lower the demand. The demand for capital can be looked at as the investment expenditure. For simplicity, however, we may assume that investment expenditure is given and it is not determined within the model.

Government Expenditure: We also assume that the government expenditure is determine outside the model

Export and Import: Exports refer to what you produce and sell to foreign countries. Factors like output and relative prices determine the export of a nation. But we are assuming that export is exogenously determined.

Import refers to goods and services we buy from other countries. The major factors influencing a nation import is the country's level of income that is, the higher the income, the higher the imports.

Illustration

The National Account of Skyland Republic is shown below:

		# Billion
Personal Consumption Expenditure		4
Change in Stock		2
Net Interest Payment		3
Wages and Salaries		5
Gross Private Business Investment		6
Rent Income of Persons		4
Gross Private Residential Investment	1	
Corporate Profit before Tax		7
Government Purchases of Goods and Services		10
Net Direct Business Tax		6

Depreciation Allowance	7
Export	12
Import	4

Required:

i. Compute the Net National Product

ii. Compute GNP using the flow of product or expenditure approach

iii. Compute GNP using the earning or factors approach

Solution:

i. NNP = GNP – Depreciation

GNP = C + I + G + (x – m)

Where			
	C = Consumption Expenditure	=	4
	I = Investment (Private and Residential)	=	6+1=7
	G = Govt. Expenditure (Goods & Services)	=	10
	x = Export	=	12
	m = Import	=	4

GNP = 4+ (6+1) +10 + (12 – 4)

= 4 + 7+ 10 + 8

GNP = <u>#29 billion</u>

NNP = (#29 - #7) billion

NNP = **<u>#22 billion</u>**

ii. GNP = 4+ (6+1) +10 + (12 – 4)

= 4 + 7+ 10 + 8

GNP = **<u>#29 billion</u>**

iii. <u>GNP using Earning or Factors approach</u>

GNP = Land + Labor + Capital +Entrepreneurship

Land	=	Rent Income on Persons	=	4
Labor	=	Wages and Salaries	=	5
Capital	=	Net Interest Payment	=	3
Entrepreneurship	=	Profit + Change in Stock = 7 + 2	=	9
		Tax	=	6

GNP = 4 + 5 + 3 + 9 + 6 = **#27bllion**

13.13 Rolling Plan/Budget

This budget is also called the **Continuous Budget.** It is the continuous updating of short term budget by adding say, a further month or quarter month, and deducting the earliest month or quarter month so that the budget can reflect current conditions.

It involves the continuous updating of budgets through review of actual results of a specific period in the budget and determining a budget for the corresponding time period. The basic purpose of the rolling budget is to facilitate adaptation to emergent problems.

Assiduously implemented, continuous budgeting would adequately cater for inflationary trends, and frequent unexpected and unforeseeable changes in activities.

Advantages/Merits of Rolling Budget

i. Because budgets are usually updated, the adverse effect of inflation and other forecasting problems are eliminated to the barest minimum.
ii. At any point in time there is always a complete budget i.e. budget for the next twelve (12) months (in the case of an annual budget) is always available.
iii. Comparison between budgeted and actual figure becomes more realistic and reasonable.
iv. At the time figures for the next 12 months are available, management is made continuously aware of the budgetary process.

Demerits

i There is a much paper work involved as budgets have to be prepared continuously.

Ii Much time and efforts as well as higher costs are also involved because budgets are

Iii prepared monthly or quarterly basis in order to update the previous one.

Iv This type of budget is costly in term of financial resources and time.

V It requires highly trained manpower.

13.14 Review Questions

1. What are the reasons for government intervention in an economy?
2. Write short notes on the following:
    a. Gross Domestic Product
    b. Gross National Product
    c. Net National Product
    d. Per capita Income
    e. Disposable Income
3. Distinguish between Economic Growth and Economic Development

MODULE 14

14.00 CONTEMPORARY ISSUES IN PUBLIC SECTOR ACCOUNTING AND PUBLIC FINANCIAL MANAGEMENT

14.01 Learning Outcomes

On successful completion of this module, students should be able to:

i. Discuss the meaning of professional pronouncements;
ii. Assess the roles of the various anti-graft agencies in Nigeria in relation to public accountability and protection of public interest;
iii. Clarify the concept of professional ethics and its application in the public sector;
iv. Understand the concept of Treasury Single Account policy of the Federal Government and its benefits.

14.02 Professional Pronouncements

This consists of pronouncements that serve as standards and guidelines for public sector accounting practice. International bodies issue these pronouncements for implementation by national governments and organizations that are members of the bodies. Until recently government accounting does not enjoy due attention in developing countries like Nigeria. The interest now being expressed could be attributed to a number of reasons such as the following:

i. Government's control and ownership over a large resource base makes public sector activities to continue to influence developments in private sector accounting processes.
ii. Being the biggest sector, governmental activities usually have a multiplier effect on other sectors of the economy including commercial accounting.
iii. Government is responsible for creating a conducive atmosphere where commercial activities prosper through enacting enabling legislation and the maintenance of law and order.
iv. As the weakest link determines the strength of a chain, so also the slow pace of progress in the public sector hinders the advancement of private sector accounting; hence the need for correction and reform.
v. They are requirements of good governance and fiscal responsibility by international finance institutions, donors and multilateral agencies. This demands that government accounting provides financial reports in line with the informational needs of users beyond the traditional requirement of national governments.

