

ACC418 Public Sector Accounting and Finance

COURSE DEVELOPMENT

ACC 418

PUBLIC SECTOR ACCOUNTING AND FINANCE

COURSE GUIDE

Course Developer/ Unit Writer

Adapted by:

Course Editor:

Programme Leader:

Course Coordinator:

ICAN Study pack

Mr. E. U. Abianga NOUN,

Dr. I.D. Idrisu NOUN

Dr. I.D. Idrisu NOUN

Mr. E. U. Abianga NOUN

CONTENT

1.0 INTRODUCTION

ACC 418- Public Sector Accounting and Finance is designed to give you self instruction to you as you study Bachelor of Science (B. Sc) in Accounting. It is adapted from the Institute of Chartered Accountants of Nigeria study materials to prepare you for your B. Sc Accounting examination of School of Management Sciences of the National Open University of Nigeria .

2.0 COURSE AIM

The aim of this course is to explain broadly public sector accounting and finance approaches and developments.

3.0 COURSE OBJECTIVES

By the end of this course, you should be able to:

- Understand the legal frameworks and the financial authorities used in the Public Sector.
- Describe the accounting concepts, Fund accounting, Concepts and various Professional pronouncements on Government Accounting
- Identify the various revenue inflows to the federated account and consolidated revenue fund, their differing characteristics and interaction with each other.
- Evaluate the Financial Management Cycle in Federal, State and Local Governments and explain the main public expenditure votes- Personnel Emolument, Overheads and Capital Votes and the rules guiding disbursement.
- Prepare Financial Statements for Parastatals based on enabling laws setting each up and explain the procedure of accounting for the fund allocated to each of them.
- Analyze economic environment in respect of sources of revenue and capital receipts, debt management strategies and project appraisal in relation to medium term expenditure framework.

COURSE CONTENT

Constitutional and regulatory framework of public sector accounting, Government Accounting concepts and pronouncements, Sources of government revenue, Financial management cycle in federal, state and local government, Accounting for public sector organizations, authorities, parastatals, boards, corporations, agencies and tertiary educational institutions, public finance

4.0 WORKING THROUGH THIS COURSE

This course, ACC418 Public Sector Accounting and Finance expects you to do a lot of reading and practicing, in order to cover the materials in the course material. This means that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals. These abound in every library and from the internet. The course material has been made easy to read and user-friendly. You will need to work in groups with other students in order to discuss, compare notes and thoughts as well as to exchange and share ideas. Below are the lists of all the components of the course:

5.0 COURSE MATERIALS

The National Open University of Nigeria will provide you with the following items:

- Course Guide
- Study Units- Course material
- TMA Assignments

In addition, at the end of every unit, is a list of texts for your references and for further reading. It is not compulsory for you to read all of them. They are only essential supplements to this course material.

6.0 STUDY UNITS

The study units in this course are as follows:

MODULE I: INTRODUCTION TO PUBLIC SECTOR ACCOUNTING AND FINANCE

- Unit 1: Introduction to Public Sector Accounting and Finance
- Unit 2: Powers and functions of Finance officers
- Unit 3: Sources of Government Revenue
- Unit 4: Authorization of Government Expenditure
- Unit 5: Expenditure Control

MODULE II: CASH OFFICE, TREASURY AND STORES

- Unit 1: Preparation of Vouchers
- Unit 2: Functions of the Cash office
- Unit 3: Preparation of monthly Transcripts of a self accounting unit
- Unit 4: Treasury final accounts
- Unit 5: Stores and store accounting

MODULE III: GOVERNMENT ACCOUNTING

- Unit 1: Accounting requirements for Local Government
- Unit 2: Budgeting and Budgetary controls

- Unit 3: Government construction contracts and procurement
- Unit 4: Auditing of Government Accounts and audit alarm committee
- Unit 5: Government Advances

MODULE IV: PENSION, GRATUITY, INVESTMENT APPRAISAL & ACCOUNT INTERPRETATION

- Unit 1: Pension and Gratuity
- Unit 2: Treasury internal control questionnaires
- Unit 3: Professional pronouncements on Government accounting
- Unit 4: Investment appraisal in the Public Sector
- Unit 5: Interpretation of Accounts, cash flow and value-added statement

MODULE V: PUBLIC FINANCE AND PUBLIC ENTERPRISE ACCOUNTING

- Unit 1: Parastatal and public enterprise accounting
- Unit 2: Public Finance
- Unit 3: Public debt and its management in Nigeria
- Unit 4: Ethical issues in Public Sector accounting and finance
- Unit 5: Towards national fiscal responsibility

Module 1:

Unit 1- deals with the general introductory aspects of Public Sector Accounting and Finance, its objectives as well as the various users of Public Sector Accounting and Finance information. The chapter also deals with the constitutional and regulatory framework under which Public Sector Accounting and Finance operates and the various concepts and principles which are applicable to it.

Unit 2- discusses various powers and functions of Finance Officers comprehensively. Particular reference is made to the office of Accountant- General of the Federation as the custodian of the Federal Government's finances. This unit contains a detailed list and definitions of terms commonly used in Public Sector Accounting and Finance.

Unit 3- deals with the various sources of revenue to the Federation and the Federal Government. It also discusses the operation of the Federation Account, the consolidated Revenue Fund (and charges thereto), the Capital Development Fund and the contingency Fund. The application of the Revenue Allocation formula is also treated in this unit

Unit 4- discusses the authorization of a Government Expenditure by means of Financial Warrants which are categorized into Recurrent and Capital Expenditure Warrants. The issues of revenue control as well as the classification of funds in the context of the Public Sector are also treated.

Unit 5- discusses expenditure control by the various levels of Government in order to ensure proper accountability in Government finances. The learners will also be able to appreciate the type of controls put in place by the Executive, the Legislature, the Ministry of Finance and the Treasury.

Module 2:

Unit 1- covers the essential feature of payment vouchers as instrument of financial control to enable learners to appreciate the different types of vouchers in use in Government.

Unit 2- the subject matter is the importance of cash office in the accounting for and control of Government funds. Learners will be able to know the various records and books used in the cash office, the mode of keeping them and the importance of prompt preparation of bank reconciliation statements in the control of Government funds.

Unit 3- deals with the preparation of monthly 'Transcript' of a Self-Accounting Unit. The term 'Transcript' and the procedure for preparing it have been carefully explained. Learners will be able to as Self-Accounting Units and the obvious advantages and disadvantages of operating these units.

Unit 4- reviews the organ gram of the office of Accountant- General of the Federation. It goes further to give details of the various statement prepared by the Accountant- General of the Federation and the new reporting formats stipulated by the International Federation of Accounting (IFAC)

Unit 5- discusses stores and Store Accounting in the context of Public Sector operations. The various classifications of stores and the store accounting procedures have been comprehensively treated. Procedures to be adopted in relation to loss of stores have also been treated in the unit, with emphasis on the composition and functions of the Board of Survey and the Board of enquiry.

Module 3:

Unit 1 covers comprehensively the constitutional framework for the operations of the Local Government. Learners will also learn about the various sources of revenue of Local Governments and the nature of their expenditure. The accounting procedures and the nature of their expenditure and formats of a Local Government Cash Flow Statement, Revenue and Expenditure Statements of Assets and Liabilities have been given. The peculiar problems of this third-tier of Government have also been highlighted in the unit.

Unit 2- discusses comprehensively the concept of budget and the various types of budgets applicable in the Public Sector. It goes to emphasize why the traditional method of preparing budget is still practiced in Nigeria. The procedures for preparing and approving budget under the Presidential System of Government have been well explained

Unit 3- discusses the procedure for awarding contracts for construction works, goods and consultancy services. It discusses the operation of the Public Procurement Act, 2007, the implementation of the Due Process Guidelines, the e-payment as well as the spending limits of government officers and organizations

Unit 4-discusses the various types of audit that are applicable in the Public Sector with emphasis on what makes audit an effective tool of financial control. The nature and composition of the Audit Alarm Committee as well as what audit queries are all about have been carefully explained. The unit also explains the procedures for carrying out investigations in the Public Sector.

Unit 5- A comprehensive treatment of the various types of advances that are available to Government employees and the conditions that must be fulfilled by employees who desired to obtain them are given in this unit

Module 4:

Unit 1- discusses the objectives and methods of transfer pricing system. The merits and demerits of the methods are discussed. It also discussed the factors to be considered when setting transfer prices for multinational transactions and the nature and meaning of dual transfer pricing system.

Unit 2- discusses the objective of price decision and factors affecting it. It also discusses the relationship between selling price, various pricing methods and their application; the use of differential calculus to find optimum price and the different pricing policies.

Unit 3- discusses the concept of ratio analysis and explains the benefits and limitations of ratio analysis. The computation of various ratios including value added ratio.

Unit 4- discusses the concept of cost control and cost reduction. It also discusses the main differences and limitations between cost control and cost reduction; the scope and factors of cost reduction. The various cost techniques are also discussed.

Unit 5- discusses current trend in management accounting involving the following: advanced management technology, total quality management, throughput accounting, back-flush accounting, target costing, lifecycle costing, teardown accounting analysis and strategic management accounting

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7.0 ASSESSMENT

There are two aspects to the assessment of the course: first is the tutor-marked assignment; and secondly, the examination. Within each unit are self-assessment exercises, which are aimed at helping you to check your assimilation as you proceed. Try to attempt each of the exercises before finding out the expected answers from lecture.

8.0 TUTOR-MARKED ASSIGNMENT (TMAS)

This is your continuous assessment and accounts for 30% of your total score. You are expected to answer at least four TMA's, three of which must be answered and submitted before you sit for the end of course examination.

9.0 FINAL EXAMINATION AND GRADING

With this examination written successfully, you have completed your course in Basic research and one believes you would apply your knowledge (new or up-graded) in your project. The 'end of course examinations' would earn you 70% which would be added to your TMA score (30%). The time for this examination would be communicated to you.

10.0 HOW TO GET THE BEST FROM THIS COURSE

In distance learning, the study units are specially developed and designed to replace the conventional lectures. Hence, you can work through these materials at your own pace, and at a time and place that suits you best. Visualize it as reading the lecture.

This is one of the great advantages of distance learning. You can read and work through specially designed study materials at your own pace, and at a time and place that suits you best.

Think of it as reading the lecture that a lecturer might set you some readings to do, the study unit will tell you when to read other materials. Just as a lecturer might give you an in-class exercise, your study units provide exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole.

Next is a set of learning objectives. These objectives allow you to know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from a *Reading Section* of some other sources.

Self-tests are interspersed throughout the end of units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-test as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.

The following is a practical strategy for working through the course.

- (1) Read this course guide thoroughly.
- (2) Organize a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information e.g. details of your tutorials, and the date of the first day of the semester will be made available. You need to gather all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.
- (3) Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.
- (4) Turn to unit 1 and read the introduction and the objectives for the unit.
- (5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your references, on your desk at the same time.

- (6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the units, you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.
- (7) Review of the objectives for each study unit and confirm that you have achieved them. If you feel you are not clear about any of the objectives, review the study material or consult your tutor.
- (8) When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to face your study so that you keep yourself on schedule. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in the Course Guide).
- (9) You now take the e-TMA online
- (10) After completing the last unit, review the course and prepare yourself for the final examination.

11.0 SUMMARY

This course ACC 418 is designed to give you some knowledge which would help you to understand public sector accounting and finance. After going through this course successfully, you would be in a good position to pass your examination at the end of the semester and use the knowledge gained to function in accounting and help you to contribute to the development of scholarly thoughts in public sector accounting and finance.

We wish you success in this interesting course and hope you will use what you have learnt in this Bachelor of Science in Accounting to contribute to your organization and the society at large. We also hope you would appreciate the unique role and opportunity you have to make a difference in using the knowledge derived from this course in solving problems.

We, therefore, sincerely wish you the best as you enjoy the course.

GOOD LUCK.

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TABLE OF CONTENT

Pages

MODULE I: INTRODUCTION TO PUBLIC SECTOR ACCOUNTING AND FINANCE

Unit 1:	Introduction to Public Sector Accounting and Finance-----
Unit 2:	Powers and functions of Finance officers-----
Unit 3:	Sources of Government Revenue-----
Unit 4:	Authorization of Government Expenditure-----
Unit 5:	Expenditure Control -----

MODULE II: CASH OFFICE, TREASURY AND STORES

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Unit 5:	Government Advances-----

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Unit 3:	Professional pronouncements on Government accounting-----
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MODULE 1

Unit 1	Introduction to Public Sector
Unit 2	Finance Officers of Government
Unit 3	Sources of Government Revenue
Unit 4	Authorization of Government Expenditure, Control of Government Revenue and Fund Accounting
Unit 5	Expenditure Control

UNIT 1 INTRODUCTION TO PUBLIC SECTOR ACCOUNTING & FINANCE

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Objectives of Public Sector Accounting
3.2	Users of Public Sector Accounting Information
3.2.1	The Importance of Public Sector Accounting Information to Users
3.3	The Constitutional and Regulatory Framework of Public Sector Accounting
3.4	Concepts and Principles Applicable To Public Sector Accounting and Finance
3.5	Bases of Public Sector Accounting
3.5.1	The Cash Basis
3.5.1.1	Advantages of Cash Basis
3.5.1.2	Disadvantages of the Cash Basis
3.5.1.3	Modified Cash Basis
3.5.2	Accrual Basis
3.5.2.1	Advantages of Accrual Basis
3.5.2.2	Disadvantages of Accrual Basis
3.5.2.3	Modified Accrual Basis
3.5.3	Commitment Basis
3.5.3.1	Advantages of Commitment Basis
3.5.3.2	Disadvantages of Commitment Basis
3.6	Comparison between Government Accounting and Private Sector Accounting
4.0	Conclusion

- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

Public Sector Accounting (ACC 310), introduced the simplest definition of 'Public Sector' is "all organisations which are not privately owned and operated, but which are established, run and financed by Government on behalf of the public." As implied, this definition conveys the idea that the public sector consists of organisations where control lies in the hand of the public, as opposed to private owners, and whose objectives involve the provision of services, where profit making is not a primary objective. Performance measurement in the public sector is hindered by the lack of profit motive, multiple objectives and presence of intangible services whose benefits are difficult to quantify.

Government Accounting is composite activities of analyzing, recording, summarizing, reporting and interpreting the financial transactions of Government Ministries, Departments and Agencies.

R A Adams (2004) in his book "Public Sector Accounting and Finance Made Simple" defines Public Sector Accounting as "a process of recording, communicating, summarizing, analyzing and interpreting Government financial statements and statistics in aggregate and details; it is concerned with the receipts, custody and disbursement and rendering of stewardship on public funds entrusted".

The above definition shares some features with the universally accepted definition of financial accounting. Accounting is universal, whether in Government, private or public limited liability companies. The essential requirement is to record all historical costs and income, which when processed further, become useful information necessary for current appraisal, future decision-making and performance control.

In this unit, you would be made to understand the objectives, users of public sector accounting information and the constitutional/regulatory framework governing it.

2.0 OBJECTIVES

After studying this unit, readers would be able to:

- Understand the objectives of Public Sector Accounting.
- Identify the various users of Public Sector Accounting information.

- Have good grasp of the constitutional and regulatory framework as well as the concepts, principles and bases of Public Sector Accounting.

3.0 MAIN CONTENT

3.1 Objectives of Public Sector Accounting

The main purposes of Public Sector Accounting are:

- (a) Ascertaining the legitimacy of transactions and their compliance with the established norms, regulations and statutes.
- (b) Providing evidence of stewardship.
- (c) Assisting planning and control.
- (d) Assisting objective and timely reporting.
- (e) Providing the basis for decision-making.
- (f) Enhancing the appraisal of the efficiency of management.
- (g) Highlighting the various sources of revenue receivable and the expenditure to be incurred.
- (h) Identifying the sources of funding capital projects.
- (i) Evaluating the economy, efficiency and effectiveness with which Public Sector Organisations pursue their goals and objectives.
- (j) Ensuring that costs are matched by at least equivalent benefits accruing therefrom.
- (k) Providing the details of outstanding long-term commitments and financial obligations.
- (l) Providing the means by which actual performance may be compared with the target set.
- (m) Proffering solutions to the various bottlenecks and/or problems identified.

A further analysis of the most significant objectives of Public Sector Accounting enumerated above is as follows:

- (a) Determining the legitimacy of transactions and their compliance with the statutes and accepted norms: Public Sector disbursements should accord with the provisions of the Appropriation Acts and Financial Regulations. There should be due authorisations for all payments so as to avoid the commission of acts of misappropriation.
- (b) Providing evidence of stewardship: The act of rendering stewardship is being able to account transparently and diligently for resources entrusted. Government and Public Sector operators are obliged to display due diligence and sense of probity in the collection and disposal of public funds.

- (c) Assisting planning and control: The future faces a lot of risks and uncertainties. Mapping out plans prevents an organisation from drifting. Plans of actions provide the focus of activities which are being pursued. The unforeseen circumstance is built into plans so as to prevent or at least reduce corporate failure. Public Sector establishments should act in accordance with the 'mandate theory of governance. Control measures are adjuncts to skilful planning. They assist in avoiding unnecessary deviations from the pursuit of the original objectives set.
- (d) Ensuring objective and timely reporting: Users of Public Sector Accounting information are anxious to bridge their knowledge gaps of what Government is doing. They definitely treasure prompt and accurate statistics to evaluate the performance of Government.
- (e) Evaluating the costs incurred and the benefits derivable: In Public Sector Organisations, it is difficult to measure costs and benefits in financial terms in all respects. The analysis of Cost-Benefit assesses the economic and social advantages (benefits) and disadvantages or inconveniences (costs) of alternative courses of actions, to ensure that the comfort of the citizens is well catered for.

Self-assessment exercise

List the objectives of Public Sector Accounting

3.2 Users of Public Sector Accounting Information

The users of Public Sector Accounting information may be discussed under the following two categories:

- (a) Internal Users - This group is made up of:
 - (i) The Executive, such as the President of the Federal Republic of Nigeria, the Governors of the States and Chairmen of the Local Government Councils.
 - (ii) The Federal Ministers and State Commissioners.
 - (iii) Top Administrators of Government Departments, e.g. The Permanent Secretaries and Directors.
 - (iv) The General Managers and Chief Executives of Parastatals such as Power Holding Company of Nigeria (PHCN) and the Nigeria Ports Authority (NPA).
 - (v) Subordinates who oil the administration wheels.
 - (vi) The organised labour unions in the public service.

- (b) External Users- This group comprises:
 - (i) The National Assembly.
 - (ii) The members of the public.
 - (iii) Governments, apart from the one that is rendering the report.
 - (iv) Foreign countries.
 - (v) Foreign financial institutions such as International Monetary Fund and World Bank.
 - (vi) Creditors, both local and foreign.
 - (vii) Researchers.
 - (viii) Political parties, trade unions and Civil Liberty Organisations.

Self-assessment exercise

Identify the users of Public Sector Accounting information

3.2.1 The Importance of Public Sector Accounting Information to Users

The internal users require accounting information in order to ascertain the various levels of regulatory compliance and whether actual expenditure is in accordance with the budget. They like to ascertain whether or not adequate safeguards are available for the protection of public resources. Conversely, the external users require accounting information to ascertain the financial viability of the public sector organisations and the efficiency and effectiveness of management.

3.3 The Constitutional and Regulatory Framework of Public Sector Accounting

Public Sector Accounting is governed by the following regulatory framework:

- (a) **Nigerian Constitution:** The 1999 Constitution of the Federal Republic of Nigeria is one of the legal frameworks that regulate the receipts and disbursements of public funds.
- (b) **Audit Ordinance of 1956 or Act of 1956:** Section 13, sub- sections 1 - 3 mandate the Accountant-General of the Federation to furnish the Auditor-General for the Federation with the country's financial statements. The Auditor-General shall within 60 days of receipt of the Accountant-General's financial statements submit his report to each House of the National Assembly.
- (c) **Finance (Control & Management) Act of 1958. Cap 144, 1990.** This governs the management and operation of government funds. It regulates the accounting system, the books of accounts to be kept and the procedures to be followed in the preparation of accounts and financial statements.

- (d) **Financial Regulations:** These are the accounting manual of Government Ministries! Extra-Ministerial Departments which deals with financial and accounting matters. They set out the procedures and steps to be followed in treating most of Government transactions.
- (e) **Finance/Treasury Circulars:** These are administration tools which are used to amend the existing provisions of Financial Regulations, Public Service rules and the introduction of new policy guidelines.
- (f) **Public Procurement Act, 2007**
This is an Act which establishes the National Council on Public Procurement (NCP) and the Bureau of Public Procurement (**BPP**) as the regulatory authorities responsible for the monitoring and oversight of public procurement, harmonising the existing government policies by regulating, setting standards and developing the legal framework and professional capacity for public procurement in Nigeria. The Act sets standards for organising procurements, methods of procurement of works, goods, consultancy and non-consultancy services as well as the procurement approval thresholds for the Bureau of Public Procurement, Tenders Boards and Accounting Officers for all Ministries, Departments and Agencies.
- (g) **Fiscal Responsibility Act, 2007**
This Act provides for the prudent management of the Nation's resources, ensures long-term macro-economic stability of the national economy, secures greater accountability and transparency in fiscal operations within a medium-term fiscal policy framework, and the establishment of the Fiscal Responsibility Commission to ensure the promotion and enforcement of the Nation's economic objectives. The Act emphasises the preparation of Medium-Term Expenditure Framework, Annual Budget, Budgetary Execution and Achievement Targets, Collection of Public Revenue, Public Expenditure, Debt and Indebtedness, Borrowing, Transparency and Accountability.

The sections of the Constitution quoted above authorise the receipts and payments of Government, the allocation of revenue, the audit of public accounts and other financial matters. For ease of reference, some specific sections of the 1999 Constitution and their provisions are listed below:

- | | |
|------------|---|
| Section 80 | - Establishment of the Consolidated Revenue Fund (CRF) |
| Section 81 | - Authorisation of expenditure from the CRE |
| Section 82 | - Authorisation of expenditure in default of appropriations |
| Section 83 | - Establishment of the Contingencies Fund |
| Section 84 | - Remuneration of Statutory Officers |

Section 84(4)	- Comprehensive list of Statutory Officers
Section 85	- Audit of public accounts
Section 86	- Appointment of the Auditor-General for the Federation
Section 87	- Tenure of office of the Auditor-General for the Federation
Section 88	- Power to conduct investigation by the National Assembly
Section 89	- Power as to matters of evidence.
Section 149	- Declaration of assets and liabilities and oaths of office
Section 153	- list of Statutory Commissions.
Section 162	- Establishment of the Federation Accounts
Section 163	- Allocation of other revenue
Section 164	- Federal grants-in-aid of State revenue

Other laws guiding Public Sector Accounting and Finance include the Pension Reform Act of 2004, The Independent Corrupt Practices and Other Related Offences Commission (ICPC) Act of 2000, Economic and Financial Crimes Commission (Establishment) Act, 2002, Appropriation Acts, Code of Conduct Bureau and Tribunal Act, 1991 and Money Laundering Act, 1995.