Another reason why public sector accounting is getting attention is linked to the work of **international and national professional bodies through standard setting.** To improve the quality of government accounting information and enhance reporting standards, certain statements are issued periodically by those bodies and associations. Such statements or pronouncements are regarded as standards for government accounting. The motivation behind the pronouncements comes, in part, from the observations of deficiencies and inadequacies made against governmental activities by certain international bodies and associations. The United Nations, for example has made the following observations:

i. Relatively little attention is paid to social government accounting and budgetary control system.
ii. Greater emphasis on routine bookkeeping procedures for legal/administrative compliance.
iii. Delay in rendering financial reports.
iv. Inaccurate accounting

Objectives of Pronouncements

1. To develop and harmonize financial reporting, accounting and auditing practices in government.
2. To provide the same accounting standards for comparability.
3. To serve as guidelines to practitioners for high performance standards.
4. To provide professionals with basic principles for achieving common objectives.
5. To enhance transparency and strengthen financial reporting by governments.

Source of Pronouncements

The pronouncements emanate from a number of national and international bodies. Seven prominent national accounting bodies are involved in the standard — setting work. These bodies, in Australia, New Zealand, Canada, France, Germany, Japan, United Kingdom and United States, have been working together, with the support of international associations like IASB and IFAC, to ensure a convergence of accounting standards globally.

It is anticipated that the influence of IFAC, national accounting bodies, multilateral lending agencies and user communities will assist in the adoption of the standards by governments. Among the institutions involved in setting the standards are:

i. Association of Commonwealth Auditors General
ii. International Organization of Supreme Audit Institutions (INTOSAI)
iii. African Organization of Supreme Audit Institutions (AFROSAI)
iv. International Accounting Standards Board (IASB)
v. Financial Accounting Standards Board (FASB)
vi. National Council on Governmental Accounting (NCGA)
vii. Governmental Accounting Standards Board (GASB)
viii. Chartered Institute of Public Finance and Accountancy (CIPFA)
ix. International Federation of Accountants (IFAC).

IFAC is an international association, made of members comprising national professional accountancy bodies. Its members work in different sectors: private, public and specialized institutions. Through its Public Sector Committee (PSC), IFAC addresses the needs of those involved in public sector financial reporting, accounting and auditing. Formed in 1986, the PSC issues International Public Sector Accounting Standards (IPSAS) which serve as "bench mark guidance (for) financial reporting and accounting in the public sector”. Guidelines, studies and occasional papers reinforce the standards.

14.03 Ethical Issues in Public Sector Accounting and Finance

The etymology of the word, ‘ethics', comes from the Greek ethos, which means ‘character', so that an ethical person is one who has character. However, what constitutes ‘character' is likely to be interpreted broadly. That the meaning of ethics has been subject to considerable debate and contestation is not at all surprising.

Drawing upon the work of early Greek philosophers, Plato and Aristotle, Freakley and Burgh (2000) state that **ethics can be understood as ‘what we ought to do'.** Thus it requires judgment and reasoning in decision making that raise questions regarding what is right, wrong, good or bad conduct, fair or just. Yet another way of viewing ethics is to see it as a ‘set of rules, principles or ways of thinking that guide, or claim authority to guide, the actions of a particular group' (Singer 1994. p. 4). 'Guide' is the operative word here as there is no universal recipe for resolving ethical dilemmas.

The Concept of Ethical Dilemmas

Ethical dilemmas are likely to confront public sector managers as they endeavor to choose options amongst competing sets of principles, values and beliefs. Badaracco (1992) refers to these competing sets of principles as `spheres of responsibility' that have the potential to ‘pull [managers] in different directions' (p. 66) and thus create ethical dilemmas for them. An ethical dilemma then can be described as a decision that requires a choice among competing sets of principles, often in complex and value laden contexts.

Ethical Dilemmas Faced by Public Servants

i. **Administrative discretion**

Public officials are not merely executors of public policy. They make decisions pertaining to the lives of people, for example, about taxes, survival and the dismissal of people. In doing so they exercise discretion. The question is then how decisions are to be made to avoid ethical dilemmas. In other words, the promotion of general welfare depends to a large extent on the use or abuse of administrative discretion. It is true that within the rules and regulations laid down by legislation and within the prescribed procedures, there is ample opportunity for the public official to use his discretion. When faced with alternatives the choice of the public official poses an ethical problem: the choice may be acceptable to only a small section of society. The problem is that the selection of one path of action from among several alternatives is often made on the basis of personal preference, political or other affiliations, or even personal aggrandizement, thereby disregarding known facts and thus the possibility of rational decision making. It could well be that all the prescribed rules, regulations and procedures are adhered to but that the discretionary choice may be viewed as unethical or even corrupt.

ii. **Corruption**

The majority of officials uphold the high standards required by public office and are devoted to promoting the general welfare. The ethical standards of public officials are, however, directly related to society as a whole. If the public accepts that in order to secure an expeditious response from a public official some pecuniary or other incentive is necessary, and the official accepts the incentive, then the standards of ethical conduct of officials and the public are in fact in harmony from the point of view of the public. The corruption of public officials by private interests is usually very subtle, for example, favors by the public to the official under obligation and he gradually substitutes his public loyalties to those doing him favors. The ethical dilemma that faces the public servant with regard to corrupt practices as result of private interests primarily concerns his reaction to the situation. If a corrupt practice or an attempt to corruption is discovered, it is quite possible that the official's personal loyalties or party political affiliations may be in conflict with his official duties. Should he sacrifice the public interest or try to end the corrupt practice by direct personal confrontation, or should he blow the whistle on the practitioner of corrupt practice?

iii. **Nepotism**

The practice of nepotism (the appointment of relations and/ or friends to public positions, thereby ignoring the merit principle), may lead to the downgrading of the quality of the public service. This disrupts the esprit de corps and trust and resulting in corrupt administration, owing to the ability of a select few to impair control measures on account of their personal relationship with the policy-maker, and by reason of their not being easily dismissed or replaced by others. In other words, those who are appointed with the view that they will conform to the standards and views of their appointing authority could prove to be problematic. The preferential treatment of one individual over another, without taking into account the relative merit of the respective individuals, represents nothing but victimization of an individual or individuals.