The Financial Regulations are powerful control tools used in the public sector fund management. They are the accounting manual of the three tiers of Government designed to guide the management of public funds. The rules spell out the system concerning the receipts and disbursements of funds and the procedures to ensure good accountability, prevention and early detection of frauds and errors and other financial malpractices.

Self-assessment exercise

In your own words, what governs the regulatory framework of Public Sector Accounting?

3.4 Concepts and Principles Applicable To Public Sector Accounting and Finance

Concepts have been defined as broad basic assumptions which underlie the preparation of financial statements of an enterprise. Public Sector Accounting is an integral but separate branch of Financial Accounting, sharing in common many concepts and principles applicable in the private sector. These concepts include: Consistency, Materiality, Periodicity, Duality, Entity, Historical Cost and Going Concern.

3.5 Bases of Public Sector Accounting

There are three bases under which the financial statements of a public sector enterprise are compiled. These are:

- (a) The cash basis.

- (b) The accrual basis.
- (c) The commitment basis.

3.5.1 The Cash Basis

It is the basis of accounting under which revenue is recorded only when cash is received, and expenditure recognised only when cash is paid, irrespective of the fact that the transactions might have occurred in the previous accounting period. Non-Accountants such as General Managers of Government Corporations and Police Superintendents are often called upon to perform some accounting duties or supervise bookkeeping work. Such people need a simple method, which can be operated easily.

3.5.1.1 Advantages of Cash Basis

The advantages of this basis include the following:

- (a) It is simple to understand.
- (b) It eliminates the existence of debtors and creditors.
- (c) It permits easy identification of those who authorize payments and collect revenue.
- (d) It allows for comparison between the amount provided in the budget and that actually spent.
- (e) It saves time and is easy to operate.
- (f) It permits the delegation of work in certain circumstances.
- (g) The cost of fixed assets is written off in the year of purchase, resulting in fewer accounting entries.

3.5.1.2 Disadvantages of the Cash Basis

- (a) It takes unrealistic view of financial transactions as only the settlement of liabilities is recognised. For example, there are five stages through which a spending decision passes. These are:
 - (i) Issue of order or contract for the supply of goods or services.
 - (ii) Supply of goods or services - acknowledgment of liability.
 - (iii) Settlement of the amount of the good or service received.
 - (iv) Consumption of value.

The cash basis of accounting records only stage (iii) while the accrual basis takes care of stages (ii), (iii) and (iv). The commitment basis records stages (i) to (iv).
- (b) It does not provide for depreciation since assets are written off in the year of purchase.
- (c) It does not convey an accurate picture of the financial affairs at the end of the

- year.
- (d) The cash basis cannot be used for economic decisions as it tends to hide basic information. For example, some of the missing information relate to fixed assets, debtors and creditors.
 - (e) It does not accord with the 'matching concept.'

3.5.1.3 Modified Cash Basis

Under this basis, the books of accounts are left open for a maximum of three months after the end of the year, so as to capture substantial amount of income or expenses relating to the year just ended.

3.5.2 Accrual Basis

Under this basis, revenue is recorded when earned and expenditure acknowledged as liabilities when known or benefits received, notwithstanding the fact that the receipts or payments of cash have taken place wholly or partly in other accounting periods. Accrual basis is practised in the private sector and all parastatals such as Power Holding Company of Nigeria (PHCN) and Customs Services. The reason for this is that private sector concerns are profit-oriented. It is therefore necessary to estimate how much profit has been earned in each period, with a view to keeping invested assets intact and making periodic distributions to shareholders by way of dividends. In the public sector, the main consideration is the enhancement of the standard of living of the people.

3.5.2.1 Advantages of Accrual Basis

The advantages of this basis can be summarised as follows:

- (a) It takes a realistic view of financial transactions.
- (b) It reveals an accurate picture of the state of financial affairs at the end of the period.
- (c) It could be used for both economic and investment decision-making as all parameters for performance appraisal are available.
- (d) It aligns with the 'matching concept.'
- (e) It makes allowances for the diminution in the value of assets used to generate the revenue of the enterprise.

3.5.2.2 Disadvantages of Accrual Basis

- (a) It is very difficult to understand, especially by Non-Accountants.
- (b) It does not permit easy delegation of work in certain circumstances.

3.5.2.3 Modified Accrual Basis

This is the basis under which revenue is recorded when received and not earned while expenditure is recorded once its liability is incurred. It means that cash basis is used for recording revenue while accrual basis is adopted for expenditure.

The modified accrual basis operates as follows:

- Revenue is recorded when cash is received, except for:
 - (a) Revenue which is susceptible to accrual, and
 - (b) Revenue of a material amount which has not been received at the normal time it should.
- Expenditure is recorded on accrual basis, except in the cases of:
 - (a) Disbursements for inventory items which may be considered as expenditure at the time the items are utilised.
 - (b) Interest on long-term debt commonly accounted for in debt service funds, and recorded as expenditure on its due date.

3.5.3 Commitment Basis

It is a basis that records anticipated expenditure evidenced by a contract or a purchase order. In public sector financing, budgetary and accounting systems are closely related to the commitment basis.

3.5.3.1 Advantages of Commitment Basis

Commitment accounts kept on a memorandum basis have several advantages. These include:

- (a) A separate payment tabulation is available when required.
- (b) Adjustment occurring when actual expenditure has been obtained does not affect the final accounts.
- (d) It is an aid to financial control. A commitment is regarded as a char It takes a realistic view of financial transactions.
- (e) It reveals an accurate picture of the state of financial affairs at the end of the period.
- (f) It is used for both economic and investment decision-making, as all parameters or performance appraisals are available.
- (g) It aligns with the 'matching concept.
- (h) It makes allowance for the diminution in the value of assets employed to generate the revenue of the enterprise.

3.5.3.2 Disadvantages of Commitment Basis

The system of Commitment Basis of Accounting has the following disadvantages:

- (a) The system involves extra work. Actual figures have to be substituted for the commitment provisions to finally determine the running balances under the sub-heads of expenditure.
- (b) Over-expenditure is more under commitment basis in the expectation that Government may finally release fund to settle the legal obligations.
- (c) At the year end, all commitments that are the subject of unfulfilled orders will have to be written back to reflect the exact picture of the transactions which took place during the year.
- (d) Balances which ought to have lapsed in the Vote Book at the end of the year may be spent by issuing local purchase orders to exhaust the votes.

3.6 Comparison between Government Accounting and Private Sector Accounting

- (a) The main objective of a commercial enterprise is to maximize profit while that of Government is to provide adequate welfare to the people at the reasonable costs.
- (b) Government revenue is derived from the public in the form of taxation, fines, fees etc., whereas business concerns obtain their income principally from the sales of goods and services.
- (c) In Government, financial transactions are recorded on 'cash basis' while in commercial organizations, it is on accrual basis.
- (d) In Public Sector Accounting, tangible fixed assets such as land and building, plant and machinery are not shown in the balance sheet, whereas in private sector accounting these are reflected, showing the historical cost, accumulated depreciation and the net book value of each.
- (e) In Public Sector Accounting, current assets such as stocks and debtors are not shown in the balance sheet. Debtors and creditors are not reckoned with until money is received or paid. The current assets and current liabilities are shown in private sector accounting system.
- (f) In Government there is no Annual General Meeting of stakeholders/ shareholders, unlike the situation with commercial enterprises. What Government does is to hold public briefing on specific issues.
- (g) In Public Sector Accounting, what operates substantially is fund accounting. However, in private sector accounting, the proprietary approach is adopted.
- (h) Public Sector Accounting thrives rigidly on the budgetary approach, whereas in private sector accounting budgeting is embraced as a very potent control instrument.

Self-assessment exercise

What are the bases of a public sector accounting?

4.0 CONCLUSION

This unit discussed the introductory aspect of Public Sector Accounting and Finance, pin-pointing that public sector activity is hindered by the lack of profit motive, multiple objectives and presence of intangible services whose benefits are difficult to quantify.

5.0 SUMMARY

In summary the emphasis of this unit is on the objectives, users of accounting information, constitutional and regulatory framework as well as concepts, principles and bases of accounting.

In Unit two Finance Officers will be discussed based on chapter one of the Financial Regulations (FR).

6.0 TUTOR-MARKED ASSIGNMENT

- a) Compare Private and Public Sector Accounting.
- b) List the main purposes of Public Sector Accounting.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

National Open University Nigeria (2009) MBA728: *Public Financial Management*
Lagos

UNIT 2 FINANCE OFFICERS OF GOVERNMENT

CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Accountant-General of the Federation (AGF)
 - 3.2 Powers of the Accountant-General of the Federation
 - 3.3 Functions of the Accountant-General of the Federation (AGF)
 - 3.4 The Auditor-General for the Federation (AuGF)
 - 3.5 Powers of the Auditor-General for the Federation
 - 3.6 Accounting Officers
 - 3.7 Functions of the Accounting Officer
 - 3.8 Sub-Accounting Officer
 - 3.9 Functions of the Sub-Accounting Officer
 - 3.10 Revenue Collector
 - 3.11 Functions of the Revenue Collector
 - 3.12 Imprest Holder
 - 3.13 What is an Imprest?
 - 3.14 Types of Imprest
 - 3.15 Conditions for Operating an Imprest
 - 3.16 Officer Controlling Expenditure
 - 3.17 Functions of Officer Controlling Expenditure
 - 3.18 Vote Book or Departmental Vote Expenditure Allocation Book (DVEA Book)
 - 3.19 Reasons for Keeping a Vote Book
 - 3.20 Definition of Terms
 - 3.20.1 Below are The – Line Accounts
 - 3.20.2 Federal Pay Officer
 - 2.20.3 Above are The-Line Accounts
 - 2.20.4 Financial Regulations/Accounting Manual
 - 2.20.5 Budgetary Control Concept
 - 2.20.6 Token Vote
 - 2.20.7 Account Current
 - 2.20.8 Children's Separation Domicile Allowance (SDR)
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

Chapter One of the Financial Regulations (FR) lists the following Government Officers that have financial responsibilities:

- (i) Accountant - General of the Federation (AGF);
- (ii) Auditor - General for the Federation (AuGF);
- (iii) Accounting Officers (AO);
- (iv) Sub - Accounting Officers (SAO);
- (v) Revenue Collector (RC);
- (vi) Imprest Holder (IH); and
- (vii) Officer Controlling Expenditure (OCE).

In this unit, the responsibility of these officers will be discussed.

2.0 OBJECTIVES

After studying this chapter, readers should be able to:

- Identify the various Finance Officers, their powers, functions and responsibilities.
- Learn terminologies used in Public Sector Accounting and Finance.

3.0 MAIN CONTENT

3.1 Accountant-General of the Federation (AGF)

In accordance with Government Financial Regulations, the Accountant-General of the Federation is the Chief Accounting Officer of the receipts and payments of the Federation, saddled with the responsibility of general supervision of the accounts of all Ministries and Extra-Ministerial Departments, and the preparation of Annual Financial Statements of the Nation, as may be required by the Honourable Minister of Finance. He or his representative shall have access at any reasonable time to all documents, information and records that are needed for the preparation of the accounts of every Ministry and Extra-Ministerial Department.

3.2 Powers of the Accountant-General of the Federation

According to Government Financial Regulations, the Accountant-General of the Federation has the following powers:

- (a) Power of access to books and records of all Ministries at any reasonable time.

- (b) Power to request for information and explanation necessary for his duties.
- (c) Power to carry out special/ad-hoc investigations in any Ministry.

Note: Reference to Ministries includes Extra-Ministerial Departments.

3.3 Functions of the Accountant-General of the Federation (AGF)

The functions of the Accountant-General of the Federation as contained in Financial Regulations include:

- (a) Supervising the Accounts of the Federal Government Ministries and Extra-Ministerial Departments.
- (b) Collating, presenting and publishing the statutory financial statements of the Federal Government.
- (c) Managing the Federal Government's investments, through the Ministry of Finance, Incorporated (MOH).
- (d) Maintaining and operating the Federation Account.
- (e) Establishing and supervising the Federal Pay Office in each State of the Federation.
- (f) Conducting routine and in-depth inspection of the books of accounts of the Federal Ministries and Extra-Ministerial Departments to ensure compliance with the rules, regulations, policies, decisions and maintenance of accounting codes and Internal Audit Guides.
- (g) Investigating cases of fraud, loss of funds, assets and store items and other financial malpractices in the Ministries and Extra-Ministerial Departments.
- (h) Providing Financial Regulations and issuing Treasury Circulars to the Federal Ministries/Extra Ministerial Departments.
- (i) Ensuring revenue monitoring and accounting.
- (j) Formulating the accounting policies of the Federal Government.

3.4 The Auditor-General for the Federation (AUGF)

In accordance with the provisions of Government Financial Regulations, this is the officer responsible under the 1999 Constitution of the Federation, for the audit and reports on the public accounts of the Federation, including all persons and bodies established by law entrusted with the receipts, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other property of the Government of the Federation and for the certification of the annual accounts of the Nation. He is given free hand to examine the accounts in such a manner as he may deem fit. At the end of the audit, he is expected to write a report, stating whether in his opinion:

- (a) The accounts have been properly kept.
- (b) All public funds have been fully accounted for, and the rules and procedures applied are sufficient to secure effective check on the assessment, collection and

- proper allocation of revenue.
- (c) Monies have been expended for the purposes for which they were appropriated and the expenditure have been made as authorised.
 - (d) Essential records are maintained, and the rules and procedures applied are sufficient to safeguard public property and funds.

The appointment and removal of the Auditor - General for the Federation is legally recognised in 5.81 of the 1999 Constitution of the Federal Republic of Nigeria. That is, he/she is:

- appointed by Mr. President, subject to confirmation by the National Assembly;
- the above appointment is based on the recommendation of the Federal Civil Service Commission;
- once appointed, he/she cannot be removed from office, except where he/she can no longer perform the functions of the office due to ill-health, death, gross misconduct or where the terms of his/her office has expired (if he/she has served for 35 years or has attained the age of 60 years, whichever is earlier).

3.5 Powers of the Auditor-General for the Federation

In accordance with Government Regulations, the Auditor-General for the Federation has the following powers:

- (a) Power of access to books and records of all Ministries and Extra-Ministerial Departments, at reasonable times.
- (b) Power to request for information and explanation necessary for his duties.
- (c) Power to carry out special/ad-hoc investigations in any Ministry and Extra-Ministerial Department.

3.6 Accounting Officers

In accordance with Government Financial Regulations, Accounting Officers are the Permanent Secretaries of the Ministries and Heads of Extra-Ministerial Departments. They are saddled with the responsibility of the day-to-day financial affairs of the Ministries and Extra-Ministerial Departments.

3.7 Functions of the Accounting Officer

- (a) To ensure that proper budgetary and accounting systems are established in his Ministry/Extra-Ministerial Department.
- (b) Ensuring that the essential management control tools are put in place to minimise waste and frauds, if they cannot be completely eliminated.
- (c) Ensuring that all Government revenue is collected and paid into the Consolidated Revenue Fund, promptly,

- (d) Rendering monthly and other periodic accounting returns and transcripts to the Accountant-General of the Federation as required by the Financial Regulations.
- (e) Ensuring the safety and proper maintenance of all Government assets under his care.
- (f) Responding to all audit queries pertaining to the Ministry/ExtraMinisterial Department, including appearing before the Public Accounts Committee.
- (g) Ensuring accurate collection and accounting for all public funds received.
- (h) Ensuring prudence and accountability in the expenditure of public funds.

3.8 Sub-Accounting Officer

In accordance with Government Regulations, this officer who is entrusted with the receipts, custody and disbursements of public funds, is required to maintain one of the recognized cash books, together with such other books that may be required by the Accountant-General.

Example includes Sub - Treasurer of the Federation, Federal Pay Officer (FPO), Police Pay Officer (PPO), Custom Area Pay Officer(CAPO), Director of Finance and Accounts(DFA), etc.

3.9 Functions of the Sub-Accounting Officer

According to Government Regulations, the functions of the Sub-Accounting Officer, are as follows:

- (a) Ensuring that the proper system of accounts as prescribed by the Accountant-General is established.
- (b) Exercising supervision over the receipts of public revenue and ensuring prompt collection.
- (c) Promptly bringing into account, under the proper heads and sub-heads of the estimates or other approved classifications, all receipts, whether revenue or other wise.
- (d) Ensuring that proper provision is made for safe keeping of public funds, securities, stamps, receipts, tickets, licences and other valuable documents.
- (e) Exercising supervision over all officers under his authority who are entrusted with the receipts and expenditure of public funds and taking precautions by putting in place efficient checks against the occurrence of fraud, embezzlement and carelessness.
- (f) Supervising the expenditure of Government and ensuring that no payment is made without proper authorisation.
- (g) Promptly charging in his accounts under proper Heads and Sub-Heads all disbursements.
- (h) Checking all cash and stamps in his care to reconcile the amounts with the

- balances in the cash book and stamp register.
- (i) Promptly bringing to account as a receipt, any cash or stamp found in excess of the balance shown in the cash book or stamp register.
 - (j) Making good any minor deficiency not caused by theft or fraud, in the cash or stamps, for which he is responsible and thereafter reporting in writing to the Minister of Finance.
 - (k) Promptly preparing such financial statements as are required by law or the Minister of Finance.
 - (l) Maintenance of cash book.

3.9.1 Treasury Cash Book

One of the main functions of Sub - Accounting Officer as stated above is the maintenance of treasury cash book, which is expressly stated in FR 201, that a Sub - Accounting Officer should keep a treasury cash book.

The treasury cash book is a permanent record of accounts which is used to record all receipts, revenue and payments made by an organization.

This treasury cash book is divided into two parts, namely: Debit and credit sides and each side contains eight columns, totaling 16 columns. Revenue and receipts are recorded on the debit (Dr) side, while payments and expenditure are entered on the credit (Cr) side with particular for all entries. The treasury cash book is to be balanced daily with cash specifications shows for each day. The signature of the Head of Accounts or Central Pay Officer will be taken as certifying the accuracy as well as correctness of the entries and cash balance.

ILLUSTRATION 2-1

EXAMPLE OF TREASURY CASH BOOK T.E153A Inset
Ministry and Section

TRV No/ Date	From Whom Receivable	Classification Head	Treasury Receipt No	No of Bank Credit SIM	Gross N	Cash N	Bank N	H /Sub. Treasury Pit No.	Dept. P. V. No.	To Whom Payable	Classification H/ Sub- Head	Paye e Bank	Cheque No.	Gross Amount N	Deduct ion or Cash N	Batik or Net N

Source: Appendix 4 & Financial Regulations (Revised to 31 December, 2006)
ILLUSTRATION 2-2

In the Ministry of Finance of Giko State where you are an Accounts Supervisor, the following transactions took place in a typical day of the month of December, 20XX:

Messrs A. Ayotunji and Amusat paid 480,000 and 4500,000 being tax, and contractor's registration fee, respectively. Treasury receipt numbers 65 and 66 dated 16/9/20X1 were accordingly issued.

The payments which were in bank draft numbers logo bank C184860 and C160868 dated 25/9/20X1, were received into Head 1001, Sub-heads 419 and 420.

On 26 September, 20X1, the State Ministry of Education made payments for feeding students and WAEC examination fees, totaling 1410,000,000 and 1440,000,000 respectively, through the CBN cheque numbers NB 846264 and A/B 946270. The payment vouchers were numbered 60 and 63, respectively. The payment by the Ministry of Education was charged to Head 2004, Subheads 7 and 9, respectively.

Required:

- (a) Draw both the debit and credit sides of a typical Treasury Cash Book.
- (b) Post the above-stated transactions into the Cash Book. (Ignore balances b/f and c/f).

SUGGESTED SOLUTION 2-2

**GIKO STATE MINISTRY OF FINANCE
MAIN TREASURY CASH BOOK FOR THE MONTH OF SEPTEMBER, 20X1**

TRV No/ Date	From Whom Receive	Classification H/Sub-Head	Treasury Receipt No	No Of Bank Credit Slip	Gross	Cash	Bank	Treasury PV NO	Dept PV No.	To Whom Payable	Classification H/Sub-Head	Payee Bank	Cheque No	Gross Amt.	Deduction or Cash	Bank Or Net
16/9 20x1	Mr Ayo	1001/ 419	65	C184 860	N000 80	—	N000 80							N000		N000
16/9 2011 16/9	Amusat	1001/ 420	66	084 868	500	—	500			General Payments	2001 /7	—	NB 846 264	10.000		10.000
20x1 10/9								40 43		Pays WAIF	2004 /9	—	NB 946 270	40.000		40.000
20x1																

3.10 Revenue Collector

This is an officer, apart from a Sub-Accounting Officer, who keeps official receipts and collects specified forms of revenue on behalf of the Government. He is expected to keep a cash book. The Revenue Collector must not expend money out of his collection. He, therefore, has to account for the collections received intact.

3.11 Functions of the Revenue Collector

- (a) Exercising supervision over the receipt of public revenue and ensuring their prompt lodgement into the banks.
- (b) Promptly reflecting in the accounts, under the proper Heads and Subheads of the estimates, all monies collected by him on behalf of Government.
- (c) Seeing that proper provision is made for the custody of public funds and securities.
- (d) Supervision of all the officers under his authority who are entrusted with the receipts, custody and disbursement of public funds.
- (e) Maintenance of efficient internal checks against the occurrence of malpractices.
- (f) Checking all cash and stamps in his care; agreeing the amount with the balances in the Cash Book and Stamps Register.
- (g) Making good any minor deficit which is not caused by theft or fraud and reporting accordingly in writing to the appropriate officer, e.g. Minister of Finance.

ILLUSTRATION 2-3

EXAMPLE OF REVENUE COLLECTOR'S CASH BOOK

Date	Revenue Receipt No	Classification Head/S-Head	From Whom Received	Amount N	Date	Treasury Receipt No	Amount N

Source: Appendix 4A, Financial Regulations (Revised to 31 December; 2006)

ILLUSTRATION 2-4

Mr. Ajonibode, a revenue collector, in the Magistrate Court of Doly Local Government, submits the following information, for the month ended 30 June, 2008:

Date	Prayer	Reasons for payment	Amount N
2/6/2008	Mrs. Mariam Gidado	Declaration	400.00
3/6/2008	Niger Killah	Court fine	2000.00
5/6/2008	Mr. Ibrahim Limoh	Court fine	8000.00
7/6/2008	Gani Waidi	Court	800.00
9/6/2008	Beko Ishola	Court	1200.00
13/6/2008	Mrs. Kudirat Eniola	Declaration	400.00
21/6/2008	Yaro Balam	Court fine	1500.00
30/6/2008	Mrs. Adio	Court	500.00

The money collected is shown under Head 200, with the following Sub-heads:

- (a) Declaration of age 01
- (b) Court fine 04
- (c) Court proceeding document 07

Mr. Ajonibode deposited the takings to the Sub Accounting Officer on 29 June, 2008 and was issued with treasury receipt number M 400201. The receipts used by him were N800401 to N800450. The one issued to Mrs. Mariam Gigado was N800417. On the assumption that receipt number N800423 was cancelled, write up the revenue collector's cash book and state how to treat the cancelled receipt.