iv. **Administrative secrecy**

An area which lends itself to the creation of situations and actions which could prove to become major ethical dilemmas is the secret conduct of public business. This is especially so because secrecy can provide an opportunity to cover up unethical conduct. Secrecy is an ally of corruption and corruption is always practiced in secrecy. It is generally accepted that in a democracy the people have a right to know what the government intends to do and it would be in the interest of the public for the administration of public affairs to be conducted openly

v. **Information leaks**

Official information is often of such a sensitive nature (for example, pending tax increases, rezoning land, retrenchment of staff) that disclosure of the information can lead to chaos, corrupt practices or, for some individuals, improper monetary gains. Leaking official information at a date prior to the public announcement thereof is a violation of procedural prescriptions and can be an ethical dilemma.

vi. **Public accountability**

Since public officials are the implementers of public policies, they ought to be accountable for their official actions to their superiors, the courts and the public. It is nevertheless, possible for them to hide behind prescribed procedures, the cloak of professionalism and even political office-bearers.

vii. **Policy dilemmas**

Policy makers are often confronted by conflicting responsibilities. They have specific loyalties to their superiors, but also to society. They have freedom to act on behalf and in the interest of others, but they must also answer to others - their superiors and society – for their actions. The official's obligation to respect the political process may conflict with his view on how the objects of policy making are treated. In other words, the dilemma of the public official is the clash between his view of the public interest and the requirements of law.

14.04 The Electronic (E-Payment) System in Nigeria

E-payment is a subset of e-governance which is the application of electronic means in the interaction between Government and Citizens and Government and Businesses. It is a form of direct payments and banking without physical appearance at the MDAs or Bank through the means of electronic, interactive communication channels and other Technological infrastructures.

E-payment can be described as the method of effecting payments from one end to another end through the medium of the computer without manual intervention beyond inputting the payment data. Two options are identified:

End-to-end processing: Here, all the processes from approvals to the receipt of value by the beneficiary are done electronically.

Manual e-payment or use of mandate: It is the mixture of manual and electronic process where the available infrastructures cannot support the end-to-end processing.

14.05 The Government Integrated Financial Management Information System

GIFMIS is a sub component of the ERGP which will support the public resource management and targeted anti-corruption initiatives area through modernizing fiscal processes using better methods, techniques and information technology. GIFMIF is aimed at improving the acquisition, allocation, utilization and conservation of public financial resources using automated and integrated, effective, efficient and economic information systems. It will aid strategic management of public financial resources for enhanced accountability, transparency, cost effective public delivery, and economic growth and poverty reduction efforts.

The Government Integrated Financial Management Information System (GIFMIS) is an IT based system for budget management and accounting that is being implemented by the Federal Government of Nigeria to improve Public Expenditure Management processes, enhance greater accountability and transparency across Ministries and Agencies. GIFMIS is designed to make use of modern information and communication technologies to help the Government of Nigeria to plan and use its financial resources more efficiently and effectively.

Objectives of the GIFMIS

The overall objective is to implement a computerized financial management information system for the FGN, which is efficient, effective, and user friendly and which:

i. Increases the ability of FGN to undertake central control and monitoring of expenditure and receipts in the MDAs.

ii. Increases the ability to access information on financial and operational performance.

iii. Increases internal controls to prevent and detect potential and actual fraud.

iv. Increases the ability to access information on Government's cash position and economic performance.

v. Improves medium term planning through a Medium Term Expenditure Framework (MTEF)

vi. Provides the ability to understand the costs of groups of activities and tasks.

vii. Increases the ability to demonstrate accountability and transparency to the public and cooperating partners

Scope of GIFMIS

GIFMIS will cover the entire financial management cycle including:

i. Budget preparation and execution

ii. Treasury management and reporting

iii. General ledger and financial reporting

iv. Procurement, including Commitments, purchase orders, Maintenance of a central supplier register and Support for e-procurement

v. Receipting, Accounts Receivable and Revenue Management

vi. Payments and Accounts Payable

vii. Inventory and Stock Control

viii. Fixed Asset Management

ix. Project accounting

14.06 The Integrated Personnel Payroll Information System

IPPIS is one of the Transformation agenda of the Federal Government of Nigeria with the aim of creating a centralized database system for Nigerian Public Service with single, accurate source of Employee information that provides integration with other business applications.

The manual, file based personnel system operated by the federal public service meant that government did not have accurate and reliable information about the size and nature of its workforce. The incidence of ghost workers was prevalent, with fraudulent public servants claiming and collecting the salaries of non-existent workers. Other fraudulent activities included some public servants collecting salaries from multiple establishments, some officers conniving with others to get paid higher salaries than were due to them, and records of loans obtained from government routinely disappearing from files. Personnel records contained in files, such as birth certificates, declarations of age and even certificates of indigeneship, were often substituted to obtain undue advantage. The federal government and the World Bank estimated that the government was losing about ₦1 billion to ghost workers alone annually.

The then Nigerian minister of finance in February, 2011 revealed that the pilot implementation of the integrated personnel and payroll information system (IPPIS) in sixteen Ministries, Departments and Agencies (MDAs) saved the nation over N12 billion between 2007 and 2010. This pilot implementation was necessitated considering the fact that government wage bill had constituted a huge chuck of recurrent expenditure at 58 percent of the annual budget.