SUGGESTED SOLUTION 2-4

MAGISTRATE COURT OF WYSE LOCAL GOVERNMENT

Revenue Collector's Cash Book for the Month ended 30 June, 2008,

Date	Revenue Receipt No	Classification Head S/head	From Whom Receivable	Amount N	Date	Treasury Receipt No	Amount N
2/6/2008	N800417	200---001	Mrs.M. Gidado	400.00	29/6/2008	M400201	14,300.00
3/6/2008	N800418	200---419	Niger Kilah	2000.00	30/6/2008	Bal. c/d	500.00
5/6/2008	N800419	200---419	Mr. I. Limoh	8000.00			
7/6/2008	N800420	200---005	Gani-Waidi	800.00			
9/6/2008	N800421	200---005	Beko Ishola	1200.00			
13/6/2008	N800422	200---001	Mrs.K.Eniola	400.00			
21/6/2008	N800424	200---419	Taro Baloon	1500.00			
30/6/2008	N800425	200---005	Mrs. Adio	500.00			
				14800 00			14 800 00
			Balance b/d	500.00			

Tutorial:

The closing balance of #500 is the value of the cancelled receipt no. N800423 which was issued to Mr. Adio for which a replacement no N800425 was made. It is also the difference between the total value of the receipts of #14,800 and that of the good and un-cancelled receipts,

3.12 Imprest Holder

According to Government Regulation, this is an officer other than a Sub-Accounting Officer, who is charged with the disbursement of public money whose vouchers cannot be presented immediately to a Sub-Accounting Officer. He has to keep an Imprest Cash Book.

3.13 What Is An Imprest?

An imprest is defined as a small amount of money set aside to meet petty cash payments, the vouchers of which cannot be presented to a Sub-Accounting Officer immediately. An

imprest holder is therefore a petty cashier who handles such float of money and keeps necessary records for restoration to the earlier amount granted, at the appropriate time.

3.14 Types of Imprest

There are two types of imprest, namely:

- (a) Standing Imprest: This imprest is operated from the commencement to the end of a financial year (1 January to 31 December of each year). On the last working day of the year, an account is rendered and all unspent balances lapse.
- (b) Special Imprest: This imprest is operated from the commencement of a financial year until the objectives for which it is set up have been achieved. Upon the attainment of such objectives, an account will be rendered and all unspent balances shall lapse.

3.15 Conditions for Operating an Imprest

- (a) Any Ministry which intends to operate an imprest has to apply in writing to the Accountant-General of the Federation, stating the amount and purpose for which it is required.
- (b) The Accountant-General of the Federation and the Accounting Officer of the Ministry or Extra - Ministerial Department will issue imprest after the Minister of Finance has conveyed the authority in the Annual General Imprest Warrant.

ILLUSTRATION 2-5

EXAMPLE OF IMPREST HOLDER'S CASH BOOK

Date	Reimbursement Details	No. of Bank Credit Slip	Cash N	Bank N	Date	To Whom Payable	P.V. No	No. of cheque issued	Cash N	Bank N	Analysis

Source: Appendix 2, Financial Regulations (Revised to 31 December 2006)

ILLUSTRATION 2-6

The monthly float granted is 1480,000. The main cashier reimburses any amount spent on the last day of each month. The following transactions took place in the month of November, 2008:

November 1	Tea and sugar	N 4,000
------------	---------------	------------

3.16 Officer Controlling Expenditure

This is an officer in charge of the various vote-heads of each Ministry or Extra-Ministerial Department, saddled with the responsibility of monitoring Government expenditure and ensuring that there is no extra-budgetary spending.

3.17 Functions of Officer Controlling Expenditure

- (a) Supervision of Government expenditure and ensuring that no payment is made without proper authority.
- (b) Promptly charging in his account under proper Heads and Sub-heads all disbursements.
- (c) Ensuring that all books are correctly posted and kept up to date.
- (d) Producing when required by the Accountant-General and the Auditor-General, all cash, stamps, etc., in his custody.
- (e) Ensuring that funds are available under the appropriate Head and Sub-heads, to meet payments of specific vouchers.
- (f) Effective monitoring of Government expenditure.
- (g) Ensuring that there is no extra-budgetary spending.
- (h) Ensuring that there is adequate security over the custody of public funds.
- (i) Maintenance of the vote book.

3.18 Vote Book or Departmental Vote Expenditure Allocation Book (DVEAB)

A vote book is a memorandum accounts book used for monitoring Government expenditure and ensuring that there is no extra-budgetary spending. It is the duty of every officer controlling expenditure to keep a vote book. A vote book has 15 columns. Columns 1 to 7 are on the expenditure side, while columns 8 to 15 are referred to as liabilities side. At the top left hand side of the vote page, the head, sub - head and the type of service are indicated. On the right hand side, the authority and the authorized amount will be written, i.e. PGW/ AGW and A1E number and the amount should be stated. On no account should two types of services be recorded together, e.g., sub - head 3, should not be made to accommodate any other services such as sub - head 4.

3.9 Reasons for Keeping a Vote Book

- (a) For effective monitoring of Government expenditure.
- (b) To show uncommitted balance at a glance.
- (c) To highlight Government's creditors or liabilities.
- (d) To ensure that funds are available in the appropriate Heads and Subheads to meet payments due.
- (e) To ensure that there is no extra-budgetary spending.

Self-assessment exercise

Identify the various Finance Officers and their powers.

ILLUSTRATION 2-7

Example of a Book

Head_____	Vote Book	Authorised Appropriation:
Sub-Head_____		AGW_____
Service_____		AIE_____
		OTHERS_____
		TOTAL_____

ILLUSTRATION 2-8

The following transactions were recorded in a DVEA book of the Ministry of Education in respect of the purchase of stationery, thus:

- 1/8/20xx Authorized appropriation for the year is N1,000,000.
- 2/8/20xx Paid 1445,000 for the purchase of stationery from Odunuga Bookshop on PV No. 004.
- 6/8/20xx N50,000 paid on PV No. 0005 for the supply of stencils from Abiola Bookshop.
- 10/8/20xx Issued LPO number 0044 to Lambus Bookshop for the supply of photocopying papers, for 14100,000.
- 18/8/20xx Settled Lambus on account on P.V number 0006.
- 23/8/20xx Paid 1420,000 for stapling pins and staplers from Orita Bookshop, on P.V number 00007.
- 26/8/20xx P.V 0007 for 14120,000 was raised for payment for typing sheets to CSS Bookshop.
- 27/8/20xx Issued LPO number 00045 for 14300,000 for supply of duplicating papers, to Olorus Stores Limited.
- 30/8/20xx Settled 14300,000 on RV number 0008 for the purchase of carbon papers, to Dossy Book shop.
- 31/8/20xx Paid Olorus Stores Limited on account on P.V number 0009.

The SW/AIE/RIE number is 04. The Head and subhead for stationery is 502/05.

SUGGESTED SOLUTION 2-8

FEDERAL MINISTRY OF EDUCATION

Head —502

Sub-head-005

Service-Stationery

Vote Book

Authorised Appropriation

AGW-N1,000,000

AIE _____

OTHERS _____

TOTAL _____

line no	2 date	3 P.V No	4 Particulars	5 Payment	6 Cumm, Payment	7 Balance	8 Liability Ref	9 liability incurred	10 Liability Cleared	11 Outstan ding Liability	12 Remarks	13 Uncomm- ited Bal.	14 Line No.	15 Line No.
1.	118/20xx		Authority Appropriation			1,000,000	-	-	-	-	-	1,000,000		1
2.	2/8/20xx	004	Odunuga BK	45,000	45,000	955,000						955,000		2
3.	6/8/20xx	0005	Abiola BK	50,000	95,000	905,000						905,000		
4.	10/8/20u				95,000	905,000	LPO 0044	100,000		100,000	LPO Issued to Lambus	805,000		
5.	18/8/20xx	0006	Lambus	100,000	195,000	805,000			100,000		Settle- ment to I ambits	805,000	4	5
6.	23/8/20xx	0007	Orita BK	20,000	215,000	785,000						785,000		6
	26/13/20xx	0007	C55 13K	120,009	335,009	665,000						665,000		7
8.	27/8/20xx				335,000	665,000	LPO 00045	300,000		300,000	LPO Issued to Olorus	365,000		8
9.	30/8/203a	0008	Dossy BK	300,000	635,000	365,000						65,000		9
10.	31/8/20xx	0009	Olorus Stores Ltd.	300,000	935,000	65,000			300,000		Settleme nt to Olorus	65,000		10

3.20 Definition of Terms

These may be discussed, as follows:

3.20.1 Below are The – Line Accounts

These are the accounts created and controlled by the Accountant-General of the

Federation, of which at the time of preparation of the budget, the exact amount of income receivable and expenditure incurable cannot be reasonably ascertained. The expenditure under the accounts is not budgeted for in the estimates. Examples include touring and spectacle advances, loans and deposits. In this case, deposits refer to money held on behalf of third parties. The term also includes remittances and cash transfers in respect of the Nigerian Army, Police and Para-Military Organisations.

3.20.2 Federal Pay Officer

This is an officer who is in charge of a Federal Pay Office in the State. He performs the same functions as those of a Sub-Accounting Officer. However, although the Sub-Accounting Officer is at the headquarters of each Ministry, the Federal Pay Officer handles the processing of all financial transactions between the Federal and State Governments, the Local Government Councils and all branches of the Federal Government Ministries in the States wherever located.

2.20.3 Above-The-Line Accounts

These are the expenditure budgeted for in the estimate. At the time of preparation of the budget they can reasonably be ascertained as to the exact amount of income receivable and expenditure incurable. Examples of costs which may be budgeted for are salaries and overhead expenses. Revenue items anticipated include collections for customs and excise duties.

2.20.4 Financial Regulations/Accounting Manual

They are the rules governing the management of public funds. The rules deal with the procedures to be adopted for the receipts and disbursements of public funds and how to ensure accountability. Financial Regulations could be regarded as the accounting manual of Government as they state all the guidelines, rules and instructions to be followed, to ensure legal and wise spending.

2.20.5 Budgetary Control Concept

The concept simply states that Government should not undertake any action without a prior budget for it. The concept assumes that all Government revenue and expenditure must be budgeted for.

2.20.6 Token Vote

It is a notional provision for a Head or Sub-head of an expenditure or revenue in an estimate. 'Token vote' is often represented by the symbol '10e'. It is a reminder to

provide money for the activity function as soon as possible.

2.20.7 Account Current

This is the balance on account between two or more persons (principal and his agent), showing what is due from one person to another. Account Currents are often used to take care of transactions between the Federal and State Governments and their Agencies.

2.20.8 Children's Separation Domicile Allowance (SDR)

This is an allowance payable if an officer is separated from his children as a result of the following developments:

- (a) If he is an expatriate officer.
- (b) Where an officer is being posted to serve overseas.

Self-assessment exercise

Who is a Federal pay officer?

4.0 CONCLUSION

This unit dealt with the various powers and functions of the Finance Officers of Government and key instruments which they use and definitions of terms in Government Accounting. It stressed the importance of the powers and functions of the Accountant-General and those of the Auditor-General.

5.0 SUMMARY

In summary the unit Government Officers of Government and their financial responsibilities, powers, functions and the terminologies used in Public Sector Accounting and Finance.

In Unit 3, attention will be on Sources of Revenue in the Public Sector.

6.0 Tutor Marked Assignment

- a) State and explain the functions of Officer Controlling Expenditure

b) What are functions and responsibilities of the Accountant-General of the Federation?

7.0 References/Further Reading

ICAN Study Pack

National Open University Nigeria (2009) MBA728: *Public Financial Management*
Lagos

UNIT 3 SOURCES OF GOVERNMENT REVENUE

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Sources and Classifications of Government Revenue
 - 3.2 Federation Account Revenue Heads
 - 3.2.1 Revenue Allocation Formula
 - 3.3 Federation Accounts Allocation Committee - FAAC.
 - 3.3.1 Functions of FAAC
 - 3.3.2 Composition of FAAC
 - 3.4 State Joint Local Government Account Allocation Committee - S JLGAAC.
 - 3.4.1 Composition
 - 3.5 Sources of Revenue Payable to the Federation Account- Heads 1 To 3.
 - 3.6 Federal Government Account or Consolidated Revenue Fund
 - 3.6.1 Federation Account and Consolidated Revenue Fund in Diagrams
 - 3.6.2 Analysis of The Various Sources Of Revenue Payable To CRF
 - 3.6.3 Charges to the Consolidated Revenue Fund
 - 3.7 Value Added Tax (VAT)
 - 3.8 Development Fund
 - 3.8.1 Charges from the Development Fund
 - 3.9 Contingency Fund
 - 3.9.1 Charges on the Contingency Fund
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment

1.0 INTRODUCTION

In Unit 2 the key Finance Officers in Government were identified and discussed along with their financial responsibilities, powers, functions and the terminologies used in Public Sector Accounting and Finance. In this Unit, the various sources of Government revenue will be identified and studied.

2.0 OBJECTIVES

After studying this Unit, you should be able to identify

- The various sources of Government revenue payable into the Consolidated Revenue Fund
- The Federation Account
- The Development Fund and
- The Contingencies Fund. They should also be able
- to appreciate the appropriations from the Federation Account and
- The Consolidated Revenue Fund, into
- The Development Fund and
- Contingency Fund.

3.0 MAIN CONTENT

3.1 Sources and Classifications of Government Revenue

The Federal Government derives its revenue from different sources, kept in the Consolidated Revenue Fund. Prior to the 1989 budget, the Federal Government derived its revenue through the following Heads:

Head 1:	Indirect Taxes.
Head 2:	Direct Taxes.
Head 3:	Mining.
Head 6:	Direct Allocation.
Head 7:	Direct Taxes (PAYE).
Head 8:	Licences and Land Revenue.
Head 9:	Minning (Solid Minerals).
Head 10:	Fees.
Head 11:	Earnings and Sales.
Head 12:	Rent of Government Property.
Head 13:	Interests and Repayments (General).
Head 14:	Interests and Repayments (State Government).
Head 15:	Reimbursements.
Head 16:	Armed Forces.
Head 17:	Miscellaneous.

However, with the 1989 Budget, the Federal Government revenue sources were classified into two groups, viz:

- (a) Federation Account Revenue Heads, and
- (b) Federal Government Account Revenue Heads.

The above classification was again modified in 1994 fiscal year, as follows:

- (a) Federation Account Revenue Heads;
- (b) Value-Added Tax (VAT), and
- (c) Federal Government Account Revenue Heads.

Self-assessment exercise

What were the sources as well as the heads of sources of revenue to Government in Nigeria prior 1989 budget?

3.2 Federation Account Revenue Heads

The Federation Account was established by Section 162 of the 1999 Constitution of the Federal Republic of Nigeria. The Federation Account is one into which shall be paid all revenue collected by the Government of the Federation, except the proceeds from the PAYE of the personnel of the Armed Forces of the Federation, the Nigeria Police Force, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja.

The Federation Account is a distributable pool account from which allocations are made to the Federal, State and Local Government Councils on such terms and in a manner prescribed by the law. Currently, the figure in the pool is distributed, using the revenue allocation formulae shown in the table below.

3.2.1 Revenue Allocation Formula

	a Up to 31/12/89 %	b 1/1/90 to 31/12/91 %	c 1/1/92 to 31/12/92 %	d Existing Formula from 1/6/92%
Federal Govt	55.00	50.00	50.00	48.50
State Govt	32.50	30.00	25.00	24.00
Local Govt	10.00	15.00	20.00	20.00
Amelioration of Ecological Disasters	1.00	5.00 Speci al Fund	5.00	7.50 Specia l Fund
Oil Producing Areas	1.50			

NOTES:

- 13% of revenue derived from oil sources goes to the States from which it is obtained, in consonance with the principle of derivation.

- 7% and 4% of the gross revenue in the Federation Account are allocated to the Customs Service and Federal Inland Revenue Services, respectively
- The rates stated above are "first line charges." That is, 13% derivation source is adjusted (deducted) in the oil sector revenue received from the total oil proceeds; 11% (7% plus 4%) of other revenue receipts are taken out of the non-oil collections.
- Whatever remains in the Federation Account distributable pool is shared between the three tiers of Government as in column 'd' of the table above.
- The 24% allocation to the 36 States is distributable, net of the adjustments in the earlier three notes or bullets. Abuja is considered a State, to make 37 'States which will share 24%.
- The 20% of the Local Government allocation from the next balance is shared between the 774 Local Governments in Nigeria.
- The 24% allocation to the 36 States and Abuja treated as a 'State' for this purpose, is redistributed, using the following criteria; 40% on the equality of all States;
 - 40% on population;
 - 15% on social development, e.g. primary school enrolment.
 - 5% on the internally generated revenue effort
 - 100%

3.3 Federation Accounts Allocation Committee - FAAC

FAAC was set up by Allocation of Revenue (Federation Account, etc.) Act, Cap. A15, LFN 2005 to deliberate upon and allocate funds from the Federation Account to the three tiers of Government.

3.3.1 Functions of FAAC

- (a) To ensure that allocations made to the States from the Federation Account are promptly and fully paid into the Treasury of each component, on such bases and terms prescribed by law.
- (b) To submit annual report of its performance/activities to the National Assembly.

3.3.2 Composition of FAAC

- (a) The Federal Minister of Finance - Chairman,
- (b) All State Commissioners of Finance - Members.
- (c) All States' Accountants - General.
- (d) Accountant - General of the Federation.
- (e) The Permanent Secretary of the Federal Ministry of Finance or representative as designated by the said Minister, is the Secretary.

3.4 State Joint Local Government Account Allocation Committee - SJLGAAC.

This Committee was set up to ensure equitable distribution of the statutory allocations to local governments from the Federation Account and 10% of the internally generated revenue of the appropriate State Governments are shared under the beneficiaries, in accordance with the 1999 Constitution, using the criteria as Equality, Population, Primary School Enrolment and Internally Generated Revenue Data.

3.4.1 Composition

- (a) The Permanent Secretary for Local Government Affairs;
- (b) All the Chairmen of the Local Governments in the States;
- (c) A representative of the Accountant - General of the State, and
- (d) The Federal Pay Officer in the State.

3.5 Sources of Revenue Payable to the Federation Account - Heads 1 to 3

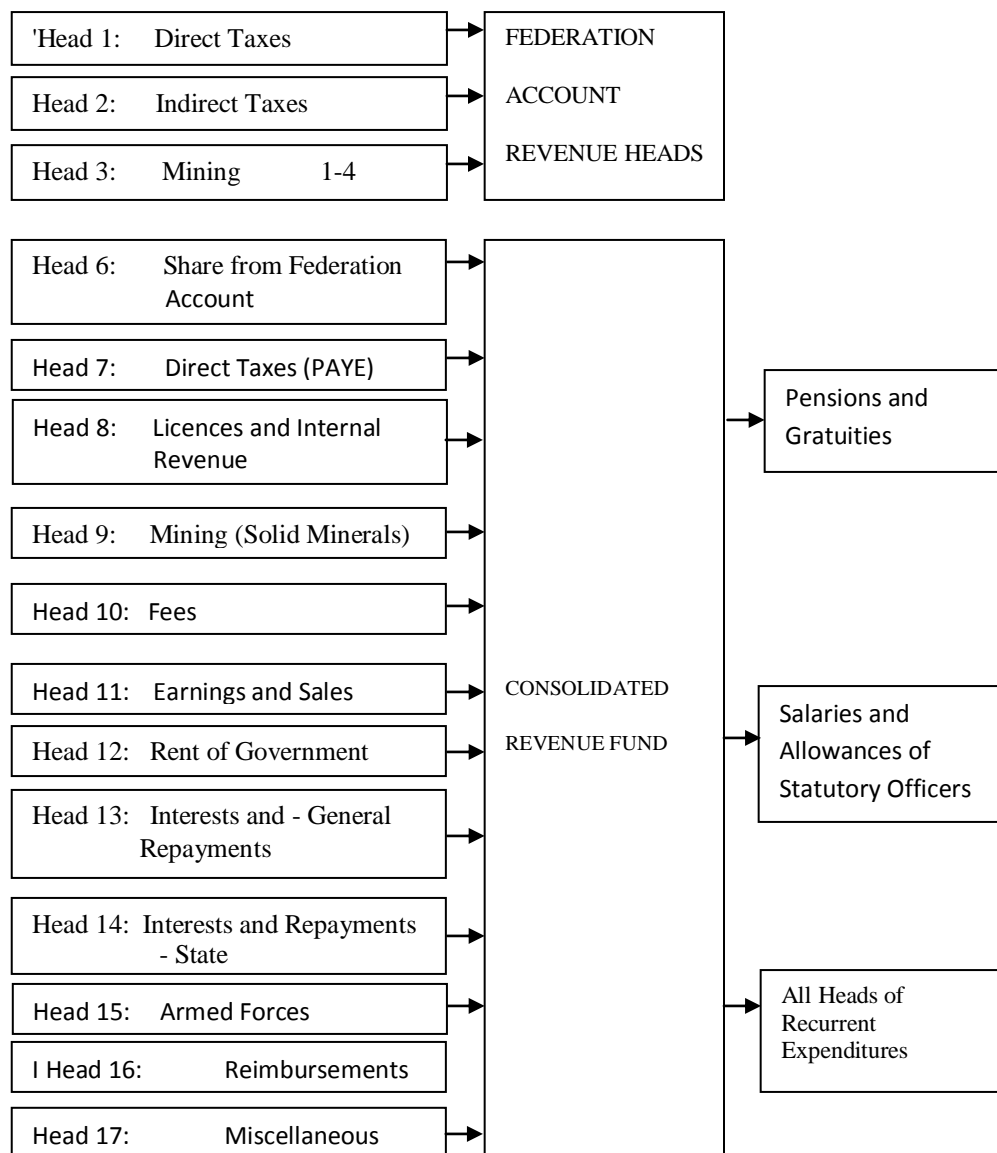
These are:

- (a) Head 1- Direct Taxes: These are payable by the individuals and firms such as company income tax, petroleum profit tax, capital gain tax, back duty assessment, and personal income tax of the foreigners residing in Nigeria.
- (b) Head 2- Indirect Taxes: These are taxes raised from goods and services in the form of custom and excise duties, forfeiture penalties, VAT, etc.
- (c) Head 3 - Mining: These are oil pipeline licence fees, rents of mining rights, mining fees, royalties on minerals, NNPC earnings from direct sales, penalties for gas flared, and rent of oil well.

3.6 Federal Government Account or Consolidated Revenue Fund

The Consolidated Revenue Fund (CRY) was established by Section 80 of the Constitution of the Federal Republic of Nigeria, 1999. Except those revenue items which are specifically designated to other funds, all others shall be paid into the Consolidated Revenue Fund. The various sources of income credited to the CRY as well as charges thereto are shown on the diagram at page 35.

3.6.1 Federation Account and Consolidated Revenue Fund in Diagrams



3.6.2 Analysis of the Various Sources Of Revenue Payable To CRF

Analysis of various sources of income is given below:

- Head 6-Direct allocation from the Federation Account at the prevailing rate.
- Head 7-Direct Taxes:** These include PAYE of the Armed Forces and Police Personnel, Foreign Service Officers and Residents of the Federal Capital Territory, Abuja.
- Head 8-Licence & Internal Revenue:** These are realized from the issues of licences, e.g. arms and ammunition licence fees, goldsmith licence fees, radio & T.V Licence fees, gold dealer's licence fees.
- Head 9-Mining:** These include mining fees, rent of crown lands, royalties on gold, tin, iron ore, and coal mines.
- Head 10-Fees:** They are fees received on services rendered by Government

- officials, e.g., court fees, court fines and medical fees.
- (f) **Head 11-Earnings and Sales:** Earnings and sales are derived from the use and subsequent disposal of Government property, e.g. sales of stores, publications and stamps, commission on money order and poundage on postal orders.
 - (g) **Head 12-Rent of Government Property:** The incomes include rent on Government quarters, land and buildings.
 - (h) **Head 13-Interest & Repayments (General):** These are interest and repayment of loans granted to individuals by the Government. Corporations and Government companies. An example is the repayment of motor vehicle loans.
 - (I) **Head 14-Interest & Repayments (State):** They are interest and repayment of loans granted to the State Governments.
 - (j) **Head 15-Armed Forces:** The sales of Armed Forces' property such as old vehicles and stores constitute revenue.
 - (k) **Head 16-Reimbursements:** These are refunds for services rendered to the State and Local Government Councils, Public Corporations and other Statutory Bodies by the Federal Government officers. Examples are reimbursements of audit fees and refunds of overpayments made to Government workers.
 - (I) **Head 17-Miscellaneous:These are** other sources of revenue, apart from those stated above. Examples are overpayments refunded, lapsed deposits.
- All the revenues discussed above are paid into the Consolidated Revenue Fund.

3.6.3 Charges to the Consolidated Revenue Fund

These are expenditure items chargeable to the Consolidated Revenue Fund. The charges to the Consolidated Revenue Fund are grouped as follows:

- (a) All **Recurrent Expenditure Heads in the approved estimates, e.g. personnel** cost, overhead cost and servicing of national debts.
- (b) **Salaries and Consolidated Allowances of Statutory Officers:** These are expenditure chargeable directly to the Consolidated Revenue Fund, irrespective of budget approval. Statutory Officers include:
 - (i) Commissioners of the following Bodies:
 - Police Service Commission.
 - Public Complaints Commission
 - Public Service Commission
 - Nigerian Law Reform Commission
 - Independent National Electoral Commission.
 - (ii) Auditor - General for the Federation.
 - (iii) President and Justices of the Federal Court of Appeal
 - (iv) Chief Judge and Judges of the Federal High Court
 - (v) Chief Justice and Justices of the Supreme Court.
- (c) Pension and Gratuity. These are the entitlements of both statutory and non-statutory officers, including members of the Armed Forces.

3.7 Value-Added Tax (Vat)

VAT is a tax imposed on value which the supplier or seller of good/services add to the goods/services before selling it. The introduction of VAT was necessitated by the need to boost the revenue of the government from non-oil sources following the fluctuations in oil revenue due to the glut in the international market. VAT was introduced in 1994 fiscal year with the promulgation of VAT Decree No. 102 of 1993 at the rate of 5% and is being administered by Federal Inland Revenue Service (FIRS).

3.8 Development Fund

The existence of the Development Fund was solidified by the 1999 Constitution of the Federal Republic of Nigeria, although created earlier by Section 25 the Finance (Control & Management) Act of 1958. The Fund is established for the purpose of capital development projects. The sources of money accruing to the Development Fund could be divided into four, viz:

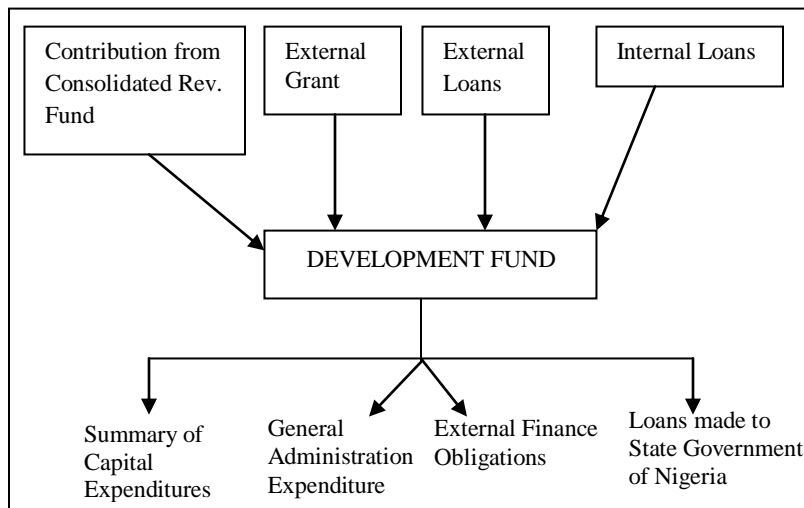
- (a) Contribution from the Consolidated Revenue Fund:** These are yearly transfers of money from the Consolidated Revenue Fund, in the Federal Government's wisdom, notwithstanding that the Constitution does not expressly state this.
- (b) External Grants:** These are usually received from foreign countries and non-financial institutions.
- (c) External Loans:** These may come from such foreign bodies as the International Monetary fund (IMF).
- (d) Internal Loans:** These are loans raised and retired within the country. They may be long-term loans, raised through development stocks, or short-term loans through Treasury Certificates, (which have a life span of two years,) and Treasury Bills which mature in 91 days.

3.8.1 Charges from the Development Fund

The charges from the development fund may also be categorized into four main classes, thus:

- (a) Summary of Capital Expenditure Payments:** This is expenditure incurred for the provision and maintenance of infrastructural amenities such as the construction of bridges and dams.
- (b) General Administration:** These are expenditure items made for the provision and maintenance of Army Barracks/Police Stations, Staff Houses, Motor Vehicles and Hospitals.
- (c) External Financial Obligations:** They are disbursements made for expenditure incurred to provide financial assistance to countries which are in need. The relief may be in form of donations, grants and aids, to neighbouring countries.

- (d) Loans made to State Governments in Nigeria: There are different types of loans which the Federal Government grants to the States, for developmental purposes.



3.9 Contingency Fund

The Contingency Fund has its legality under Section 81 of 1979, and 1989 Constitutions and section 83 of the 1999 Constitution. The Fund is set up to meet unforeseen expenditure urgent situations occasioned by such as natural disasters. The Contingency Fund derives its income from the Consolidated Revenue Fund.

3.9.1 Charges on the Contingency Fund

A charge will arise on contingent grounds in exceptional cases where virement is not possible, and where an application for additional provision reveals that the issue of funding cannot be delayed without causing serious injury to public interest. The need cannot wait till a Supplementary Appropriation Act is passed.

ILLUSTRATION 3-1

- (a) Distinguish between Federation Account and Consolidated Revenue Fund (CRF).
 (b) Prepare Federation Account and Consolidated Revenue Fund from the following information:

INFLOWS	N'000
Import duties	400,000
Export duties	300,000
Excise duties	200,000
Petroleum profits tax	80,000,000
Companies income tax	71,000,000
PAYE: deductions from the emolument of the Armed Forces	400,000
Police personnel	30,000
Residents of Abuja	20,000

Dividend from Federal Government Investments	120,000
Outflows:	
Remuneration of Statutory Officers	13,800,000
Recurrent expenditure	1,500,000
Transfer to: Development Fund	2,500,000
Contingency Fund	20,000

Note: The revenue allocation formula is:

Federal Government	48.5%
State Government	24%
Local Government	20%
Special Fund	7.5%

SUGGESTED SOLUTION 3-1

(a) FEDERATION ACCOUNT FOR THE MONTH ENDED 31/1/200X

	N'000
Import Duties	400,000
Export Duties	300,000
Excise Duties	200,000
Petroleum Profits Tax	80,000,000
Companies Income Tax	<u>71,000,000</u>
TOTAL INCOME	<u>151,900,000</u>

DISTRIBUTION:	N000
Fed. Govt: 48.5% of 151,900,000	73,671,500
State Govt: 24% of 151,900,000	36,456,000
Local Govt: 20% of 151,900,000	30,380,000
Special Fund: 7.5% of 151,900,000	<u>11,392,500</u>
<u>151,900,000</u>	

b) CONSOLIDATED REVENUE FUND FOR THE MONTH ENDED 31/12/200X

INFLOWS:

PAYE tax deductions from the emoluments of the following:

	N'000	N'000
(i) Armed Forces Personnel	400,000	
(ii) Police Personnel	30,000	
(iii) Residents of Abuja	20,000	450,000
Dividends from Federal Government Investments		120,000

Share from Federation Account		<u>73,671,500</u>
TOTAL INCOME		74,241,500
Less: OUTFLOWS:		
Remuneration of Statutory Officers	13,800,000	
Recurrent expenditure	1,500,000	
Transfers: Development Fund	2,500,000	
Contingency Fund	<u>20,000</u>	
Bal. c/f		<u>(17,820,000)</u>
		<u>56.421.500</u>

NB:

Summary of Gross Allocation by FAAC for the Month of February 2009.

	Beneficiaries	%	Statutory	%	VAT
			₦billion		₦billion
1.	l Government	52.68	102.53	15	5.13
2.	overnment	26.72	52.00	50	17.09
3.	Government	20.60	40.09	35	11.96
4.	erivation		21.24		
5.	f collection(FIRS & NCS)		4.28		

Self-assessment exercise

Development Fund is.....

4.0 CONCLUSION

This unit deals with the various sources of revenue to the Federation and the Federal Government.

5.0 SUMMARY

In summary the unit dealt with the various sources of Government Revenue, with emphasis on the Federation Account, the Consolidated Revenue Fund, the Development Fund and the Contingency Fund; their inflows and outflows of income.

6.0 TUTOR MARKED ASSIGNMENT

- a) What is the function and composition of Federation Accounts Allocation Committee
- b) Analyse the various sources of revenue payable to Consolidated Revenue Fund

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

National Open University Nigeria (2009) MBA728: *Public Financial Management*
Lagos

UNIT 4 AUTHORIZATION OF GOVERNMENT EXPENDITURE, CONTROL OF GOVERNMENT REVENUE AND FUND ACCOUNTING

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Authorization Of Government Expenditure
 - 3.1.1 Recurrent Expenditure Warrants
 - 3.1.2 Capital Expenditure Warrants:
 - 3.2 Revenue Control
 - 3.3 Funding Principles
 - 3.3.1 Classification of Funds

3.3.2 Types of Funds

- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

You have identified the sources of revenue in unit 3. Unit 4 is to discuss the authorization of a Government Expenditure, control of Government revenue and fund accounting in the public sector.

2.0 OBJECTIVES

After studying this chapter, readers would be able to:

- Grasp of the various financial authorities which are vital tools for the efficient implementation of the budget.
- Identify the importance of revenue control techniques and those of Fund Accounting, in the Public Sector.

3.0 MAIN CONTENT

3.1 Authorization of Government Expenditure

Government expenditure must be properly authorised and approved. The authority which confers power on the Officer controlling expenditure or a vote, to incur expenditure, is called "Warrants," All Warrants should be issued and signed by the Minister of Finance.

Warrants can be divided into two groups, viz:

- (a) Recurrent Expenditure Warrants
- (b) Capital Expenditure Warrants.

3.1.1 Recurrent Expenditure Warrants

Recurrent Expenditure Warrants are authorisations issued by the Minister of Finance to disburse from the Consolidated Revenue Fund, The Recurrent Expenditure Warrants under discussion are:

- (a) Provisional General Warrant (PGW)
- (b) Annual General Warrant of Recurrent Expenditure (AGW/RE)
- (c) Supplementary General Warrant of Recurrent Expenditure (SGW/ RE)
- (d) Reserve Expenditure Warrant (REW)
- (e) Supplementary (Contingencies) Warrant (SCW)
- (f) Supplementary (Statutory Expenditure) Warrant (SSEW)
- (g) Virement Warrant (VW)

(a) Annual General Warrant (A.G.W.) of Recurrent Expenditure: This authorizes the Accountant-General of the Federation to release funds for the payment of personal emolument and other services provided for in the approved estimate/budget. It also authorizes the officers controlling expenditure votes to incur expenditure for these purposes. However, the Minister of Finance may exclude from the Annual General Warrant any item of expenditure on which he desires to exercise special control. The original copy of the Warrant is addressed to the Accountant-General, while the duplicate is forwarded to the Auditor- General.

(b) Provisional General Warrant (P.G.W.): This is issued at the beginning of the financial year before the Appropriation Act comes into operation. It provides for the continuation of services of Government on a scale not exceeding the level of these services in the previous financial year. The Warrant will be in operation for a maximum period of six months or until the Appropriation Act comes into effect, whichever is shorter.

The amount expendable under the Provisional General Warrant must not be more than the sum expended during the same period in the previous year. Such money spent shall not exceed the amount specified in the approved budget and any such money utilised shall be set-off against the amounts provided in the Appropriation Act when it comes into operation. Original copy of, the Provisional General Warrant is addressed to the Accountant-General of the Federation and duplicate copy forwarded to the Auditor-General for the Federation.

(c) Supplementary General Warrant (S.G.W.):The Warrant is issued for additional personal emolument and other services provided for in the approved supplementary estimates. Moreover, the Minister of Finance may exclude from the Supplementary General Warrant any item of expenditure on which he desires to exercise special control. The original copy of a Supplementary General Warrant is addressed to the Accountant-General and signed copy goes to the Auditor-General for the Federation.

- (d) Reserve Expenditure Warrant (R.E.W.): This authorizes the release of funds included in the approved annual or supplementary estimates but excluded from the A.G.W. or S.G.W. It is the release of fund which the Minister of Finance had initially withheld in order to exercise special control.
- (e) Supplementary (Contingencies) Warrant: This is issued in exceptional cases where:
 - (i) Virement is not possible

Application for additional provision reveals such high degree of urgency that the issue of funds cannot be postponed until a Supplementary Appropriation Act is passed. Contingencies Fund Warrants must first be issued by the Minister of Finance, authorising the Accountant-General to transfer necessary funds from the Contingencies Fund to the Consolidated Revenue Fund. Thereafter, a Supplementary (Contingencies) Warrant must be issued, authorizing expenditure from the Head and Sub-Heads concerned.

- (f) Virement Warrant (V.W.); This is issued when, as a result of unforeseen circumstances during the time the annual estimates were being approved, an 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 Warrants should not be used to create a new Sub-Head or for items disallowed by the Budget or Estimate Committee.

To be successful, applications for virements should:

- (i) be in writing;
 - (ii) state that a particular sub-head is in deficit;
 - (iii) state that another sub-head is in surplus;
 - (iv) indicate that both sub-heads are within the same economic Head;
 - (v) state that after the transfers, the other sub-heads will not be in deficit;
 - (vi) state that Virement Warrants are not sought to create new sub-heads,
- (g) Supplementary (Statutory) Expenditure Warrants:
Supplementary (Statutory) Expenditure Warrants authorize additional expenditure over and above that included in the Annual General Warrant and Supplementary General Warrant, from votes chargeable to Consolidated Revenue Fund by legislation, other than Appropriation Acts, The original copy of a Supplementary (Statutory) Expenditure Warrant is

addressed to the Accountant-General and a signed copy transmitted to the Auditor-General. It is customary for the Ministry of Finance to notify the officers who are in control of the relevant votes of the supplementary expenditure made available.

3.1.2 Capital Expenditure Warrants:

These are issued as authorisations for disbursement from the Development Fund (LW). Such expenditure may not be incurred except on the authority of any of the following Warrants issued by the Minister of Finance, viz:

- (i) Provisional Development Fund General Warrant (PDFGW);
- (ii) Development Fund Annual General Warrant (DFAGW);
- (iii) Development Fund Supplementary General Warrant (DFSGW);
- (iv) Development Fund Reserved General Warrant (DFRGW);
- (v) Development Fund Supplementary Warrant (DFSW);
- (vi) Development Fund Special Warrant (DFSW);
- (vii) Development Fund Virement Warrant (DFVW);

- (a) Development Fund Annual General Warrant (DFAGW)

This authorizes the Accountant-General of the Federation to issue funds for expenditure on capital projects, as contained in the approved Capital Estimate, and mandates the Officers controlling expenditure votes to disburse on the capital projects envisaged. The authority to incur expenditure will be conveyed after the National Assembly has approved the Capital Expenditure Budget.

- (b) Provisional Development Fund General Warrant: This is issued before the approval of the Capital Estimates by then National Assembly at the beginning of the financial year. It authorises the payment from the Development Fund of such amount that is necessary for carrying on the projects for which expenditure have been authorised in the previous financial year, for a period of six months or until the authority of the National Assembly has been obtained, whichever is shorter.
- (c) Development Fund Supplementary General Warrant (DFSGW): The DFSGW authorises the AGF to issue funds, and the officers controlling votes concerned to incur expenditure, on projects as sanctioned by the National Assembly in resolutions approving supplementary capital estimates. The HMF may exclude from SDFGW any item of expenditure included in Supplementary Capital Estimates over which it is desired to exercise special control.
- (d) Development Fund Reserved Expenditure Warrant : A DFREW authorises the release of funds in the approved Annual or Supplementary Capital Estimates, but

excluded from the DFAGW & DFSGW, i.e. it is the release of funds which the HMF initially withheld in order to exercise special control.

- (e) **Development Fund Supplementary Warrant:** A DFSW authorises additional expenditure over and above that which is included in the DFAGW or DFSGW for purposes of revote capital expenditure which was provided for in the previous financial year but not fully expended in that year, accelerate the provisions of funds already formally allocated but not voted for a project and also accelerate the completion of a specific capital project.
- (f) **Development Fund Special Warrant:** A DFSW is issued in exceptional cases where:
 - (i) Virement is not possible
 - (ii) Provision for the release of additional funds reveals such high degree of urgency that the release of funds cannot be postponed until a Supplementary Capital Estimate is approved. If the issue of fund is postponed, it will cause serious injury to the public interest. The amount to be expended under this Warrant must not exceed the balance of the Development Fund remaining after all other expenditures provided for in the Capital Estimate have been incurred.
- (g) **Development Fund Virement Warrant:**

The Warrant permits the issue of additional funds necessary for the completion of a capital project, for which money already allocated in the Estimate is not enough to complete the project. There must however be sufficient offsetting savings in the amounts appropriated for other projects in the same Economic Programmed Section. The limitations imposed for the issuance of the Development Fund Virement Warrant include:

 - (i) Re-allocation can be made only within the same Head of expenditure in the Capital Estimates.
 - (ii) The re-allocation must not give rise to a new principle or policy.
 - (iii) It cannot be used to provide funds for new projects.

Note that all Warrants are issued in two copies. The original copies are forwarded to the Accountant-General of the Federation and the duplicate copies to the Auditor-General for the Federation. A notification to the effect that a Warrant has been issued shall also be published in the Federal Office Gazette.

Self-assessment exercise

What is Warrant? How does it function in public sector accounting?

3.2 Revenue Control

The term Revenue Control" describes the various checks put in place to ensure that all moneys due are received and accounted for. The revenue control system in the public sector is designed to have the following elements:

- (a) Periodic monitoring.
- (b) Policing the Revenue Administration System to ensure that services are not rendered without charges being levied.
- (c) Timely issuance of demand notices and follow-up action to track down debts.
- (d) Timely issuance of all revenue documents.
- (e) Prompt lodgment into the bank of all moneys received.
- (f) Establishment of authority limits for revenue handling.
- (g) Establishment of functional system of internal controls and constant reviews of procedures.

Self-assessment exercise

What are elements of revenue control system in the public sector?

3.3 Funding Principles

Fund Accounting is one of the fundamental principles underlying Government Accounting. For stewardship purposes, the income of Government is categorized into series of funds. Each Fund caters for a specific welfare activity of Government. The word 'Fund' has been defined as "a separate fiscal and accounting entity in which resources are held, governed by special regulations, separated from other funds and established for specific purposes."

3.3.1 Classification of Funds

Funds can be classified into three categories, namely:

- (a) Government Funds:** They are used to accrue for resources which are derived from the general tax and revenue powers of Government. Examples are debt service fund, special fund and revolving fund.
- (b) Proprietary Funds:** These are funds used to account for the resources derived from the business activities of Government and its Agencies such as the Parastatals.
- (c) Fiduciary Funds:** These are used to account for resources held and managed by Government in the capacity of a custodian or trustee. Such funds are Petroleum Technology Development Fund, Trust and Agency Fund and Pension Trust Fund.

3.3.2 Types of Funds

- (a) **General Fund:** It is a fund established for resources which are devoted to financing the general administration or services of Government. It is also called Consolidated Revenue Fund. Section 5 of the Finance (Control and Management) Act of 1958) Cap 144, 1990 stipulates that the management of the Fund shall be in accordance with the requirements of the Constitution of Nigeria.
- (b) **Capital Project Fund:** This is a Fund created to accommodate resources meant for the acquisition of capital assets or facilities. It is also known as Development Fund. It came into existence by virtue of Section 18 of Finance (Control and Management) Act of 1958.
- (c) **Special Fund:** It is a Fund created for specific purposes, e.g. South African Relief Fund, African Staff Housing Scheme Fund (A.S.H.S.).
- (d) **Trust Fund:** It is a Fund whose resources are held by Government as a trustee. It is used for the purpose stated in the Trust Deed, e.g. Petroleum Technology Development Fund and Research Foundation Fund.
- (e) **Contingency Fund:** It is a Fund whose resources are meant for expenditure or anticipated expenditure of uncertain amounts. An example is the expenditure on natural disaster. Section 15 of the Finance (Control and Management) Act 1958 brought the Fund into existence.
- (f) **Inter-Governmental Service Fund:** This is established to provide service to other Funds, e.g. Government Clearance Fund which helps to maintain (transitionally) the balance between the Federal Government and other State Governments in respect of transactions.
- (g) **Revolving Fund:** Revolving Fund is also known as Working Capital Fund. It was created to finance services provided by a designated unit to other Departments within a single Governmental set-up. An example of a Revolving Fund is Revolving Loan Fund.
- (h) **Self-liquidating Fund:** This is a Fund into which resources are transferred periodically and out of which any money or amount left has to be transferred to a current fund, e.g. Deposit Fund. Deposits are moneys held on behalf of third parties.