IPPIS Objectives

1. Provide a **centralized database** to aid Governments manpower planning and decision making
2. Facilitate automation & storage of **personnel records** to support monitoring of staff emolument payments against budget.
3. Prevent wastage and leakages by ensuring staff remuneration are based on **factually correct information**.

Ensure prompt **payment of salaries** directly to Employees Account with appropriate deductions and remittances of 3rd party payments (e.g. Tax, Pension, Cooperatives, Union Dues and Bank Loans)

14.07 The Treasury Single Account (TSA)

THE TSA is a process and tool for effective management of government's finances, banking and cash position. In accordance with the name, it pools and unifies all government accounts through a single treasury account

In a nutshell, a Treasury Single Account is a public accounting system under which all government revenue, receipts and income are collected into one single account, usually maintained by the country's Central Bank and all payments done through this account as well.

The role of TSA consists of concentrating all Government funds on one account for its proper management. In other words, it is an instrument put in place in order to control Government finance resources and expenditures. It ensures complete, real time information on government cash resources and improves operational and appropriations control.

For TSA to work effectively there must be daily clearing of and consolidation of cash balances into the central account even where the MDA's accounts are already held at the CBN such as the FIRS. Some may argue that it is necessary to separate the cash transactions of each MDA for control and reporting purposes; however this objective can be achieved through proper accounting rather than by holding cash in separate bank accounts. In any case, the various bank accounts held by MDAs in commercial banks do not necessarily have to be closed, but they must be operated as Zero-Balance Accounts where any closing balance must be swept to TSA at the Central Bank of Nigeria (CBN) on a daily basis to give government a consolidated cash position.

TSA can therefore cover all funds including earmark and extra-budgetary accounts or even funds held in trust by government. To make this work, accounting systems must be robust and capable of accurately distinguishing trust assets in the TSA. This is not different from what a private company operating in many states or even internationally will do to consolidate its funds rather than fragment them by divisions or sub-entities. Hence, a company will only borrow externally if and only if its overall cash position is negative rather than when a division has a deficit even though others may have surpluses. I should quickly point out that TSA is not a new concept; it has been adopted for decades in many countries both in the developed world such as the United States, UK, France and developing economies like India and Indonesia.

14.08 THE EFCC and ICPC

THE EFCC is the body that is established with the responsibility of investigating and the enforcement of all laws against economic and financial crimes in all its ramifications. Some of the functions of the Commission include:

- **i.** Enforcement and due administration of the provisions of the Act.
- **ii.** Investigation of reported cases of financial crimes such as Advance Fee Fraud {419}, money laundering, counterfeiting, illegal charge transfer, contract scam, forgery of financial instrument, issuance of dud cheques etc.
- **iii.** Adoption of measures to identify, trace, freeze confiscate or seize proceeds derived from terrorist activities.

iv. Adoption of measures to identify, trace, freeze and seize proceeds derived from financial crime related offences.

THE ICPC was established by the Corrupt Practices and Other Related Offences Act, 2000. This Commission is a body corporate endowed with perpetual succession. It has a common seal and is juristic i.e. may sue and be sued in its corporate name. Some of the duties of the Commission include:

i. To receive and investigate any report of the conspiracy by any person or group of person who have committed or attempt to commit an offence under the Act.
ii. To prosecute those who are found to have committed any offence under the Act after the investigation.
iii. To examine the systems, practice and procedures of public bodies such as Ministries, state, local government or any parastatals.
iv. To give supervisory advice to public bodies whose practice systems and procedures are likely to be susceptible to fraud or corruption

14.09 Review Questions

You are one of three partners in a firm of accountants. Five years ago, the firm was appointed as external accountants to a young, successful and fast-growing company, engaged to prepare year end accounts and tax returns. The business had started trading with a handful of employees but now has a workforce of 200, while still remaining below the size of company requiring a statutory audit. Due to your close relationship with the directors of the company (who are its owners) and several of its staff, you become aware that staff purchases of goods manufactured by the company are authorized by production managers, and then processed outside the accounting system. The proceeds from these sales are used to fund the firm's Christmas party.

- Identify the integrity issues in the above scenario and advise management.

MODULE 15

15.00 INTERNATIONAL PUBLIC SECTOR ACCOUNTING (IPSAS)

15.01 Learning Outcomes

On successful completion of this Module, Students should be able to:

i. Understand the meaning and significance of accounting standards in financial reporting;
ii. Explain the concept of International Public Sector Accounting Standards and their application in the financial reporting process;
iii. Examine the composition and functions of the IPSAS Board;
iv. Effectively discuss the various relevant IPSAS in force;
v. Analyze the basic components of general purpose financial statements in the
vi. public sector;
vii. Design and prepare IPSAS-compliant financial statements.

15.02 General Overview:

The absence of a common set of accounting and financial reporting standards makes it difficult to compare financial information prepared by entities located in different parts of the world. As a result of increasing volume of cross border capital flows and the growing number of foreign direct investments in the globalization era, the need for the harmonization of different practices in accounting and the acceptance of worldwide standards has arisen.

Globalization of financial transactions requires a unified global accounting, reporting and disclosure of uniform standards. This has led to the adoption of the International Public Sector Accounting Standards (IPSAS) in countries across the globe with Nigeria adopting IPSAS, effective from 2013. The recent adoption of International Financial Reporting Standards (IFRS) is expected to address Government Business Enterprises (GBEs). There has not been any better time than now for us to contribute to the need and practicality of adopting the IPSAS as a financial reporting frame work in the public sector reporting entities. This is to the effect that Public Sector Entities (PSEs) would prepare financial Statements in accordance with the IPSAS.