Self-assessment exercise

Discuss Fund Accounting showing the different types of fund in the public sector

4.0 CONCLUSION

This Unit concluded main discussion the various Financial Authorities, divided into Recurrent and Capital Expenditure Warrants. It also dealt with revenue control techniques and Accounting.

5.0 SUMMARY

In summary you were led through the authorization of a Government Expenditure by means of Financial Warrants which are categorized into Recurrent and Capital Expenditure Warrants. The issues of revenue control as well as the classification of funds in the context of the Public Sector are also treated.

In Unit 5, you will learn Expenditure Control in Government

6.0 TUTOR MARKED ASSIGNMENT

- a) Which are vital tools for the efficient implementation of the budget and how do they function?
- b) Identify the importance of revenue control techniques

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

National Open University Nigeria (2009) MBA728: *Public Financial Management*
Lagos

UNIT 5 EXPENDITURE CONTROL

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Need for Control
 - 3.1.1 The Executive Control
 - 3.1.2 The Legislative Control
 - 3.1.3 Auditor-General for the Federation
 - 3.1.4 Ministry of Finance Control
 - 3.1.5 Controls by Warrants
 - 3.1.6 The Treasury Control - Office of the Accountant-General of the Federation (OAGF)
 - 3.1.7 Inspectorate Division
 - 3.1.8 Internal Audit
 - 3.1.9 Departmental Control over the Budgeted Expenditure
 - 3.2 Public Accounts Committee
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

This unit introduces you to expenditure control in Government of Nigeria identifying different arms of government roles. The different departments and agencies involved have also been discussed as stated in the objective below.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- Identify the various types of controls exercised over Government expenditure.

3.0 MAIN CONTENT

3.1 Need for Control

Expenditure control could be defined as the strings of coordinated actions which have

to be taken to ensure that all expenditures are 'wholly', 'necessarily', 'reasonably' and 'exclusively' incurred for the purposes for which they are meant. The following are the basic controls exercised over Government expenditure:

- (a) The Executive Control.
- (b) The Legislative Control.
- (c) The Ministry of Finance Control.
- (d) The Treasury Control (Office of Accountant - General of the Federation)
- (e) The Departmental Control.
- (f) Office of the Auditor - General for the Federation.

3.1.1 The Executive Control

The Executive comprises the President and his cabinet members who have the responsibility for the efficient and effective control of the administration of the country - politically and economically. The Constitution created two other arms of government, called the Legislative and the Judiciary for purposes of checks and balances. All measures and policies taken by the President are subject to the approval of the Legislature within the ambit of the Constitution.

Consequently, in accordance with Section 75(1) of the Constitution, "The President shall cause to be prepared and laid before each House of the National Assembly at anytime in each financial year, estimates of revenue and expenditure of the Federation for the following financial year."

The President, in order to satisfy the provisions of the Constitution also appoints a Cabinet Committee on Estimates, to advise him on the contemplated policy measures. The policy measures contemplated are then transmitted to the Budget Department in the Presidency. This development in turn leads to the issuance of guidelines on the preparation of the Budget. As a result, effective supervision is exercised on all the Agencies involved in budget operation. Any Unit of the Government whose requirements are higher than the 'control figures' already issued, is invited to defend the excess request.

3.1.2 The Legislative Control

The National Assembly is the Supreme Authority on matters of the Nation's finance. The control exercised by the Legislature is both 'antenatal' and 'post-natal'. The 'ante-natal' control is in the sense in which the Legislature considers and approves the Estimates submitted to it by the President. 'Post-natal' control is the review of transactions after payment. No amount of public fund may be spent without the approval of the National Assembly. However, Section 82 of the 1999 Constitution empowers the President to spend from the Consolidated Revenue Fund to carry on the administration of Government of the Federation for not more than six (6) months or

until the coming into operation of the Appropriation Act, whichever is earlier.

3.1.3 Auditor-General for the Federation

The Auditor General for the Federation scrutinizes all accounts and records of the money collected and spent and reports to the National Assembly appropriately on the instances of waste, extravagance, inefficiency or fraud. It is observed that the Auditor-General's duty is post-payment audit, except in the matters relating to pension and gratuity payments on which he performs pre-payment audit. This is in addition to the regularity and compliance audit that he carries out as a duty.

3.1.4 Ministry of Finance Control

When Ministries/Departments require money to pay for services, they normally apply to the Minister of Finance, for such funds. The tradition is that once a year the Ministries and Parastatals present Estimates to cover their needs and requirements which are expected to be prudent, necessary and reasonable, in accordance with the Financial Regulations and Appropriation Act. The Minister passes the Consolidated Revenue and Expenditure Estimates to the President who will present them to the Federal Executive Council for approval before they are forwarded to the National Assembly as Appropriation Bill.

3.1.5 Controls by Warrants

Although the Estimates and Appropriation Acts guide the disbursement of public funds, the release of money is subject to issuance of relevant Warrants by the Finance Minister, for the expenditure. The Warrant authorizes the Accountant-General to release fund from the Consolidated Revenue Fund or Development Fund. The system of Warrant gives the Executive greater control over the issuance of funds than would be offered by a system which relies solely on the provisions of the Appropriation Acts.

3.1.6 The Treasury Control - Office of the Accountant-General of the Federation (OAGF)

The Accountant-General has overall responsibility for the total expenditure of Government. His office would keep necessary books of accounts to record all the receipts and expenditure of the various Ministries and Departments. The Treasury Department exercises some measure of supervision and checks over the accounting records of the Non-Self Accounting Units.

3.1.7 Inspectorate Division

Inspectorate Officers from the Office of the Accountant - General of the Federation visit

the various Ministries and Departments to evaluate the system of internal control. They do this to ensure that the accounting system and maintenance of various books of accounts conform to the approved regulations and procedures.

3.1.8 Internal Audit

This is another aspect of control exercised in any organisation. The Treasury dispatches Internal Auditors to the Ministries and Self-Accounting Departments to appraise the effectiveness of the existing internal checks and report upon any inadequacy discovered.

3.1.9 Departmental Control over the Budgeted Expenditure

A Departmental Vote Expenditure Allocation Book (D.V.E.A. Book) is a record of payments made and liabilities incurred under the Votes or Funds approved for each Ministry or Extra-Ministerial Department. A Vote Book is maintained for each Head or Sub-Head of expenditure. It is an integral part of the Budgetary Control System. The Book is designed to facilitate vote watching to ensure that expenditure incurred are not in excess of appropriation. Over-expenditure of departmental vote amounts to reckless use of public funds and is seriously frowned at by Government.

It is the duty of the Officer who is controlling the Vote to thoroughly investigate, without delay, payments or charges which appear in the schedules drawn up by the Accountant-General, which do not appear in the Vote Books particularly with a view to the prevention and detection of fraudulent payments.

Self-assessment exercise

State three types of control over Government control expenditure

3.2 Public Accounts Committee

The 1979 and 1989 Constitutions brought into existence the Public Accounts Committee. The purpose of the Committee is to expose waste, corruption or inefficiency in the handling of public funds or projects. It is empowered to examine the audited accounts of the Federation and those of public offices as well as the Auditor-General's report thereon.

4.0 CONCLUSION

This unit concludes the expenditure control by the various levels of Government in order to ensure proper accountability in Government finances.

5.0 SUMMARY

This unit dealt with Expenditure Control, with emphasis on the various forms of control over Government expenditure. These include the Executive, Legislative, Ministry of Finance, the Treasury and Departmental Controls.

In unit 1 Module 2, you will learn about the preparation of vouchers in the public sector

6.0 TUTOR-MARKED ASSIGNMENT

- a) Identify the various types of controls exercised over Government expenditure.
- b) Explain expenditure control. What is the basic controls exercised over Government expenditure:

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

National Open University Nigeria (2009) MBA728: *Public Financial Management*
Lagos

MODULE 2

UNIT 1 PREPARATION OF VOUCHERS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Definition of Voucher
 - 3.2 Types of Vouchers
 - 3.2.1 Payment Vouchers
 - 3.2.2 Essential Features of a Valid Payment Voucher
 - 3.2.3 Rules Guiding Issuance of Payment Vouchers
 - 3.2.4 Loss of a Payment Voucher
 - 3.3 Types of Vouchers
 - 3.4 Receipt Vouchers
 - 3.5 Adjustment Vouchers
 - 3.6 Variation Control Sheet
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In this unit, you would be introduced to the preparation in vouchers in the public sector, identifying various types and the essential features of a valid voucher and the use of payment vouchers

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify the various types of vouchers in use.
- State the essential features of a valid voucher
- Identify the use of payment vouchers.

3.0 MAIN CONTENT

3.1 Definition of Voucher

A voucher is a document which evidences a receipt or payment of money. Specifically Government Financial Regulation states that all payments must be by means of the prescribed form.

3.2 Types of Vouchers.

Vouchers may be classified into three categories, viz:

- (a) Payment Vouchers.
- (b) Receipt Vouchers.
- (c) Adjustment Vouchers.

Self-assessment exercise

What is the usefulness of a voucher?

3.2.1 Payment Vouchers

Any money to be paid by the Government must be supported with a payment voucher. This is to serve as evidence that payment is made for goods purchased or services rendered. Vouchers are prepared at the point where payments are to be effected.

3.2.2 Essential Features of a Valid Payment Voucher

A valid payment voucher must contain the full particulars of such services rendered or goods purchased like date, serial number, quantity and price. It has to be supported by relevant documents such as invoices, local purchase orders and letters of authority. The following are the essential features of a well-prepared payment voucher:

- (a) Date of the voucher, which indicates its life span.
- (b) Classification code, i.e. Head and Sub-Head of expenditure.
- (c) Amount in words and figures.
- (d) Voucher number.
- (e) Description of payment.
- (f) Name and address of payee! beneficiary
- (g) Supporting documents, such as local purchase orders, invoices, store receipt vouchers and contract agreements.
- (h) Authority such as the signature of the officer controlling expenditure and the type of Warrant which will release the money
- (i) Signature of the cashier.

- (j) Signature of the payee.
- (k) Voucher certification, which indicates the following, in a box:

Prepared by.....
 Checked by.....
 Entered into Vote Book by.....
 Passed by'.....
 Paid by.....

- (I) Cheque number, where the payment is by cheque
- (m) Cashier's stamp 'PAID' which prevents re-presentation of the voucher for payment a second time.

ILLUSTRATION 6-1

EXAMPLE OF A PAYMENT VOUCHER

Head.....Station.....
 Sub-Head.....
 Voucher Serial No.....Amount ₦.....
 Name of Beneficiary.....
 Address:.....

Date	Description of payment	Rate	Amount payable
-	Authority by: (i) Warrant		
	(ii) Officer Controlling Expenditure		
-	Amount in words.....		
-	Signature of payee.....		
-	Signature of Cashier.....		

I certify that the above voucher has been entered in my Vote Book

.....
 Signature of Officer Authrising the Expenditure

3.2.3 Rules Guiding Issuance of Payment Vouchers

According to Financial Regulations, a Sub-Accounting Officer may not make payment against a voucher unless:

- (a) The voucher is certified for payment by the officer who is authorized to do so.
- (b) The voucher is stamped "checked and passed" for payment and duly signed by the checking officer, stating the name of his station.
- (c) The voucher is stamped, "Entered in the Vote Book" and the Officer keeping the Vote Book duly signs it.

Government Financial Regulations specify the rules which should be strictly observed in the

preparation of payment vouchers, as follows:

- (a) Vouchers shall be made in ink or ball point pens or indelible pencils or shall be type-written. All copies must be legible.
- (b) No erasure of any kind, whether in typescript or manuscript. Use of correcting fluid is not allowed.
- (c) A single thick horizontal line shall be drawn immediately before and immediately after the Naira (₦) figure. Where it appears in words space shall not be allowed.

Where a payment voucher is presented to the Sub-Treasury or Cash Office for the purpose of obtaining cash for payment to be made elsewhere, as in the case of payment of salaries, a cheque/cash order form has to be signed by the Officer authorizing the voucher, bearing the signature of the Officer authorized to receive the cheque or cash. A separate cheque/cash order form is required for each voucher.

3.2.4 Loss of a Payment Voucher

If a payment voucher is reported lost:

- (a) prompt investigation should be carried out;
- (b) it should be established whether payment has been made on it or not;
- (c) it should be ascertained whether or not the cash drawn is still on hand;
- (d) report should be made by the Accounting Officer to the Accountant-General, stating the circumstance of the loss.

Example of Receipt Voucher

Self-assessment exercise

What are the essential features of a valid payment voucher?

3.3 Receipt Vouchers

A receipt voucher is documentary evidence that the sum stated thereon has been received. Any receipt into the Government purse must be supported with "Treasury Form 15" (Pay-In-Form) with attached "Treasury Receipt Book 6" before it is regarded as an authentic receipt voucher.

3.4 Adjustment Vouchers

Adjustment voucher is a documentary evidence of formal entries which enables transfers to be made from one account to another without actual receipt or payment of Cash.

Adjustment voucher is used in any of the following circumstances:

- (a) Payment for Inter-Ministerial Services.
- (b) Correction of accounting errors arising from misclassification.
- (c) Ultimate allocation of unallocated stores.
- (d) Carrying out adjustments or transfers between accounts.

Adjustments are usually initiated by the creditor department and sent to the debtor department for acceptance of the charge.

Head: _____	Receipt No: _____	The following particulars are required on an adjustment voucher: (a) Reason for the transfer or adjustment, with full reference to the original debit or credit being adjusted.
Sub - Head: _____	Date: _____	
Received From: _____		
The Sum of: _____ ₦ _____		
Being Payment for: _____		
Signature of Cashier: _____		
Signature of the Payee: _____		

- (b) Voucher number.
- (c) Month of Account.
- (d) Particulars of Treasury or Audit Query, where the adjustment is as a result of such an investigation.

3.5 Variation Control Sheet

Variation Control Sheet is used to effect changes in staff salary. Such changes can be due to promotion/demotion, overtime, acting allowances etc. It is also used to analyse the difference between the previous month's salary figure and that of the current month.

The sum total of the variations should be added to or subtracted from the relative total of the previous month. The figure obtained must correspond with that on the summary payroll of each pay point.

Self-assessment exercise

Prepare a typical voucher.

4.0 CONCLUSION

This unit concluded the discussion on payment vouchers, receipt vouchers, adjustment vouchers and variation control sheets. It stressed on the essential features of valid vouchers and the duties of the Accounting Officers with respect to payment vouchers.

5.0SUMMARY

In summary the unit covers the essential feature of payment vouchers as instrument of financial control to enable learners to appreciate the different types of vouchers in use in Government.

In unit 2, you will learn about functions of cash office.

6.0 TUTOR MARKED ASSIGNMENT

- a) List the various types of vouchers in use in public sector accounting.
- b) Identify the essential features of a valid voucher.

7.0REFERENCES/FURTHER READING

ICAN Study Pack

National Open University Nigeria (2009) MBA728: *Public Financial Management* Lagos

UNIT 2 FUNCTIONS OF THE CASH OFFICE

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Functions of the Cash Office
 - 3.2 Cash Book Entries
 - 3.3 Checking the Cash Book
 - 3.4 Cash Withdrawals from Bank
 - 3.5 Cheque Summary Register
 - 3.6 Security and Custody of Accounting Books and Documents
 - 3.7 Maintenance of Adequate Cash Control Measures
 - 3.7.1 Documents Required For the Preparation of a Bank Reconciliation Statement
 - 3.7.2 Procedures for Carrying Out Bank Reconciliation Exercises
- 3.8 Preparation of Bank Reconciliation Statements
- 3.9 Importance of Bank Reconciliation.
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/further Readings

1.0 INTRODUCTION

In this unit, you will learn about functions of cash office in the public sector.

2.0 OBJECTIVES

After studying this unit, readers should be able to

- List the functions of the cash office
- Lay-out the procedures for the preparation of bank reconciliation statements.

3.0 MAIN CONTENT

3.1 Functions of the Cash Office

The duties of the Cash Office are receiving and paying cash, posting cash transactions into the cash book, opening a bank account on which cheques are drawn and providing information on the cash position at a given time. Security is essential in the management of the cash office. This includes the provision and partitioning of a cashier's cage to

3.3 Checking the Cash Book

The regular checking of the cash book is an important exercise in detecting errors and frauds. The physical cash balance has to be verified daily and specification certified in the cash book by the close of the office. The Head of the Central Pay Office or Accounts should undertake confirmation of the postings in the cash book with the details of the relevant payment vouchers, latest on the following working day. Payment vouchers have to be scrutinized to confirm the arithmetical accuracy of the gross amounts, deductions and the net figures, care should be taken to ensure that the gross amounts are posted as the total amounts authorized on the vouchers. Receipts are issued for deductions made and properly classified on the relevant Treasury Form 15, and cash paid should be for the net amount due.

Self-assessment exercise

Explain cashbook entries in cash office.

3.4 Cash Withdrawals from Bank

Where cash is to be withdrawn from the bank, a cheque will be issued for the amount after due authorization processes, but without raising a payment voucher. The amount is entered as a contra-entry. Where a substantial amount of cash is held above the authorized maximum, arrangement should be made to pay the excess into the bank through a teller or paying-in form. This will also be a contra-entry. A contra entry shows the movement of cash between the office and the bank.

Where it is necessary to keep a reasonable amount of cash float in the office for urgent transactions, withdrawal from the bank follows the same procedure. The amount withdrawn is entered in a cash float register, in addition to the posting made in the Cash book.

3.5 Cheque Summary Register

The cheque summary register serves as a useful record for the verification of bank transactions in the cash book. All cheques issued, money lodged into the bank account, vouchers raised to cover bank advices, teller particulars and other transactions, which are already recorded in the cash book, should be posted into the Cheque Summary Register. The register is balanced daily the balances in the register have to agree with those in the cash book. As an internal check, the person posting the Summary Register should not be the same person handling the cash book. The Head of Accounts should check the register daily before the cashier accepts any voucher for payment. He has to ensure that all the accounting regulations are kept.

3.6 Security and Custody of Accounting Books and Documents

Security documents carry monetary values. Such documents can be used to defraud the Government if they fall into unauthorised hands or make government suffer loss if accidentally destroyed. Examples of security documents are:

- (a) Cheque Book.
- (b) Treasury Receipt Books 6A and 6B.
- (c) Cheque Summary Register.
- (d) Cash Book.
- (e) Payment Voucher.
- (f) Local Purchase Order.
- (g) Postal Order.
- (h) Money Order.

The security control of cheque books is important in the prevention of fraud. Issuing and handling of cheques should be limited to a small number of staff of the Pay Office. Due check of unused leaves in a cheque book should be undertaken in order to ensure that none has been removed for fraudulent purposes. Unclaimed cheques which become stale after six months of issuance are written back.

Cash held in the office, cheque books and all unused control books are to be kept in a safe or strong room, the keys of which are to be kept under the dual responsibility of senior officers. Cash books, payment vouchers, cheque summary registers and all other vital pay office records are to be kept in fire proof security cabinets to ensure that unauthorized persons do not have access to them. Specifically, FR 906 states that it is the duty of the Accounting Officer to ensure that departmental officers who are required to hold public money stamps, etc. are provided with proper safe custody facilities.

Used security documents and other accounting records shall be retained for the following years after use:

Documents	Period of Retention
Financial warrants, cash books, PIE records, etc;	Permanently
Revenue collector cash books, original payment vouchers, etc.	7 years
LPO, book copies of rail or other transport warrant, etc	2 years

3.7 Maintenance of Adequate Cash Control Measures

Cash control relates to the co-coordinated actions which have to be taken in order to ensure that all income due to the Government is collected on a timely basis, and that fraud is prevented. The cardinal objective is to ensure that funds are not mismanaged or misappropriated.

The following are the various cash control measures adopted in the Ministries and Parastatals, viz:

- (a) Establishment of cash limits.
- (b) Daily banking of all takings.
- (c) Periodic surprise cash count (cash survey).
- (d) Provision of a safe, which has to be under dual control.
- (e) Installation of 'raid alarm'.
- (f) Installation of counting/sorting machines and mercury light.
- (g) Ensuring that there is sufficient adequate insurance cover is taken over the cash limit.
- (h) Investment of idle funds.
- (i) Establishment of 'authority limit.'
- (j) Balancing of Cash book.
- (k) Preparation of bank reconciliation statements.

3.8 Preparation of Bank Reconciliation Statements

Every organization has to keep close watch on its bank account transactions to guard against fraud or the infiltration of extraneous entries. It exerts the watch through regular preparation of bank reconciliation statements. In these days of fast and smart bank deals, the importance of preparing bank reconciliation statements at regular intervals cannot be overemphasized. Failure to do this may not only result in heavy loss of funds but sometimes in much more embarrassing situations.

Reconciliation is the process of resolving the difference between the balance as per cash book and the balance as per bank statement on the same date and in respect of the same items of transactions. A bank reconciliation statement is prepared to reconcile the figures in the bank column of the cash book with those on the bank statements for the period under review.

3.8.1 Documents Required For the Preparation of a Bank Reconciliation Statement

The documents required are:

- (a) Cash Book and Cheque Summary Register.

- (b) Bank Statements.
- (c) Cheque Stubs.
- (d) Paying-in-Slips.
- (e) Last Bank Reconciliation Statement.
- (f) Debit and Credit Advices.

3.8.2 Procedures for Carrying Out Bank Reconciliation Exercises

The bank reconciliation exercise is done by picking the balance of cash in the cash book to which are added the values of unpresented cheques and receipts in bank not in cash book. Payments made by bank not in cash book and "receipts in cash book not in Bank" (i.e. uncredited cheques) are deducted. The resultant balance should agree with the subsisting figure on the bank statement. The following activities are recommended:

- (a) Pick or extract the Cash Book balance at the end of the month.
- (b) The previous month's Bank Reconciliation Statement should be made available in order to treat the outstanding items such as unpresented cheques and uncredited lodgements.
- (c) Tick debit entries in the Cash Book against credit entries on the Bank Statements. Conversely tick credit entries in the Cash Book against the debit entries on the Bank Statements.
- (d) Extract the unticked items into the following suggested schedules:
 - Schedule "A": Unpresented Cheques.
 - Schedule "B": Credits in Bank not in Cash Book
 - Schedule "C" Uncredited Lodgements.
 - Schedule "D": Debits in Bank not in Cash Book
- (b) Prepare the Bank Reconciliation Statement based on the format suggested.