The transition from what it used to be in various countries to the adoption of accounting standards that requires qualitative, transparent and comparable information is a step in the right direction and a welcome development by investors, creditors, financial analysts, and users of financial statements.

Thus, with the ongoing waves in digital and information revolution, it is not a fallacy to assert that "**Becoming IPSAS and technology compliant is a sure way for Accountants to secure their careers in the information age**.

15.03 Meaning of IPSAS

IPSAS are high quality global accounting standard developed by International Public Sector Accounting Standard Board (IPSASB), a body of International Federation of Accountants (IFAC)-a mother umbrella body for all professional accounting associations in the world for-all categories of government both at National, regional and Local government to aid in the preparation of their financial statements. So far, IPSASB has issued 32 IPSASs for global adoption. IPSASs are standards of high quality which serve as catalyst for providing sound and transparent financial statements, thereby improving operational performance, accountability and fair allocation of resource. Many experts opine that with IPSAS in place in public sector, financial irregularities can hardly be swept under the carpet no matter how minute they may be in size because IPSAS has more inherent or inbuilt system of internal control operatives on a very sound footing. In addition, the of adoption of IPSASs in Nigeria is expected to curb leakages, enhance financial management system, restore financial discipline, accountability, prudence, probity and transparency and enhance the overall performance of government at all levels. IPSAS, therefore, aims to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability

IPSASs set out:

a. Recognition
b. Measurement
c. Presentation and disclosure requirements

IPSASs deals with transactions and events in general purpose financial statements. The standards are designed to apply to general purpose financial statement for all public entities. Several IPSASs on the accrual basis are based on IFRSs but adapted to the public sectors context where appropriate.

IPSASs follow a standardized structure as stipulated below:

i. Introduction
ii. Objective (of the Specific IPSAS)
iii. Scope
iv. Definitions
v. Accounting policies (main part of IPSASs)
vi. Transitional provisions
vii. Effective date

viii. Appendices (Implementation/Application Guidance)
ix. Basis for Conclusions
x. Comparison with Corresponding IAS (if applicable).

15.04 International Public Sector Accounting Standard Board (IPSASB)

The IPSAB comprises 15 members, 13 of whom are nominated by the member bodies of IFAC, while the other 2 are public member who in turn are nominated by any individual or organization. The objectives of the IPSASB are:

i. To serve the public interest by developing high quality public sector financial reporting standards
ii. Facilitate the convergence of International and National standards
iii. Enhance the quality and uniformity of financial reporting throughout the world.

The IPSASB achieves its objectives by:

i. Issuing International Public Sector Accounting Standards (IPSASs);
ii. Promoting their acceptance and the International convergence to these standards; and
iii. Publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector.

The IPSASB issues other non-authoritative publications including studies, research reports, and occasional papers that deal with particular public sector financial reporting issues. The IPSASB recognizes the right of governments and National standard setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of National requirements with IPSASs.

15.05 IPSASs Published to Date

IPSAS	Title	Basis	Effective
IPSAS 1	Presentation of Financial Statement	IAS 1	01.01.2008
IPSAS 2	Cash Flow Statement	IAS 7	01.07.2001

IPSAS 3	Accounting Policies and Changes in Accounting Estimates and Errors	IAS 8	01.01.2008
IPSAS 4	The Effect of Changes in Foreign Exchange Rates	IAS 21	01.01.2008
IPSAS 5	Borrowing Costs	IAS 23	01.07.2001
IPSAS 6	Consolidated and Separate Financial Statements	IAS 27	01.01.2008
IPSAS 7	Accounting for Investment in Associates	IAS 28	01.01.2008
IPSAS 8	Financial Reporting of Interests in Joint Ventures	IAS 31	01.01.2008
IPSAS 9	Revenue from Exchange Transactions	IAS 18	01.07.2002
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29	01.07.2002
IPSAS 11	Contraction Contracts	IAS 11	01.07.2002
IPSAS 12	Inventories	IAS 2	01.07.2002
IPSAS 13	Leases	IAS 17	01.01.2008
IPSAS 14	Events After the Reporting Date	IAS 10	01.01.2008
IPSAS 15	Financial Instruments: Disclosure and Presentation	IAS 31	01.01.2003
IPSAS 16	Investment Property	IAS 40	01.01.2008
IPSAS 17	Property, Plant and Equipment	IAS 16	01.01.2008
IPSAS 18	Segment Reporting	IAS 14	01.01.2003
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	01.01.2004
IPSAS 20	Related Party Disclosure	IAS 24	01.01.2004
IPSAS 21	Impairment of Non-cash Generating Assets	IAS 36	01.01.2006
IPSAS 22	Disclosure of Financial Information about the General Government Sector	-	01.01.2008
IPSAS 23	Revenue from Non-Exchange Transaction (Taxes and Transfers)	-	30.06.2008
IPSAS 24	Presentation of Budget information in the Financial Statement	-	01.01.2009
IPSAS 25	Employee Benefit	IAS 19	01.01.2011
IPSAS 26	Impairment of Cash-Generating Assets	IAS 36	01.04.2009
IPSAS 27	Agriculture	IAS 41	01.01.2011
IPSAS 28	Financial Instruments: Presentation	IAS 32/IFRIC	01.01.2013

		2	
IPSAS 29	Financial Instruments: Recognition and Measurement	IAS 39/IFRIC 9& 16	01.01.2013
IPSAS 30	Financial Instrument: Disclosures	IFRS 7	01.01.2013
IPSAS 31	Intangible Assets	IAS 38/SIC 32	01.04.2011
IPSAS 32	Service Concession Arrangements	-	01.01.2014
IPSAS 33	First Time Adoption of Accrual Basis IPSAS		
IPSAS 34	Separate Financial Statements		
IPSAS 35	Consolidated Financial Statements		
IPSAS 36	Investments in Associates and Joint Ventures		
IPSAS 37	Joint Arrangements		
IPSAS 38	Disclosure In interest in Other Entities		
IPSAS 39	Employee Benefits		
IPSAS 40	Public Sector Combinations		

15.06 Impact of IPSAS Adoption

Some of the impacts of IPSASs adoption are:

i. Recognition and valuation of a government's assets and liabilities
ii. Financial reporting dimension in public sector accounting is strengthened.
iii. Assures uniformity in public Sector Accounting
iv. Global/international development
v. Long – Term Impact
vi. Influence on behavior of politicians, public officials citizen, media, and taxpayers.