In summary, bank Reconciliation is made up of four components namely:

- (i) Unpresented Cheques: These are cheques issued to payees but which have not been presented to the bank for payment.
- (ii) Credits in the Bank but not in the Cash Book: These are direct payments to the bank for which receipts have not been issued and which have not been entered in the Cash Book.
- (iii) Uncredited Cheques: These are lodgements not yet credited by the bank as at the end of the month when the bank statement was received.
- (iv) Debits in the Bank but not in the Cash Book: These are

withdrawals, commissions and standing order payments in the bank statement that were not yet recorded in the Cash Book.

ILLUSTRATION 3-1

A Typical Bank Reconciliation Statement

Balance as per Cash Book		X
Add: Unpresented Cheques	X	
Receipts in Bank not in Cash Book	X	XX
		XX
Less: Uncredited Cheques	X	
Payments in Bank not in Cash Book	X	XX
Balance as per Bank statement		X

3.9 Importance of Bank Reconciliation

- It discloses any unauthorized cheque issued and cashed;
- It reveals any dishonoured cheques for which receipts have been issued and entered into the cash book;
- It discloses fraudulent/fake pay-in-slip purported to have been obtained for paying into government account;
- It reveals any lodgements not credited by the bank either by omission or commission.

ILLUSTRATION 3-2

The Cash Book of Zolu Local Government showed a debit balance of 4502,000 as at 30/9/200X. However, the bank account statement showed a credit balance of 4505,000. On investigation, the following were discovered:

- (a) Cheque Numbers 51522 and 32552 for 42,000 and 43,000 respectively, have not been presented for payment.
- (b) Interest on investment of 41,000 has not been posted into the Cash Book.
- (c) A sum of 42,000 paid into the bank was credited only after the bank statement was issued.
- (d) Bank charges of N1,000 have not been recorded in the Treasury Cash Book.

You are required to prepare a Bank Reconciliation Statement for the Local

Government.

SUGGESTED SOLUTION 3-2

ZOLU LOCAL GOVERNMENT
Bank Reconciliation statement as at 30/09/200X

	₦	₦
Balance as per Cash Book		502,000
Add Unpresented Cheques	5,000	
Interest on investment not in the cash	1,000	6,000
Less Uncredited Deposit	2,000	508,000
Bank charges	1,000	3,000
Balance as per Bank Statement		505,000

TUTORIAL NOTE:

Most of the functions of the cash office described above have however been modified with the issuance of Treasury Circular TRY/A8&B8/2008, OAGF/CAD/ 026N01.11/465 dated 22nd October, 2008 on E-Payment which stipulates that all payments from all Federal Government Funds should henceforth be made electronically

Suggested Procedure for Preparation of Bank Reconciliation Statement The current practice in preparing monthly bank reconciliation statement involves:

- (a) Preparing Adjusted Cash Book where adjustment will be made for items, other than unpresented cheques and uncredited lodgements.
- (b) Preparing the Bank Reconciliation Statement which adjusts for unpresented cheques and uncredited lodgements.

ILLUSTRATION 3-3

Adjusted Cash Book	
Balance as per Cash Book	XXX
Add: Credit items in the Bank Statement but not in the Cash Book	XXX XXX
Less: Debit items in the Bank Statement but not in the Cash Book	XXX
Balance as per Adjusted Cash Book	<u>XXX</u>
Bank Reconciliation Statement	

Balance as per Adjusted Cash Book	XXX
Add: Unpresented Cheques (To be listed)	XXX
	XXX
Less: Uncredited Lodgements (To be listed)	XXX
Balance as per Bank Statement	XXX

This second procedure is commonly used in Parastatals, Boards and Corporations.

Self-assessment exercise

List the document required to prepare Bank Reconciliation.

4.0 CONCLUSION

The unit inculcated the understanding of the cash office functions and the laying out of the procedures for the preparation of bank reconciliation statement to you

5.0SUMMARY

This unit summarized the functions of the Cash Office, the reasons as well as the procedures for the preparation of bank reconciliation statements though the functions of the cash office have been modified by the introduction of e-payment.

In unit 3, you will learn of the preparation of monthly transcript of a self-accounting unit in the public sector.

6.0TUTOR MARKED ASSIGNMENT

- a) What are the functions of the Cash Office?
- b) Outline the procedures for preparing bank reconciliation statements

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 3 PREPARATION OF MONTHLY TRANSCRIPTS OF A SELF-ACCOUNTING UNIT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Preparation of Monthly Transcripts
 - 3.2 Types/Classes of Transcripts
 - 3.3 Documents Expected To Accompany the Transcript
 - 3.3.1 Conditions to Be Fulfilled For a Ministry to Be Self-Accounting
 - 3.3.2 Advantages of a Self-Accounting Unit
 - 3.3.3 Disadvantages of the Operation of Self-Accounting Units
 - 3.4 Self-Accounting Unit
 - 3.5 Sub-Self Accounting Units
 - 3.6 Non-Self Accounting Unit
 - 3.7 Procedures for the Preparation of a Transcript
 - 3.8 Certificate of Cash and Bank Balances
 - 3.9 Monthly Cash and Bank Balances As At 31 January, 20xx
 - 3.10 Breakdown of Expenditure
 - 3.11 Posting of the Main Ledger
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

This unit introduces you to Preparation of Monthly Transcripts for a self-accounting unit in the public sector outfit in Nigeria.

2.0 OBJECTIVES

After studying this chapter, you should be able to:

- Outline the procedure for the preparation of transcripts.
- Distinguish between Self-Accounting, Sub Self-Accounting and the Non-Self Accounting Units.
- Demonstrate the knowledge with practical examples of Above-the-Line and Below- the-Line Accounts.

3.1 Preparation of Monthly Transcripts

A transcript can be defined as the summary of the total receipts and payments as posted in the cash book. The preparation of monthly transcripts is an important aspect of the functions of a Self-Accounting Ministry. It is the only means by which the information on the cash transactions of a Ministry is forwarded to the Treasury. A transcript is the final accounts of a Self-Accounting or a sub Self-Accounting Unit.

3.2 Types/Classes of Transcripts

Transcript can be classified into three, namely:

- (a) Main Transcript;
- (b) Supplementary Transcript; and
- (c) Subsidiary Transcript.

Main transcript is the transcript prepared by the Self-Accounting units and submitted to the Accountant-General of the Federation on monthly basis. It is also referred to as cash transcript. Supplementary transcript is the main adjustment to the main transcript prepared in conformity with the principle of Double Entry. Subsidiary transcript is prepared to complement the main transcript. It is used to correct errors or omissions in the Main Transcript

It contains both above and below the line account items.

3.3 Documents Expected To Accompany the Transcript

The transcript prepared by a Self Accounting Unit should be forwarded to the Treasury with the following documents:

- (a) Certificate of cash and bank balances.
- (b) Schedule of vouchers pre-listed.
- (c) Bank reconciliation statement.

Examples of Self-Accounting Units are:

- (a) Ministry of Finance
- (b) Ministry of Works
- (c) Ministry of Education
- (d) Office of the Auditor-General for the Federation.

Self-assessment exercise

A self accounting Ministry forwards a monthly summary of its total receipts and payments to the Accountant-General by means of

3.4 Self-Accounting Unit

A Self-Accounting Unit is a Ministry or Extra-Ministerial Department which has full control over all its accounting records. The Unit relates to the Treasury, (i.e. the Accountant-General's office), through the preparation of transcripts.

3.4.1 Conditions to Be Fulfilled For a Ministry to Be Self-Accounting

In accordance with Financial Regulations 1202, for any Ministry to be recognized as a Self-Accounting Unit, it has to satisfy the following conditions:

- (a) It should have adequate qualified personnel.
- (b) It should be operating adequate and functional system of internal control.
- (c) It should have an Internal Audit Department.

3.4.2 Advantages of a Self-Accounting Unit: These are:

- (a) It relieves top management of work overload.
- (b) It speeds up operational decision-making.
- (c) It increases flexibility and reduces communication problems.
- (d) It increases motivation of the work force and encourages usage of initiative.
- (e) It provides better training for junior management.

3.4.3 Disadvantages of the Operation of Self-Accounting Units: These are:

- (a) Co-ordination may be difficult to achieve.
- (b) The extended lines of communication could lead to information overload.
- (c) It may be difficult to achieve consistency.
- (d) There may be duplication of certain services.
- (e) There is the problem of sub-optimality. That is, the maximization of ministerial goals could be at the expense of the overall objective of Government.
- (f) The operation of a Self-Accounting Unit assumes the availability of adequate and well-qualified managers. This may be difficult to obtain in practice.
- (g) There may be friction or inter-departmental conflicts between the Ministries where functions are inter-dependent.

3.5 Sub-Self Accounting Units

A Sub-Self Accounting Unit performs the same functions as those of a Self-Accounting Unit. However, the difference between the two is that the former forwards its transcripts to the Treasury, with the following:

- (a) Original copy of cash book.
- (b) Duplicate copies of payment vouchers.
- (c) Certificate of cash and bank balances.
- (d) Schedule of vouchers pre-listed.
- (e) Bank reconciliation statements.

An example of a Sub-Self Accounting Unit is the Federal Pay Office located in each of the States of the Federation.

3.6 Non-Self Accounting Unit

A Non-Self Accounting Unit is a Ministry or Extra-Ministerial Department which has no control whatsoever over any of its accounting records. The Unit prepares vouchers, but has to make payments through the Treasury an example of such a unit is the Code of Conduct Bureau in a State. A Non-Self Accounting Unit neither keeps the Treasury Cash Book nor renders transcripts to the Accountant-General.

Self-assessment exercise

A ministry or Extra-Ministerial Department which has full control over all its accounting records is a.....unit.

3.7 Procedures for the Preparation of a Transcript

The procedures are as follows:

(a) Obtaining Original Cash book folios:

The first step in the preparation of a transcript is to obtain the cash book and all the receipt and payment vouchers, which have been posted in a particular month. The various vouchers have to be checked into the cash book to ensure correctness and proper treatment. This is necessary in order to eliminate errors and irregularities which may later create problems in balancing the two sides of the transcript.

(b) Pre-listing of the Vouchers:

The vouchers should be sorted into their different classifications, i.e Heads and

Sub-heads, for the purpose of pre-listing, to obtain the totals of each classification on a daily basis.

(c) Posting into the Analysis Book:

The totals are then entered into an analysis book with columns for each classification extended into the grand total column for all the transactions. The operation is done on a daily or weekly basis. At the end of each month, the total for each classification is obtained by casting the various figures. The figure of balance obtained should then be compared with that shown in the Cash Book. Unless there is a mistake somewhere, the two figures should agree.

(d) Scheduling:

This involves recording the various vouchers according to the classifications which show serial numbers and gross amounts.

(e) Generation of the Monthly transaction:

The monthly transcript is prepared from the figures in the analysis book and the voucher schedules. The balance brought forward from the previous month is the opening item. The transcript entries are closed with the balance carried down for the month. The balance should also agree with the cash book closing figure for the month.

ILLUSTRATION 8-1

**EXAMPLE OF A TRANSCRIPT FORMAT
FEDERAL MINISTRY OF JAICOM AND LEADWAYS TRANSCRIPT
FOR THE MONTH ENDED 31 JANUARY, 200X.**

Head	Sub-Head	Description/ Particulars,	Amount 14000	Sub- Total N000	Total N000	Head	Sub- Head	Description/ Particulars,	Amount N000	Sub- Total N'000	Total N'000
		Balance b/f						Balance b/f			
		Total for Head Below the line						Total for Head Below the			
		Total Below the line						Total Below the line			
		Total Revenue						Total Revenue			

ILLUSTRATION 8-2

The Ministry of Men's Affairs has the following transactions in its financial records, for the month of June, 200X:

REVENUES: N'000

8011 Licence to marry	600,000
8012 Licence for hunting	800,000
8013 Delivery licence	1,400,000
1001 Education fees	700,000
1002 Medical fees	1,640,000
1003 Registration fees	1,340,000

BELOW THE LINE REVENUES:

10001 Refund of marriage advance	76,000
10002 Repayment of motor vehicle loan	260,000
10003 Repayment of correspondence advance	150,000
10004 Repayment of salary advance	26,000

EXPENDITURES:

i. Personnel costs – salaries	1,460,000
ii. Local transport and travelling	160,000
iii. Miscellaneous expenses	150,000
iv. Overhead costs	344,000
v. Research expenses	66,000
vi. Enlightenment campaign	94,000

BELOW-THE-LINE EXPENDITURES:

2001 Loans for wedding gowns	74,000
2002 Advances (Personal)	85,100
2003 Housing loans	294,000
2004 Beijing advance	166,000
The opening balance for the month is:	₦
Receipts side	1,894,000
Prepare the Transcript for the month,	

SUGGESTED SOLUTION 8-2

**FEDERAL MINISTRY OF MEN'S AFFAIRS:
TRANSCRIPT FOR THE MONTH ENDED 30 JUNE 200X.**

Head	Sub-Head	Description /Particulars.	Amount ₦	Sub-Total ₦	Total ₦	Head	Sub-Head	Description /Particulars.	Amount ₦	Sub-Total ₦	Total ₦
------	----------	---------------------------	----------	-------------	---------	------	----------	---------------------------	----------	-------------	---------

		Balance b/f			1,899,000			Balance b/f			
	8011	License to marry		600,000			1	Persond cost		1,460,000	
	8012	License for hunting		800,000			2	Local Transport		160,000	
	8013	Delivery license		1,400,000			3	Miscel. exp.		150,000	
	1001	Education fees		700,000			4	Overhead cost		344,000	
	1002	Medical fees		1,640,000			5	Resatch exp.		66,000	
	1003	Registration fees		<u>1,340,000</u>			6	Enlightenment		99,000	
					6,980,000						2,274,000
		Below the line NC						Below the line NC			
	10001	Refund of marriage adv.		76,000			2001	Loan for wedding gown		79,000	
	10002	Repay of MN loan		260,000			2002	Advance (personnel		85,000	
	10003	Repay of correspondence adv.		150,000			2003	Housing Loan		294,000	
	10004	Repay of salary adv.		26,000			2009	Bejing adv.		146,000	
					512,000						599,000
								Balance cid			6,013,000
					8 886 000						8 886 000
		Balance b/d			6,013,000						

3.8 Certificate of Cash and Bank Balances

This is a confirmation statement that the cash and bank balances indicated in the cash book are correct. The certification is usually made by the Officer supervising the cashier.

3.9 Monthly Cash and Bank Balances As At 31 January, 20xx

I hereby state the p(vi) Statement No.4: Statement of Capital Development Fund position of my cash book with regard to show the cash and bank balances for the month of January 20xx

Cash Balance:

Opening Balance as at 1/1/20xx

X

Add: Total receipts for the month

X

XX

Less: Total payments for the month

(X)

Closing balance as at 31/1/20xx

XXX

Bank Balance:	
Opening Balance as at 1/1/20xx	X
Add: Total receipts for the month	X
	XX
Less: Total payments for the month	(X)
Closing balance as at 31/1/20xx	XXX

"I certify that at the end of January 20xx, my cash book had a cash balance of which was the same with the amount of physical cash available, and a bank balance of which has subsequently been reconciled with the Central Bank of Nigeria Nil balance".

3.10 Breakdown of Expenditure

Only the totals of Heads of classifications in the recurrent expenditures are recorded. Consequently, a statement of expenditures by sub-heads should be prepared and transmitted along with the transcript. The monthly totals are to be shown along with the transactions (undertaken by other Ministries or Federal Pay Office) which have been incorporated in the accounts, The certificate of cash and bank balances, bank reconciliation statements of internal bank adjustment, breakdown of expenditures and vouchers are to accompany the transcript to the Treasury.

3.11 Posting of the Main Ledger

A main ledger is to be kept in a Self-Accounting Ministry or Extra-Ministerial Department to record transactions relating to 'below the line' accounts and others controlled by the Accountant-General of the Federation. The main ledger is another form of the Treasury general ledger. The totals of the transactions recorded in the main ledger are to be posted and balanced monthly. The accounts which are kept in the main ledger are: Cash Account, Imprest Account, Internal Bank Adjustment Account, Deposit Account, Personal Advances Account, Non-Personal Advances Account and Cash Transfer Accounts. Reconciliation is done monthly of the accounts in the main ledger with those of the Treasury general ledgers whatever accounts for differences between the two ledgers are to be highlighted for follow-up action.

Self-assessment exercise

The main transcript is also known as.....

4.0 CONCLUSION

The unit ended by outlining the procedure for the preparation of transcripts, distinguishing between Self-Accounting, Sub Self-Accounting and the Non-Self

Accounting Units. It also concluded on how to demonstrate the knowledge with practical examples of Above-the-Line and Below- the-Line Accounts.

5.0 SUMMARY

This unit discussed the procedures for the preparation of transcripts, which are the final accounts of Self-Accounting and Sub-Self-Accounting Units. Clear distinction was also made between the various accounting Units.

In unit 4, you will learn of the treasury final accounts in the public sector in Nigeria.

6.0 TUTOR MARKED ASSIGNMENT

- a) Outline the procedure for the preparation of transcripts.
- b) Distinguish between Self-Accounting and the Non-Self Accounting Units.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 4 TREASURY FINAL ACCOUNTS

CONTENTS

- 1.0 Introduction
- 2.0 Objective
- 3.0 Main Content
 - 3.1 The Treasury Department
 - 3.2 The Organogram of the Office of the Accountant-General of the Federation
 - 3.3 Preparation of Federal Government Accounts
 - 3.3.1 Statement No. 1 - Statement of National (Or Public) Debts
 - 3.3.2 Statement No. 2 - Statement of Assets and Liabilities
 - 3.3.3 Statement No. 3.0- Statement of Consolidated Revenue Fund
 - 3.4.3.1 Statement No.3.1 - Statement of Recurrent Revenue
 - 3.4.3.2 Statement No.3.2 - Statement of Recurrent Expenditure
 - 3.3.4 Statement No.4 - Statement of Development Fund (Or Capital Expenditure)
 - 3.3.5 Statutory Financial Statements, Supporting Statements and Sub-Statements of the Federation
 - 3.4 Final Accounts Unit
 - 3.5 Revised Financial Statements
 - 3.6 Objectives of International Public Sector Accounting
 - 3.7 Standards (1PSAS) of the International Federation of
 - 3.8 Accountants (IFAC)
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 Reference/Further Readings

1.0 INTRODUCTION

In unit 3, you learnt of how to Preparation of Monthly Transcripts for a self-accounting unit in the public sector. In this unit 4, you will learn of the Treasury final accounts in the public sector in Nigeria.

2.0 OBJECTIVES

After studying this unit, readers will be able to;

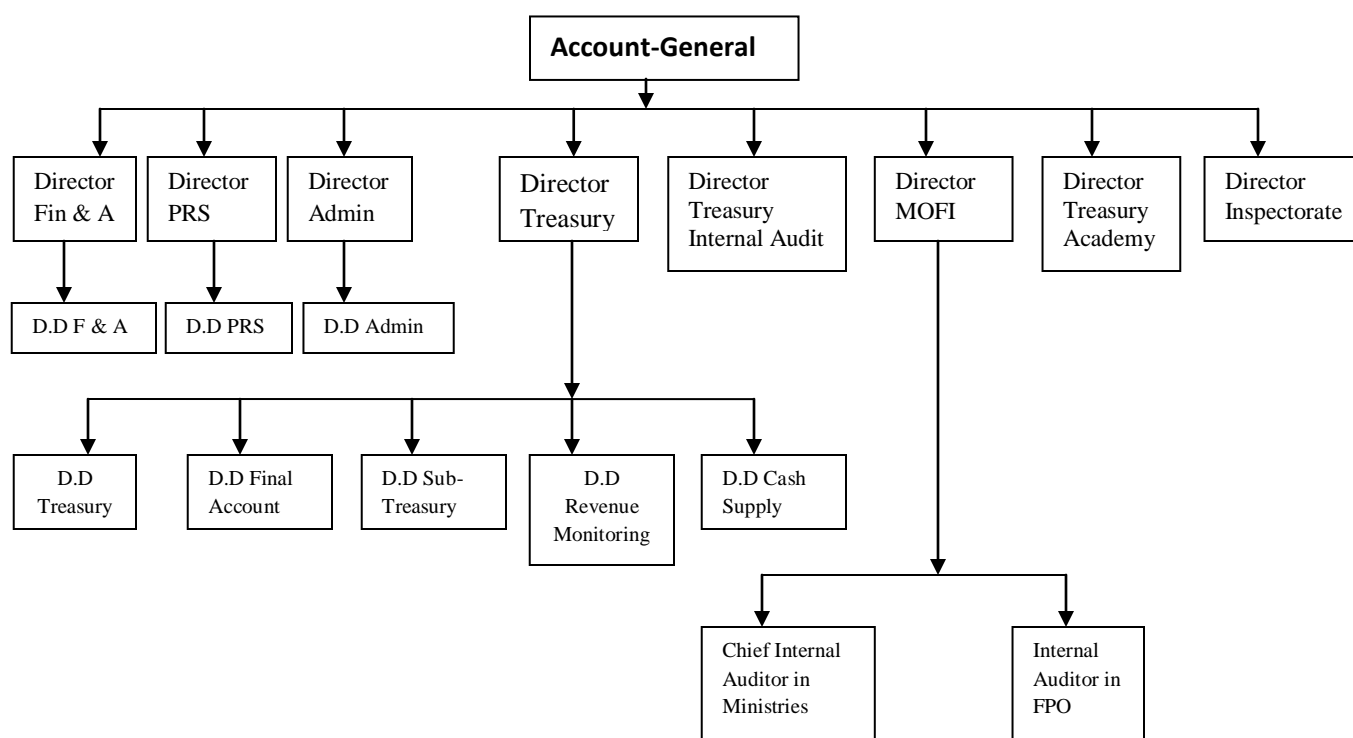
- Prepare the final accounts of Government.
- Apply the rules and regulations guiding the preparation of financial statements as contained in the International Public Sector Accounting Standards (IPSAS).

3.1 The Treasury Department

The Treasury Department of the Federal Ministry of Finance is charged with the responsibility of producing and publishing the accounts of the Federal Government of Nigeria, in such a manner that will show a true and fair view of the financial position of the Government and its relationship with the States and Local Government Councils.

3.2 The Organogram of the Office of the Accountant-General of the Federation

The organogram of the office of the Accountant-General of the Federation is as follows:



3.3 Preparation of Federal Government Accounts

The various sources from which information are obtained for the production of the Federal Government Accounts are:

- (a) Transcripts from the Ministries and Extra-Ministerial Departments
- (b) Accounts from the Federal Pay Offices, States and Local Government Councils
- (c) Accounts from the Nigeria High Commissions Overseas.

3.4 Final Accounts Unit

This is the section that is charged with the responsibility of preparation, and publication of monthly and annual statements of accounts. Specifically, Sections 13 (1) and 14 (1) of the Audit Act of 1956 and Section 24 of the Finance (Control and Management) Act require the Accountant - General of the Federation to prepare and submit to the Auditor - General for the Federation the following annual financial statements:

- (a) Statement of National (or Public) Debts - Statement No. 1.0.
- (b) Statement of Assets and Liabilities - Statement No 2.0.
- (c) Statement of Consolidated Revenue Fund - Statement No. 3.0.
- (d) Statement of Recurrent Revenue - Statement No. 3.1.
- (e) Statement of Recurrent Expenditure - Statement No. 3.2.
- (f) Statement of Development Fund - Statement No. 4.0. (Capital Expenditure)

The above four statements are the major ones. However, the following are also relevant:

- Statement No. 5 - Statement of Treasury Bills;
- Statement No. 6 - Statement of Special & Trust Funds;
- Statement No. 7 - Statement of Other Loans and Investments
- Statement No. 8 - Statement of Losses of Government Funds and Stores
- Statement No. 9 - Statement of Revenue Abandoned during the year
- Statement No. 10 - Statement of Guarantees of the Federal Government of Loans to Statutory Corporations
- Statement No. 11 - Statement of Arrears of Revenue as at the end of the year

3.4.1 Statement No. 1 - Statement of National (Or Public) Debts

The Statement of National Debt is divided into 'internal' and 'external' components. Internal debts are made up of Treasury Bills, Treasury Certificates and Loan Stocks raised and retired within the country. External debts comprise purchase of bills in the form of letters of credits certified by the Federal Government. They constitute the bulk of the debts owed to London and Paris Clubs. External debts also include money borrowed from the IMF, World Bank, ADB and other foreign countries.

3.4.2 Statement No. 2 - Statement of Assets and Liabilities

True to its name, the Statement is the balance sheet of the Federal Government. It highlights the various funds on the liability side, while investments and cash held against the funds are shown on the asset side. Comparative figures for the previous year are placed side-by-side. The format of a balance sheet of Government prepared under

the cash basis is shown thus:

Statement of Assets and Liabilities			
	N'000		N'000
Consolidated Revenue Fund	xxx	Cash	xxx
Development Fund	xxx	Fixed Deposits	xxx
Contingencies Fund	xxx	Investments	xxx
Others	xxx	Advances	xxx
Deposits	xxx		
	<u>xxxx</u>		<u>xxxx</u>

3.4.3 Statement No. 3.0- Statement of Consolidated Revenue Fund

According to Section 80(1) of the 1999 Constitution all collections made by and accruing to the Federal Government directly and allocations from the Federation Account shall be lodged into the Consolidated Revenue Fund. The outflows from this Fund are to meet:

- (a) Recurrent expenditure.
- (b) Transfers to Contingency Fund.
- (c) Redemption of Treasury Bills.
- (d) Transfers to Development Fund.
- (e) Consolidated Revenue Fund charges.

3.4.3.1 Statement No.3.1 - Statement of Recurrent Revenue

This shows the actual cumulative figures of revenues collected to the end of the current period with comparative figures for the previous period. A recurrent revenue item is collected from the Government's day-to-day activities. Examples are court fees, interest on fixed deposits and rent of Government property.

3.4.3.2 Statement No.3.2 - Statement of Recurrent Expenditure

The Statement contains the actual cumulative figures of recurrent expenditures incurred to date, with comparative figures for the previous year. Recurrent expenditures relate to the day-to-day disbursements to run the administration of Local Government Councils, State and Federal Governments. Examples are the salaries of Government workers, electricity bills and maintenance of vehicles.

3.4.4 Statement No.4 - Statement of Development Fund (Or Capital Expenditure)

The Fund is meant to finance general capital projects such as the construction of government hospitals. The inflows into the Fund include loans, grants from foreign countries and releases from the Consolidated Revenue Fund. Although the main statutory financial statements are eleven with eight supporting statements and fourteen supporting sub-statements, the most important ones among them are the five items on which comprehensive notes have been given above. However, the statutory financial statements are summarized in a tabular form, as follows:

3.4.5 Statutory Financial Statements, Supporting Statements and Sub-Statements of the Federation

Main Statements		Supporting		Supporting Sub-Statements	
No	Description	No	Description	No	Description
1.0	Public Debt	1.1	External Public Debt	1.12	External unfunded Loans
		1.2	Internal Public Debt	1.22	Unfunded Loans on-lent-to States
				1.21	Funded Loans
				1.211	Statutory Sinking Fund and Investments
				1.212	Funded Loan lent to States
				1.22	Internal Loans to the Govt.
				1.222	Unfunded loans lent to States
				2.111	Investment General
3.0	Consolidated Revenue Fund	3.1	Revenue under Heads	3.11	Revenues under Sub-heads
		3.2	Expenditure under Head	3.21	Expenditure under Sub-Head
4.0	Development Fund	4.1	Development	4.11	Capital Expenditure under Sub-heads
5.0	Treasury Fund	5.1	Fund received Treasury Clearance	5.11	Treasury Clearance Funds
				5.111	Personal Advance Fund
6.0	Special and Trust Funds	6.1	Special and Miscellaneous Funds	6.311	Special & Miscellaneous funds Investment
7.0	Other Loans and				
8.0	Loss of Govt. Funds and				
9.0	Revenue abandoned for				
10.0	Guarantees of Fed. Govt. for				

11.0	Arrears of Revenue as at				
------	--------------------------	--	--	--	--

3.5 Revised Financial Statements

The call for the standardisation of the reporting systems of the Federal, State and Local Governments by the International Federation of Accountants (IFAC) informed the adoption by Nigeria of the following reporting formats as from January, 2003:

(a) **The new statutory financial statements at the Federal and State Government Levels include:**

- (i) Preface to the financial statements, where the Minister of Finance/Commissioner for Finance gives an overview of the financial statements of the Government as prepared and presented by the Accountant-General. The overview may cover:
- Global view of the economy.
 - Specific comments on Government performance.
 - Future outlook of the economy and any other relevant remarks.
- (ii) Declaration of responsibility for the Financial Statements where the Accountant-General of the Federation (or the State) states, among others, that the financial statements have been prepared in accordance with the provision of the Finance (Control and Management) Act, Cap 144 LFN 1990 (as amended) and in compliance with the generally accepted accounting practice.
- (iii) Auditor-General's Certificate indicating whether or not the financial statements present a true and fair view of the financial position of Government as at 31st December of the relevant Year and its operations for the year ended on that date.
- (iv) Statement No. 1: Statement of Cash Flows.
- (v) Statement No. 2: Statement of Assets and Liabilities.
- (vi) Statement No. 3: Statement of Consolidated Revenue Fund.
- (vii) Statement No. 4: Statement of Capital Development Fund.

**FORMAT OF STATEMENT NO 1
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DEC., 2XXX**

	NOTE	CURRENT YEAR	PREVIOUS YEAR
		₦m	₦m
Cash flow from Operating Activities			
Receipts			
Statutory Revenue Allocation	3	x	x
VAT	4	x	x
Internally Generated Revenue	5	x	x

Grants / Subventions	6	x	x
Miscellaneous	7	<u>x</u>	<u>x</u>
Total Receipts.		<u>x</u>	<u>x</u>
Payments			
Personnel Emoluments	8	(x)	(x)
Pensions and Gratuities		(x)	(x)
Consolidated Revenue Fund Charges		(x)	(x)
Overhead Costs		(x)	(x)
Public Debt Charges		(x)	(x)
Recurrent Grants and Subventions		(x)	(x)
Subsidies		<u>(x)</u>	<u>(x)</u>
Miscellaneous Expenses	9	<u>(x)</u>	<u>(x)</u>
Total Payments.			
Net Cash Flow from Operating Activities		(x)	(x)
Cash Flow from Investment Activities			
Purchase / Construction of assets	10	(x)	(x)
Purchase of Financial Market Instruments		(x)	(x)
Proceeds from sale of Assets		x	x
		<u>—</u>	<u>—</u>
Net Cash Flow from Investing Activities		<u>x</u>	<u>x</u>
Cash Flow from Financial Activities			
Proceeds from Loans and Other Borrowings	11	x	x
Dividends Received	12	x	x
Repayment of Loans	13	(x)	(x)
Net Cash Flow from Financing Activities		<u>x</u>	<u>x</u>
Net Increase/ (Decrease) in cash & Its Equivalent		x	x
Cash & Its equivalent at 1/2/2xxx		x	x
Cash & Its equivalent at 31/12/2xxx		x	x

The accompanying notes are an integral part of these Statements.

**FORMAT OF STATEMENT NO 2
STATEMENT OF ASSETS AND LIABILITIES
FOR THE YEAR ENDED 31ST DECEMBER. 2XXX**

NOTES	ACTUAL	
	CURRENT YEAR	PREVIOUS YEAR
	Nm	Nm

ASSETS

Liquid Assets

Cash and Bank	14	XX	XX
Balances	15	XX	XX
Others		XXX	XXX

Investments

Min. of Finance Incorporated	16	XX	XX
ADVANCES	17	XX	XX
TREASURY CLEARANCE A/CS	18	XXX	XXX

LIABILITIES

Consolidated Revenue Fund	19	XX	XX
Capital Development Fund	20	XX	XX
Other Government Funds	21	XX	XX
		XXX	XXX
Foreign Loans	22	XX	XX
Internal Loans	23	XX	XX
Development Loan Stock	24	<u>XX</u>	<u>XX</u>
		<u>XXX</u>	<u>XXX</u>

STATEMENT NO. 3
CONSOLIDATED REVENUE FUND
FOR THE YEAR ENDED 31ST DECEMBER 2XXX

ACTUAL PREVIOUS YEAR	NOTES	BUDGET CURRENT YEAR	ACTUAL CURRENT YEAR	VARIANCE %
<u>Nm</u>		<u>Nm</u>	<u>Nm</u>	
xx	Opening Balance	xx	xx	x
	ADD REVENUE (INCOME)			
xx	Statutory Revenue Allocation			
xx	Fines & Sales	25	xx	x
xx	Earning & Sales	26	xx	x
xx	Rent on Government Property		xx	x
xx	Interest & Dividend	27	xx	x
xx	Taxes (Direct & Indirect)	28	xx	x
xx	Miscellaneous	29	<u>xx</u>	<u>x</u>
xxx	TOTAL REVENUE (a)		<u>xxx</u>	<u>x</u>
	LESS: EXPENDITURE			
xx	Administrative Services		xx	xx
xx	Education Services		xx	xx
xx	Transport Services	30	xx	xx
xx	Health Services		xx	xx
xx	Agriculture Services	31	xx	xx
xx	Others of General Nature		xx	xx
xx	Subsidies		xx	xx

xx	Miscellaneous	32	xx	xx	xx
xxx	TOTAL EXPENDITURE (b)		<u>xxx</u>	<u>xxx</u>	<u>x</u>
xxx	OPERATING BALANCE (a-b)		<u>xxx</u>	<u>xxx</u>	<u>x</u>
APPROPRIATE/TRANSFERS					
xx	Capital Development Fund		xx	xx	x
xx	Loan Repayment Fund		xx	xx	x
xxx	CLOSING BALANCE		<u>xxx</u>	<u>xxx</u>	<u>x</u>

The accompanying notes are an integral part of these Statements.

**STATEMENT NO 4
CAPITAL DEVELOPMENT FUND
FOR THE YEAR ENDED 31ST DECEMBER 2XXX**

ACTUAL PREVIOUS YEAR Nm	NOTES	BUDGET CURRENT YEAR Nm	ACTUAL CURRENT YEAR Nm	VARIANCE %
xx	Opening Balance	xx	xx	x
ADD: CAPITAL RECEIPTS				
xx	Value Added Tax	xx	xx	x
xx	Transfer from CRF	xx	xx	x
xx	Internal Loans	33	xx	x
xx	External Loans	34	xx	x
xx	Grants/ Subventions	35	xx	x
xx	Miscellaneous	36	xx	x
<u>xxx</u>	TOTAL CAPITALS RECEIPTS (a)	xxx	xxx	x
LESS: CAPITAL EXPENDITURE				
Economic Sector				
xx	Agriculture	37	xx	x
xx	Livestock		xx	x
xx	Forestry		xx	x
xx	Fisheries		xx	x
xx	Manufacture		xx	x
xx	Power		xx	x
xx	Commerce and Finance		xx	x
Social Service Sector				
xx	Education	38	xx	x
xx	Health		xx	x

ioc	Housing		XX	XX	X
xx	Others		XX	XX	X
	Regional Development Sector				
xx	Niger Delta Dev. Commission	39	XX	XX	X
xx	River Basin Authority		XX	XX	X
	Administration Sector				
xx	Administration sector	40	XX	XX	X
xxx	TOTAL EXPENDITURE (b)		XXX	XXX	XXX
			---	---	---
xxx	CLOSING BALANCE (a-b)		<u>XXX</u>	<u>XXX</u>	<u>XXX</u>

The accompanying notes are an integral part of these Statements

U

nder the two situations highlighted, it is the tradition to attach the following supporting documents and information, viz:

- (a) Notes to the Financial Statements such as the Statement of Accounting Policies.
- (b) Schedule of Revenue Analysis by Heads.
- (c) Schedule of Expenditure Analysis by Heads.
- (d) Schedule of Project Payments (in summary form).
- (e) Schedule of Investments.
- (f) Schedule of Public Debts.
- (g) Schedule of Grants and Subsidies.
- (h) Schedule of Special and Miscellaneous Funds (e.g. Ecological Funds).
- (i) Schedule of Fixed Assets as at the end of the year.

The National Assembly is considering the Nigerian Accounting Standards Board Act, 2003, the approval of which will give rise to its redefinition as Financial Reporting Council Act. It will also create the Public Sector Accounting Standards Board which will be responsible for setting Generally Accepted Accounting Principles (GAAP) for Government entities.

Nonetheless, it is noted that the new reporting system is already being implemented by the three-tiers of Government.

ILLUSTRATION 9-1:

ILUDUN Polytechnic had the following ledger balances in respect of EguAwori Memorial than Fund as at 31 December, 2007:

DR	CR
4'000	4 ¹ 000

Cash	8,400	
Loan Receivable	316,000	
Investments	202,000	
Fund Balance		<u>526,400</u>
	<u>526,400</u>	<u>526,400</u>

During the year 2000, the following transactions took place:

- (i) Investments costing 461,600,000 were sold for 463,800,000.
- (ii) 461,400,000 cash was received from the repayment of loans.
- (iii) 145,000,000 was received from the family of a former student in full payment of a loan which had earlier been written off.
- (iv) 483,600,000 was issued out as loan during the year.
- (v) A loan of 41,500,000 was written off as un-collectable.
- (vi) A contribution of 46,000,000 in cash was received as gift from a former borrower.

Required:

- (a) Open the ledger accounts and record the year 2008 transactions.
- (b) Extract a trial balance and prepare the balance sheet of the Fund as at 31/12/2008.
- (c) Prepare a statement of changes in the fund balance.

SUGGESTED SOLUTION 9-1

EGU-AWORI MEMORIAL LOAN FUND

(a) (i) **CASH ACCOUNT**

	N'000	
Balance b/f.	8,400	Loan Receivable A/C
Investment Disposal A/C	63,800	
Loan Receivable NC	61,400	
Bad Debt Recovered A/C	5,000	
Gift: Fund Balance	6,000	Balance c/d
	144,600	
Balance b/d	461,000	

(ii) **Loan Receivable Account**

	N'000
Balance b/f	316,000
Cash A/C	83,600
	399,600
Balance b/d	4336,700

	(iii)	Investment Account	
		N'000	N000
Balance b/f		202,000	Investment Disposal A/c 61,600
		Bal. c/d	140,400
		202,000	202,000
Balance b/d		N140,400	
	(iv)	Fund Balance A/C	
		N'000	N'000
			Balance b/f 526,400
			Cash Account 6,000
			Investment Disposal A/C 2,200
Balance c/d		538.100	Bad Debt Recovered A/c <u>3,500</u>
		538,100	<u>538,100</u>
			Balance b/d 538,100

WORKINGS

(1) Investment Disposal Account

	N'000	N'000
Investment Account	61,600	Cash Account 63,800
Fund Balance (Profit on Disposal)	<u>2,200</u>	
	<u>63,800</u>	<u>63 800</u>

(2) Bad Debt Recovered Account

	N'000	N'000
Loan Receivable Account	1,500	Cash Account 5,000
Transfer to Fund Balance	<u>3,500</u>	
	<u>5,000</u>	<u>5,000</u>

(b) Trial Balance as at 31/12/2008

	DR	CR
	N'000	N'000
Cash	61,000	
Loan Receivable	336,700	
Investment	140,400	
Fund Balance		538,100
	538.100	538.100

(c) Statement of

	N'000	N'000
Balance b/f		526,400
Add: Gift received	6,000	
Bad debt recovered	5,000	

Profit on disposal of investment	13,200
	539,600
Less: Bad debt written off	1,500
Balance carried forward	538.100

ILLUSTRATION 9-2:

The following balances have been extracted from the books of Akinyele Local Government Treasury, for the month ended 31 March 200X:

Reserve Fund	33,500
Cash on hand	53,000
Bank Overdraft	5,700
Revenues (recurrent/capital)	158,500
Expenditures (recurrent/capital)	125,390
Loans	200,000
Deposits into (the L.G.C. Treasury)	23,450
Advances (granted by L.G.C.)	25,560
Investments	15,200
Suspense accounts	202,000

You are required to prepare a trial balance for the month ended 31 March, 200X.

SUGGESTED SOLUTION 9-2

AKINYELE LOCAL GOVERNMENT TRIAL BALANCE AS AT 31 MARCH 200X

	DR N'000	CR N'000
Reserve Fund.		33,500
Cash on hand	53,000	
Bank Overdraft		5,700
Revenue (Recurrent/Capital)		158,500
Expenditure (Recurrent/Capital)	125,390	
Loans		200,000
Deposits into the L.Govt Treasury		23,450
Advances granted by the L. Govt	25,560	
Investments	15,200	
Suspense Account	<u>202,000</u>	
	<u>421.150</u>	<u>421.150</u>

3.5 (b) At the Level of Local Governments:

- (i) A Declaration of Responsibility for the Financial Statements to be issued and signed by the Treasurer of the Local Government Council concerned, in accordance with the provisions of the Finance (Control and Management) Act Cap 144 LFN 1990 (as amended) and the generally accepted accounting practice.
- (ii) Audit Certificate to be issued and signed by the Auditor-General for Local Government, in accordance with the provisions of the 1999 Constitution of Nigeria and generally accepted auditing standards.
- (iii) Statement No. 1: Cash Flow Statement.
- (iv) Statement No. 2: Statement of Assets and Liabilities.
- (v) Statement No. 3: Statement of Revenue and Expenditure.

Self-assessment exercise

Declaration of Responsibility for the Financial Statements to be issued and signed by the.....of the Local Government Council

3.6 Objectives of International Public Sector Accounting Standards (IPSAS) of the International Federation of Accountants (IFAC)

IPSAS 1 - PRESENTATION OF FINANCIAL STATEMENTS: The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented in order to ensure comparability with both the entity's own financial statements of previous periods and those of other entities.

IPSAS 2 - CASH FLOW STATEMENTS: 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.

IPSAS 3 - NET SURPLUS OR DEFICIT FOR THE PERIOD, FUNDAMENTAL ERRORS AND CHANGES IN ACCOUNTING POLICIES: The objective of this Standard is to prescribe the classification, disclosure and accounting treatment of certain items in the financial statements so that all entities prepare and present these items on a consistent basis. This enhances comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

IPSAS 4 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES An entity may carry on foreign activities in two ways. It may have transactions in foreign

currencies or it may have foreign operations. In order to include foreign currency transactions and foreign operations in the financial statements of an entity, transactions have to be expressed in the entity's reporting currency and the financial statements.

IPSAS 5 - BORROWING COSTS

This standard prescribes the accounting treatment for borrowing costs. The standard generally requires the immediate expensing of borrowing costs. However the standard permits as an allowed alternative treatment, the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

IPSAS 6 - CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR CONTROLLED ENTITIES: An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity. This Standard applies to the preparation and presentation of consolidated financial statements, and accounting for controlled entities.

IPSAS 7 - ACCOUNTING FOR INVESTMENTS IN ASSOCIATES: An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting by an investor for investments in associates where the investment in the associate leads to the holding of an ownership interest in form of a shareholding or other formal equity structure. This Standard provides the basis for accounting for ownership interests in associates. That is, the investment in the other entity confers on the investor the risks and rewards incidental to an ownership interest. The Standard applies only to investments in the formal equity structure (or its equivalent) of an investee. A formal equity structure means share capital or an equivalent form of unitized capital, such as units in a property trust, but may also include other equity structures in which the investor's interest can be measured reliably. Where the equity structure is poorly defined it may not be possible to obtain a reliable measure of the ownership interest.

IPSAS 8 - FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES: An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. This Standard provides the basis for accounting for interests in joint ventures.

IPSAS 9 - REVENUE FROM EXCHANGE TRANSACTIONS: This Standard prescribes the accounting treatment of revenue arising from exchange transactions and events. In accounting for revenue, the primary issue is determining when to recognise

revenue. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and therefore revenue will be recognised. It also provides practical criteria. The Standard uses revenue as encompassing both revenues and gains in place of the term "income".

IPSAS 10 - FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES: An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard to the primary financial statements, including the consolidated financial statements, of any entity that reports in the currency of a hyperinflationary economy -- This Standard applies to all public sector entities other than Government Business Enterprises.

IPSAS 11 - CONSTRUCTION CONTRACTS: The objective of this Standard is to prescribe the accounting treatment of costs and revenue associated with construction contracts. The Standard:

- Identifies the arrangements that are to be classified as construction contracts;
- Provides guidance on the types of construction contracts that can arise in the public sector; and
- Specifies the basis for recognition and disclosure of contract expenses and, if relevant, contract revenues.

IPSAS 12 - INVENTORIES: The objective of this Standard is to prescribe the accounting treatment for inventories under the historical cost system. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides practical guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

IPSAS 13 - LEASES: The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

IPSAS 14 - EVENTS AFTER THE REPORTING DATE: The objective of this Standard is to prescribe,

- (a) When an entity should adjust its financial statements for events after the reporting date; and
- (b) The disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting date. The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after

the reporting date indicate that the going concern assumption is not appropriate.