Roadmap

Roadmap to the adoption of IPSAS in Nigeria is phased as follows:

a. Full adoption of Cash IPSAS 20013 to 2014

b. Adoption of Accrual IPSAS effective from 2016

General Purpose Financial Statement (GPFS) & Reports

General Purpose Financial Statements are financial Statements issued for users that are unable to demand financial information to meet their specific information needs. Users of these statements are:

a. Citizens, Voters and their representatives
b. Other members of the public

Accrual Based GPFS

The main financial statements to be prepared by the reporting entities are:

a. Statement of financial position
b. Statement of financial performance
c. Cash flow statement
d. Statement of changes in net assets/equity
e. A comparison of budget and actual amounts (when the entity makes publicly available its approved budget).
f. Notes.

15.07 Detailed Overview of Some Relevant IPSAS

IPSAS 1: Presentation of Financial Statements

This standard is developed to prescribe the manner in which general purpose financial statement should be presented in order to ensure comparability both with the entity's own financial statements of previous periods and with the financial statement of other entities.

This standard should be applied in the presentation of all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with international Public Sector Accounting Standards

This standard applies to all public sector entities other than Government Business Enterprises.

Some basic terms and their meaning:

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statement.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents

Composition of Financial Statements

A complete set of financial statement includes the following:

a. Statement of financial position
b. Statement of financial performance
c. Statement of changes in net assets / equity
d. cash flow statement and
e. Accounting policies and notes to the financial statements

Identification of Financial Statements

Information to be presented on the face of the Statement of Financial Position includes:

a. Property, plant and equipment
b. Intangible assets
c. Financial assets
d. Investment accounted for using the equity method
e. Inventories
f. Recoverable from non-exchange transactions
g. Including taxes and transfers
h. Receivables from exchange transactions
i. Cash and cash equivalents
j. Taxes and transfers payable

k. Payables under exchange transactions
l. Provisions
m. Non-current liabilities
n. Minority interest and Net assets/equity

Information to be presented on the face of the Statement of Financial Performance includes:

a. Revenue from operating activities
b. Surplus or deficit from operating activities
c. Finance costs
d. Share of net surpluses or deficits of associates and joint ventures accounted for using the equity method surplus or deficit from ordinary activities
e. Extraordinary items
f. Minority interest share of net surplus or deficit
g. and Net surplus or deficit for the period.

Information to be presented on the Face of the Statement of Changes in Net Assets/Equity includes:

a. The net surplus or deficit for the period
b. Each Item or revenue and expense, which, as required by other standards, is recognized, directly in net assets/equity, and the total of these items
c. and the cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatment in IPSAS 3.

In addition, an entity should present, either within this statement or in the notes:

a. Contributions by owners and distributions to owners, in their capacity as owners
b. The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the movements for the period, and

c. To the extent that components of net assets/equity are separately disclosed reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each movement.

The accounting policies section of the notes to the financial statements should describe the following:

a. The measurement basis (or bases) used in preparing the financial statement:
b. The extent to which the entity has applied any transitional provisions in any international public sector accounting standard: and
c. Each specific accounting policy that is necessary for a proper understanding of the financial statements.

In addition to the specific accounting policies used in the financial statements, it is important for users to be aware of the measurement basis (bases) used (historical cost, current cost, realizable value, fair value of present value) because they form the basis on which the whole of the financial statements are prepared.

When more than one measurement basis is used in the financial statements, for example when certain items are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported performance and financial position. The accounting policies that an entity might consider presenting include, but are not restricted to the following:

a. Revenue recognition
b. Consolidation principles, including controlled entities
c. Investments
d. Recognition and depreciation / amortization of tangible and intangible assets

e. Capitalization of borrowing costs and other expenditure: Inventories held for sale and other qualifying assets
f. Construction contracts
g. Investment properties
h. Financial Instrument and investment
i. Leases
j. Research and development costs
k. Inventories: Held for resale and for consumption
l. Provisions
m. Employee Benefit costs
n. Foreign currency translation and hedging
o. Definition of segments and the basis for allocation of costs between segments
p. Inflation accounting
q. Government grants

An entity should disclose the following if not disclosed elsewhere in information published with the financial statements:

a. The domicile and legal form of the entity, and jurisdiction with which it operates:
b. A reference to the relevant legislation governing the entity's operations; and
d. The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).

Formats:

Entity XYZ – Statement of financial position as of 31 December 2010

	2010	2010	2009	2009
Assets:	N'000	N'000	N'000	N'000
Current assets				
Cash and cash equivalents	X		X	
Receivables	X		X	
Inventories	X		X	
Prepayments	X		X	

Investments	X		X	
		X		X-
Total assets		**X**		X
Liabilities:				
Current liabilities				
Payables	X		X	
Short-term borrowings	X		X	
Current portion of borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
Superannuation	X		X	
		X		X
Non-current liabilities				
Payables	X		X	
Borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
Superannuation	X		X	
		X		X-
Total Liabilities		X		X
Net assets		X		X
Net Assets/Equity				
Capital contributed by other				
Government entities	X		X	

Reserves	X		X	
Accumulated surpluses / (deficits)	X		X	
		X		X
Minority Interest		X		
X				
Total Net Assets /Equity		X		X

Entity XYZ – Statement of financial performance for the year Ended 31 December 2010

(Illustrating the classification of Expenses by function)

	2010	2009
Operating revenue	N'000	N'000
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from other government entities	X	X
Transfers from other government entities	X	X
Other Operating revenue	X	X
Total Operating revenue	X	X
Operating expenses		
General public services	X	X
Defense	X	X
Public order and safety	X	X
Education	X	X
Health	X	X
Social protection	X	X
Housing and community amenities	X	X
Recreational, cultural and religion	X	X
Economic Affairs	X	X
Environmental protection	X	X
Total Operating Expenses	X	X

Surplus / (deficit) from ordinary activities	X	X
Minority interest share of surplus / (deficit)	(X)	(X)
Net surplus / (deficit) before extraordinary items	X	X
Extraordinary items	(X)	(X)
Net surplus / (deficit) for the period	X	X

Entity XYZ Statement of Changes in Net Assets/Equity for the year Ended 31 December 2010

	Contributed Capital	Revaluation Reserve	Translation Reserve	Accumulated Surpluses/ (Deficits)	Total
	N,000	N'000	N'000	N'000	N'000
Balance at 31 December 2008	X	X	X	X	X
Changes in accounting policy	(X)			(X)	(X)
Restated balance	X	X	X	X	X
Surplus on revaluation of Property		X			X
Deficit on revaluation of Investment		X			X
Currency translation differences			X		X
Net gains and losses not recognized in the statement of financial performance		X	(X)		X
Net surplus for the period				X	X
Balance at 31 December 2009	X	X	(X)	X	X
Deficit on revaluation of Property		(X)			(X)
Surplus on revaluation of investments		X			X
Currency translation Differences			(X)		X

Net gains and losses not recognized in

The statement of financial performance (X) (X)

(X)

Net surplus / (deficit) deficit for the period (X)

(X)

Balance at 31 December 2010 X X (X) X X

Cash Flow Statements

IPSAS 2:

The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period. And the cash balance as at the reporting date. This standard requires the provision of information about the historical changes in cash and cash equivalents of an entity by means of cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

An entity which prepares and presents financial statement under the accrual basis of accounting should prepare a cash flow statement in accordance with the requirement of this standard and should present it as an integral part of its financial statement for each period for which financial statement are presented.

This Standard applies to all public sector entities other than Government Business Enterprises.

Information about the cash flow of an entity is useful in assisting users to predict the future cash requirements of the entity, its ability to generate cash flows in the future and to fund changes in the scope and nature of its activities.

A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its

financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.
Historical cash flow information is often used as an indicator of the amount, timing and certainly of future cash flow. It is also useful in checking the accuracy of past assessments of future cash flows.

Meaning of Some Basic Terms:

Cash comprises cash on hand and demand deposits

Cash equivalents are short-term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

Cash flows are inflows and outflows of cash and cash equivalents

Cost method is a method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated net surpluses of the investee arising subsequent to the date of acquisition.

Cash equivalents are held for the purposes of meeting short-term commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are:

Operating activities are the amount of net cash flows arising from operating activities which is a key indicator of the extent to which the operations of the entity are funded:

i. By way of taxes (directly and indirectly); or
ii. From the recipients of goods and services provided by the entity

Investing activities show the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are: cash payments to acquire property, plant and equipment, intangibles and other long-term assets.

These payments include those relating to capitalized development costs and self-constructed property, plant and equipment, cash receipts from sales of property, plant and equipment, intangibles and other long-term assets.

Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes). Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes).

Financing activities show cash flows arising from future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are: Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowing. Cash repayments of amounts borrowed and Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

An entity should report cash flows from operating activities using either:

i. The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed: or
ii. The indirect method, whereby net surplus or deficit is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.

Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged and may include:

i. The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restriction on the use of these facilities;
ii. The aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation and
iii. The amount and nature of restricted cash balances.

Format

Direct Method – Cash Flow Statement

Entity XYZ – Consolidated Cash Flow Statement for Year Ended 31 December 2011

	2011	**2010**
	N'**000**	N'**000**
Cash Flow from Operating Activities		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	X	X

Cash Flows from Investing Activities

Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investment	X	X
Proceeds of foreign currency securities	(X)	(X)
Net cash flows from investing activities	(X)	(X)
Cash flows from financing activities		
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)
Net cash flows from financing activities	X	X
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	X	X
Cash and cash equivalents at end of period	X	X

Notes to the Cash Flow Statement

a. **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and balance with bank and investments in money market instrument. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

	2011	2010
	N'000	N'000
Cash on hand and balance with banks	X	X
Short-term investments	X	X
	X	X

b. Reconciliation of Net Cash Flows from Operating Activities to Net Surplus/(Deficit) from Ordinary Activities (in thousands of Naira)

Reconciliation of net Cash Flows From Operating Activities to Net Surplus/(Deficit) form Ordinary Activities

	2011	2010
	N'000	N'000
Surplus/(deficit) from ordinary activities	**X**	**X**
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/Losses on sale of property, plant and equipment	(X)	(X)
(Gains)/Losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investment due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Extraordinary item	(X)	(X)
Net cash flows from operating activities	(X)	(X)

Indirect method – Cash Flow Statement

ENTITY xyz Consolidated Cash Flow State for Year Ended 31 December 2001

	2011	2010
	N'000	N'000
Surplus/(deficit) from ordinary activities	**X**	**X**
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/Losses on sale of property, plant and equipment	(X)	(X)

(Gains)/Losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investment due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Extraordinary item	(X)	(X)
Net cash flows from operating activities	X	X
Cash Flow from Investing Activities		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	(X)	(X)
Cash Flows from Financing Activities		
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)

Notes to the Cash Flow Statement

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balance with banks and investments in money market instruments. Cash and cash equivalents include in the cash flow statement comprise the following statement of financial position amounts:

	2011	**2010**
	N,000	**N,000**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

15.08 Adoption of IPSAS in Nigeria and Its Benefits

The preparation and presentation of financial statements at each level of government in Nigeria, namely Federal, State and Local Governments is necessary for the evaluation of the performance of government and achievement of its overall goal of improving the lives of the citizenry. In addition, relevant, reliable, comparable, objective, timely and comprehensive financial statements are necessary for maximally achieving the objectives of public financial accounting and reporting, which include:

i. supporting management planning and decisions,
ii. promoting efficiency,
iii. enhancing budget and budgetary control,
iv. determining the results of government operations,
v. reducing wastages and frauds,
vi. enhancing financial administration and treasury management,
vii. Aiding performance evaluation and ensuring regular flow of adequate, complete and reliable information.

However, achievement of these objectives has not been possible under the present cash basis accounting in the Nigeria.

Sequel to this, the Federal Executive Council (FEC) at its meeting of 28th July, 2010 approved that the Country should adopt the provisions of the International Financial Reporting Standards (IFRSs) and International Public Sector Accounting Standards (IPSASs) for Private and Public Sectors respectively. Subsequently, decision was taken to transit from the cash based IPSASs which Nigeria adopted in 2014 to accrual based IPSAS come January 2016. The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world.

In order to enhance effective adoption and implementation of IPSAS in Nigeria, the Sub-Committee of FAAC has developed the following for all government establishments in Nigeria:

i. Uniform National Chart of Account and User manual for the chat
ii. Uniform accounting policies

iii. Uniform budget templates that align with IPSAS
iv. Format of general purpose financial statements for both cash accrual basis of IPSAS.

Benefits of IPSASs Adoption in Nigeria

a. Serve as foundation for the preparation of quality financial statements and adequate reporting system in Nigeria Public Sector.
b. Provide the basis for the establishment of a harmonized budgetary system for the three tiers of government.
c. Enhance the country's eligibility to access economic benefits from donor agencies, private sector, Financial Institutions and Worldwide Financial Institutions such as the World Bank.
d. The preparation of the country's financial statement using IPSAS which is an international standard would definitely encourage investors into the country.
e. Expose the in-house corrupt practices of some of the public officers thereby deterring them from such act.
f. Enhance better service delivery in the public sector, support efficient internal control and bring into focus the performances of the agencies.
g. Enhance creditability of government financial information and help build confidence of Nigerian citizens and Nigeria development partners both within and abroad.
h. Enhance access of information to the public thereby promoting the aims of freedom of information Act 2011 and facilitating the expression of individuals' opinion on government activities.
i. Would enhance comparability of Nigeria Financial Statement with that of other countries of the world

Challenges to IPSASs Adoption and their Remedies

Some of the challenges to IPSASs adoption in Nigeria are as follows:

i. Lack of proper skills and capabilities of preparers of government financial statement to implement IPSASs
ii. Low level of public awareness by relevant government agencies and other stakeholders on IPSAS adoption

iii. Inadequate legal backing and effect of existing law on the smooth transition to IPSAS

iv. Dissimilarities in the structure of public sector accounting among the tiers of government

v. High level of reluctance and resistance in accepting change by the public servants

vi. Cost of training personnel, writing of new accounting manuals, installation of adequate Information and communication technology software for the programme

vii. Porous economy permeated by corruption

viii. Apparent complexities in IPSASs

The remedies to these challenges include

i. Training and retraining of accountants in the civil service to enhance their capacity

ii. Greater public awareness by Financial Reporting Council of Nigeria [FRCN] on IPSASs adoption and its benefits

iii. Adequate legal backing through amendment of Finance Control and Management Act and harmonize the Financial Regulations and Treasury Manual of the Federal Government of Nigeria (FGN), Financial Instruction of states and Financial Memoranda of the local governments into one Public Financial Management regulations.

iv. Ensuring uniformity in charts of accounts, accounting policies, budget and preparation of financial statement

v. Corruption needs to be Effective and strategically addressed

vi. Implementation should be in phases to enable government cope with the costs on adoption.

viii. Continuous sensitization of public sector accountants and finance officers by the Federal Ministry of Finance, office of Accountant General of the Federation, Financial Reporting Council of Nigeria and Management of Ministries, Departments and Agencies.

ix. There is the need for thorough GAAP analysis by the FRCN to enhance comprehension by public sector accounts

x. Accounting manual need to be written to be able to incorporate IPSAS terminologies and other

15.09 Review Questions

1. To develop its IPSASs, the IPSASB actively draws on extant IFRSs and IASs as a basis. Which one of the below statements is incorrect with regard to this process?

a. The IPSASB considers if there are any public sector issues within any given IFRS that warrants departure for the public sector.

b. The IPSASB can use an existing IFRS or IAS as the basis for developing an IPSAS.

c. The IPSASB considers financial reporting subject matters that are public sector specific and for which there is no underlying IF RS/IAS.

d. The majority of IPSASs are an exact copy of the underlying IFRSs or IASs.

2. Comparability is an enhancing qualitative characteristic which adds to the usefulness of financial statements. Discuss.

Required:

Explain what is meant by the term “comparability” in financial statements, referring to TWO types of comparison that users of financial statements may make.

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