IPSAS 15 - FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION: The objective of this Standard is to enhance financial statement user' understanding of the significance of on-balance-sheet and off-balance-sheet financial instruments to a government's or other public sector entity's financial position, performance and cash flows. In this Standard, references to "balance sheet" in the context of "on-balance-sheet" and "off-balance-sheet" have the same meaning as "statement of financial position.

IPSAS 16 - INVESTMENT PROPERTY: The objective of this International Public Sector Accounting Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

IPSAS 17 - PROPERTY, PLANT AND EQUIPMENT:The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges to be recognised in relation to them.

IPSAS 18- SEGMENT REPORTING: The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will:

- (a) Help users of the financial statements to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity; and
- (b) Enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

IPSAS 19- PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS: The objective of this Standard is to define provisions, contingent liabilities and contingent assets, identify the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements to enable users to understand their nature, timing and amount.

IPSAS 20- RELATED PARTY DISCLOSURES:The objective of this Standard is to require the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and

performance of the reporting entity. The principal issues in disclosing information about related parties are identifying which parties control or significantly influence the reporting entity and determining what information should be disclosed about transactions with those parties.

IPSAS 21 – 349 IMPAIRMENT OF NON-CASH-GENERATING ASSETS: The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognised. The Standard also specifies when an entity would reverse and impairment loss and prescribes disclosures. -- This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).

Self-assessment exercise

The.....is responsible for the preparation and publication of Federal Government's Financial Statements

4.0 CONCLUSION

In conclusion the preparation of the final accounts of Government was learnt and how to apply the rules and regulations guiding the preparation of financial statements as contained in the International Public Sector Accounting Standards.

5.0 SUMMARY

This unit dealt with the final accounts prepared by the Accountant-General of the Federation. The final accounts are usually divided into:

- (a) Statement Number 1 - Statement of Cash Flows.
- (b) Statement Number 2 - Statement of Assets and Liabilities.
- (c) Statement Number 3 - Statement of Consolidated Revenue Fund.
- (d) Statement Number 4 - Statement of Capital Development Fund.

Also discussed in this chapter are the rules and regulations guiding the preparation of financial statements as contained in the International Public Sector Accounting standards.

In the next unit, you will learn about Stores and Stores Accounting in the public sector in Nigeria.

6.0 TUTOR MARKED ASSIGNMENT

- a) What are the various sources from which information are obtained for the production of the Federal Government Accounts?

- b) List and briefly explain each point, the objectives of International Public Sector Accounting Standards of the International Federation of Accountants.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 5 STORES AND STORES ACCOUNTING

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Stores Classification
 - 3.2.1 Allocated Stores
 - 3.2.2 Unallocated Stores
 - 3.2.3 The Purposes of Unallocated Stores
 - 3.2.4 Further Classification of Stores
 - 3.3 Maximum and Minimum Levels
 - 3.4 Cost of Stores
 - 3.4.1 Fixed Price Method
 - 3.4.2 Last Known Price Method
 - 3.5 Stores Accounting
 - 3.6 Storekeeper's Records
 - 3.7 Receipt of Stores
 - 3.8 Payments for Stores
 - 3.9 Transfers of Stores
 - 3.10 Issues of Stores
 - 3.11 Stores Issue for Manufacture or Conversion
 - 3.12 Condemned Stores
 - 3.13 Issue of Stores: On Payment
 - 3.14 Functions of the Store Keeper
 - 3.15 Procedures for Stores Procurement
 - 3.16 Hand Over of Stores
 - 3.17 Procedures for Reporting Loss of Stores
 - 3.17.1 Actions to be taken by the Store Keeper (Officer in-Charge)
 - 3.17.2 Actions to be taken by the Head of Department
 - 3.17.3 Actions to be Effected by the Accounting Officer
 - 3.17.4 Actions to be taken by the Accountant-General
 - 3.18 Accounting Treatment of Loss of Government Stores or Funds
 - 3.19 Stock Taking
 - 3.19.1 Closure of Store During a Survey
 - 3.19.2 Procedures for Store Survey/Stock-Taking
 - 3.20 Board of Survey and Its Purpose

- 3.20.1 The Convener of a Board of Survey on Cash/Bank Balances, Stamps and Imprest Amount/Accounts
- 3.20.2 Composition of the Board of Survey
- 3.20.3 Procedural Activities for the Conduct of Surveys
- 3.20.4 Contents of Survey Reports
- 3.21 Board of Enquiry
 - 3.21.1 Definitions:
 - 3.21.2 Circumstances which Warrant Setting up a Board of Enquiry
 - 3.21.3 When is a Board of Enquiry not Necessary?
 - 3.21.4 Terms of Reference
 - 3.21.5 The Convener of the Board of Enquiry
 - 3.21.6 Composition of the Board
 - 3.21.7 Procedure of Board of Enquiry
- 3.22 Contents of the Board's Report
- 3.23 Remission of Copies of the Board's Reports
- 3.24 Action taken on the Board of Enquiry's Report
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn about Stores and Stores Accounting in the public sector in Nigeria.

According to Government Financial Regulations, "Stores include all moveable property purchased with public funds or otherwise acquired by Government." Stores in Public Sector Accounting simply refer to stock of materials purchased with Government money for official use. All purchases of and indents for stores have to be authorised by the Officer controlling expenditure, and the local purchase orders or indents signed by him.

The Accounting Officer is responsible for the loss of stores and other Government property in his care, Stores control is an aspect of management. The framing of the necessary systems and procedures is therefore a matter for the Ministries and Extra-Ministerial Departments. The Treasury is interested only in the existence of an effective system of internal control. The Accounting Officer is therefore responsible for designing the measures to be adopted to ensure adequate stock control and store accounting procedures which cover the receipts, custody, issues and disposals of stores.

Each Ministry or Extra-Ministerial Department should maintain a stores guide,

which sets out in detail the approved procedures, and necessary instructions.

2.0 OBJECTIVES

After studying this unit, readers should be able to:

- Distinguish between Allocated, Unallocated, Expendable, Non-Expendable and Consumable Stores
- Use the composition and functions of the Board of Survey and the Board of Enquiry.

3.0 MAIN CONTENT

3.1 Stores Classification

For accounting purposes, stores are classified into two. These are: 'Allocated Stores' and 'Unallocated Stores'.

3.2.1 Allocated 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.

3.2.2 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.

3.2.3 The Purposes of Unallocated Stores

Unallocated stores are acquired for the following purposes:

- (a) Acquiring stores of a standard design and in constant demand.
- (b) Saving storage space by holding minimum stock requirements, to avoid 'stock outs'.

- (c) Making the stocks immediately available when required for a project or service.
- (d) Allowing the vote of the relative project, department or service to be charged with the value of the stores when issues are made from the unallocated stores.
- (e) Reducing overall cost and maximising benefit.

3.2.4 Further Classification of Stores

The above two classifications of stores are further sub-divided into three as follows:

- (a) 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.
- (b) Expendable stores are stores of a semi-permanent nature such as shovels, paint-brushes and machetes which are of short period of serviceable life.
- (c) Consumable stores are those with items which, once used, cease to exist as store items. Examples are soap and stationery.

Self-assessment exercise

For accounting purposes, classify stores

3.3 Maximum and Minimum Levels

The Accounting 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.

3.4 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:

3.4.1 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.

3.4.2 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.

Self-assessment exercise

.....fixes the maximum and minimum levels of the unallocated store holdings.

3.5 Stores Accounting

Store accounts are store ledger postings generated from store receipt vouchers. As for Unallocated Stores, the vouchers and ledgers record quantities and values. Storekeepers keep tally or bin cards only. They have no business with the store ledgers.

A separate ledger has to be opened for each store item. Records of articles of the same group should be kept in one ledger and items arranged in alphabetical order. Store ledger items should be clearly indexed and properly kept. Receipts into and issues out of stores should be posted daily or at the earliest practicable time. Unserviceable and obsolete stores should be posted in separate ledgers.

Minimum Records to be maintained by each Ministry/Extra-Ministerial Department and other arms of Government must include:

- (a) Purchases Journal or Stores Cost Book
- (b) Issues Journal or Stores Issues Summary
- (c) Stores Ledger which must include an account for each category of store, and a separate account for:
 - (i) Shortfalls and Excesses (or Price Adjustments)
 - (ii) Claims.

USE OF SHORTFALLS AND EXCESSES ACCOUNT OR PRICE ADJUSTMENT ACCOUNT

- (a) To accommodate the differences between the total costs and the fixed prices of issues
- (b) To accommodate the value of stores found surplus.

- (c) To accommodate the value of minor discrepancies of stores and of goods short-landed or damaged when written-off.
- (d) To accommodate the value of unserviceable stores written-off the store ledger.
- (e) To accommodate increase or decrease in the valuation of stocks on a change of fixed price.

SHORTFALL AND EXCESSES ACCOUNT

Total Price Deficiencies	₦	Total Price Excesses	₦
During the year	xx	During the year	xx
Claims Written Off	xx	Transfer to Unallocated Stores-	xx
Stores Written Off	xx	Deficiencies Sub-Head	xx
Revaluation of Stores	<u>xx</u>	Revaluation of Stores	<u>xx</u>
Balance c/d	<u>xx</u>	Balance b/d	<u>xx</u>

CLAIMS ACCOUNT

	₦		₦
Value of Claims b/f	xx	Claims met during the year	xx
Value of Claims during the year	xx	Value of Claims abandoned and written off:	
		Shortfall Account	xx
		Unallocated Stores	
		Deficiencies	xx
		Value of Claims c/d	xx
	<u>xx</u>		<u>xx</u>

Note that claims are settlements received for damaged items in the case of imported stores

3.6 Storekeeper's Records

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.

3.7 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.

There must be efficient internal check in the ordering, collection of deliveries and payment procedures.

3.8 Payments for Stores

The storekeeper has to certify that stores have been received and taken on charge in the appropriate ledger. 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.

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. 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.

3.9 Transfers of Stores

Stores may be transferred from one warehouse to another. There should be appropriate vouchers to ensure postings into the ledger. A stores transfer paper is raised by the requisitioning store in duplicate, the original of which is forwarded to the issuing store. A stores issue voucher in duplicate, one copy of which will be receipted and returned, accompanies the stores transferred. The second copy serves as a receipt voucher and is numbered and filed away.

3.10 Issues of Stores

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. The Officer has to ensure that funds are available. Demands must be made on the prescribed stores requisition forms.

Stores requisition sheets and issue vouchers support all issues of stores. The requisition are made in the prescribed forms, in ink or indelible pencils. Stores Issue Vouchers are always prepared in duplicate. After issue, the storekeeper will post his tally card at the actual time of issue.

3.11 Stores Issue for Manufacture or Conversion

Conversion Vouchers are used to evidence stores and materials issued within the same store for conversion or manufacture. The original copy serves as an issue voucher for the article after manufacture, after which it is returned to store and taken on charge. Receipt and issue sides of the voucher show the quantities and values, where necessary.

3.12 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.

3.13 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.

3.14 Functions of the 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.

3.15 Procedures for Stores Procurement

Upon receipt of the purchase requisition initiated by the Store Keeper or authorized Department, the Purchasing Department will:

- (a) Obtain approval for the purchase of the items from the Officer controlling the vote.
- (b) Carry out a market survey or obtain quotations/tenders from prospective suppliers.
- (c) Indicate a closing date for submission of tenders.
- (d) Constitute a Contract Tenders' Board, after the closing date.
- (e) 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.

3.16 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 in-coming Officer will account for any deficiency not discovered at the time of hand over, but which was later uncovered.

Self-assessment exercise

What are the functions of a store keeper?

3.17 Procedures for Reporting Loss of Stores

Loss of stores may be written off under the personal authority of the Accounting Officer, provided that:

- (a) 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.
- (b) There is no weakness in the internal control system.
- (c) There is no evidence of fraud or theft.
- (d) Where negligence is involved, the offending Officer has been disciplined according to the laid down rules and regulations.

3.17.1 Actions to Be Taken By the Store Keeper (Officer In-Charge)

In the event of any loss of Government store, the officer in charge of the store should:

- (a) Report to the Head of Department.
- (b) Report to the nearest Police station, if there is any possibility of fraud or theft.
- (c) Initiate action on Treasury Form, 146 "Report on Loss of Funds or Stores". The Officer will complete part I of the form and forward it to the Head of Department.
- (d) Ensure that if there are weaknesses in the internal control system, immediate action is taken to prevent a re-occurrence of the loss.

3.17.2 Actions to Be Taken By the Head of Department

On receipt of the report of loss of store, the Head of Department will:

- (a) Forward brief details of the loss to the Accounting Officer of the Ministry.
- (b) Investigate the loss and complete parts **II & III** of Treasury Form 146.
- (c) Recommend, to the Accounting Officer, the convening of a Board of Enquiry where the circumstances warrant an investigation.
- (d) Ensure that if there is weakness in the internal control system, measures are taken to plug the existing loopholes.
- (e) Obtain copies of Police report or court proceeding and transmit them to the Accounting Officer of the Ministry.

3.17.3 Actions to Be Effected By the Accounting Officer

Upon receipt of the report of the loss, the Accounting officer will proceed, as follows:

- (a) If the loss is not significant, complete part IV of the Treasury Form 146 and

transmit a copy each to the underlisted officers:

- (i) The Accountant-General.
 - (ii) The Auditor-General.
 - (iii) The Head of the Accounts Department/Section
- (b) However, if the loss is material, the Accounting Officer will:
- (i) Forward brief details of the loss to the Accountant-General and the Auditor-General, for necessary follow-up.
 - (ii) Convene a Board of Survey, where the circumstances call for such an investigation.
 - (iii) Recommend the suspension of the Officer concerned, where the circumstances call for a disciplinary action.
 - (iv) Examine critically the full details of the loss and inform the Accountant-General, the Auditor-General and the Federal Civil Service Commission, through a letter accompanied with the police report and Treasury Form 146.
 - (v) Review the internal control system and tighten loose ends.
 - (vi) Recoup the loss as stipulated by procedures.

3.17.4 Actions to Be Taken By the Accountant-General

On receipt of the report of the loss, the Accountant-General will ensure that:

- (a) The Accounting Officer has followed full procedures.
- (b) An Accounts Officer or Internal Auditor is a member of the Board of Enquiry set up to investigate the loss.
- (c) Adequate measures are taken to correct all lapses in the internal control system.
- (d) All practical measures are taken to recoup the loss.

3.18 Accounting Treatment of Loss of Government Stores or Funds

The type of accounting entries required for the treatment of a loss will depend on its nature, the date of the transaction which resulted in the loss, the date on which it arose and the date of passing the necessary entries.

ILLUSTRATION 10-1:

The sum of 4600,000 was fraudulently paid for the upkeep of Government property, instead of 44400,000, on 4th January, year 2008. The discovery of this over-payment was made on 6/6/2008.

The suggested adjusting entries are:

Date	Particulars	DR	CR
------	-------------	----	----

		₦	₦
4/1/2008	Upkeep of Govt. Property Cash Account Being payment for the upkeep of govt. property	600,000	600,000
6/6/2008	Advances Non-Personal Upkeep of govt. property Being discovery of overpayment of N200,000.	200,000	200,000

NOTE: The loss will be kept in the advances non-personal account, pending the outcome of the investigation by the Board of Enguny Readers should also note that the discovery of the loss on 6/6/2008 has not resulted in actual receipt of cash from the fraudsters.

3.19 Stock Taking

The Accounting Officer has to ensure the periodic check of store account balances. A Stock Verifier could undertake this. However, if the services of a Stock Verifier are not available, the Accounting Officer will apply to the Federal Ministry of Finance for the appointment of a Board of Survey.

Stocktaking should be carried out at least once a year. A Board of Survey is required to inspect a minimum of 40 per cent of stock categories, but if a serious discrepancy is found or suspected, a hundred per cent (100%) inspection should be made. The storekeeper should not be privy to the programme and the proposed dates for the stocktaking of items selected for verification. The items should include all categories of stock, especially those in general demand, or which are attractive in nature. The Stock Verifier appointed should vary the timing of the items.

Operations Research has introduced a new device in stocktaking procedures which will determine by statistical sampling, out of the population of a range of stores, the number of items with contrary discrepancies. The acceptable level is based statistically on past experience. If the shortfalls revealed exceed the acceptable standard, the full range is subjected to thorough searchlight.

3.19.1 Closure of Store during a Survey

The store is closed while a Board of Survey goes into action. Issues will not be made without the sanction of the President of the Board of Survey who countersigns the Store Issue Voucher. The Auditor-General has the power, where he has a reason, to call upon the Extra-Ministerial Department or Ministry to take stock, in the presence of his officers. Normal stocktaking should be carried out by at least two Officers, none of whom should be from the store keeping staff. Where the services of a Stock Verifier

could be secured, another person should assist him. Both of them should be provided with the lists of ledger headings, on which to enter the quantities found. They should have no access to the ledger balances. It is the duty of the Stores Officer to enter the ledger balances. Stock balances found on stocktaking should be compared with the corresponding store account balances at the earliest possible moment. Discrepancies should be investigated immediately to arrive at the correct stock figures.

3.19.2 Procedures for Store Survey/Stock-Taking

The procedures are:

- (a) Instruct the Storekeeper to update entries in the bin cards for all receipts and issues of materials up to the point of closure of the store.
- (b) Make physical count of the stock of sampled items of each category.
- (c) Note physical count on the survey sheet,
- (d) Compare the physical stock count with the tally card balance and the stock balance as shown in the store accounts.

Self-assessment exercise

.....ensures stock taking.

3.20 Board of Survey and Its Purpose

- (a) What a Survey is and justifications for existence.
The term "Survey" can be defined as a "general view"; or the act of looking over something carefully. In Government Accounting, "survey" refers to a situation where one Officer or a group of Officers are charged with the responsibility of making the examination of something and submitting a report on it thereafter. A Board of Survey on cash and bank is made up of members appointed by the Accountant-General to ascertain the balances to be surrendered by each Ministry or Extra-Ministerial Department at the end of each financial year. Surprise Boards of Survey may emerge on cash imprests and account.
- (b) Classes of Boards of Survey: Boards of Survey can be classified into:
 - (i) Survey of cash and bank balance
 - (ii) Survey of stamps balance
 - (iii) Survey of stores, plant, buildings and equipment.

3.20.1 The Convener of a Board of Survey on Cash/Bank Balances, Stamps and Imprest Amount/Accounts

A Board of Survey is convened by the Accountant-General of the Federation, mostly at

the end of each financial year.

3.20.2 Composition of the Board of Survey

A Board shall consist of three Officers, including the President and not less than two members. The President of each Board should hold a post in grade level 08 or higher. Other members of the Board should not be below Grade Level 06. Where it is not possible, one member of the Board may be appointed, but reasons for this have to be clearly stated on the Survey Report.

3.20.3 Procedural Activities for the Conduct of Surveys

It is very important for the Board members to report early, ahead of the official opening time, at the point of survey, to ensure that no transactions takes place.

Each Board should take the following procedures:

- (a) Check the cash and stamp register by casting the entries for the last month of the year and comparing the balance at hand with one disclosed by the record.
- (b) Ensure that for a bank account, a certificate of bank balance is obtained and reconciled with the one shown in the cash book.
- (c) Ensure that all currency notes and coins (if any) are counted and denominated.
- (d) Certify the cash and bank balance on both the original and duplicate copies of the cash book.
- (e) Bring any surplus disclosed to account in the cash book as a credit to Revenue Head. Any shortage must be made good. A serious shortage should be reported to the Accountant-General.
- (f) On completion of the survey, a report is rendered in triplicate on treasury form 42 and the certificate signed by all members of the Board. Copies of the report are transmitted to the Auditor-General and Accountant-General.

3.20.4 Contents of Survey Reports

The Report of the Board of Survey on cash and stamps are usually embodied in Treasury Form 42. The report of Survey on unserviceable stores, plant and buildings or equipment is embodied in Treasury Form 147.

3.21 Board of Enquiry

3.21.1 Definitions

A 'Board' can be defined as a group of one or more persons set up for a specific

purpose. The word "enquiry" means a "question", an "investigation" as to make inquiries about something; to hold an official inquiry (into....). These two separate definitions put together therefore suggest a situation in which one or more persons are constituted into a Board to conduct an investigation.

3.21.2 Circumstances Which Warrant Setting Up a Board of Enquiry

In the Public Service, an enquiry may be set up to investigate the circumstances leading to an abnormality such as a loss of fund or stores. In considering whether a Board of Enquiry should be held, evaluation is always given to the following points:

- (a) If fraud could have taken place.
- (b) If the loss is significant.
- (c) If the fraud or loss has taken place through a syndicate.
- (d) If the responsibility of officers is not well spelt out.
- (e) If the loss took place systematically, over time.

The Board of Enquiry should invariably be invited in the cases enumerated above.

3.21.3 When is a Board of Enquiry not necessary?

A Board of Enquiry may not be necessary in the following developments:

- (i) If the loss involves small amount of money.
- (ii) If it is peculiar and 'one-of' item.
- (iii) If the officer responsible can be located and identified.

3.21.4 Terms of Reference

Whenever a Board of Enquiry is set up, the Agency which constitutes it should stipulate the relevant terms on which the Board is to draw searchlight. This act is referred to as drawing "Terms of Reference", copies of which are to be made available to the Permanent Secretary of the Ministry concerned or the Head of the Extra Ministerial Department as the case may be; the Accountant-General, Federal Ministry of Finance, Secretary Federal Civil Service Commission and the Auditor-General for the Federation.

3.21.5 The Convener of the Board of Enquiry

Whenever a loss of fund occurs, the Head of the Division, where the officer concerned is serving will:

- (a) Transmit brief information of the case to his Permanent Secretary

or Head of Extra-Ministerial Department.

- (b) Carry out an investigation into the whole incident at the earliest possible moment and complete Parts II and III of Treasury Form 146, forwarding one copy to each of the following officers:
 - (i) The Permanent Secretary of his Ministry.
 - (ii) The Accountant-General of the Federation.
 - (iii) The Auditor-General for the Federation, and
 - (iv) The Secretary, Federal Civil Service Commission.

- (c) Evaluate whether or not a Board of Enquiry is necessary. If so, he will request the Secretary, of the Permanent Board of Survey and Enquiry based in the Federal Ministry of Finance, to convene a Board

3.21.6 Composition of the Board

The Board of Enquiry shall be made up of two or more members. From experience, three members may constitute the Board. The President shall not be less than a level 08 Officer. Other members should not be lower than level 06 Officers. Where there is only one person elected to serve as a 'Board' the facts of this case have to be furnished in his report.

3.21.7 Procedure of Board of Enquiry

The Board may meet at its earliest convenient time. Where the Police personnel are involved, the final recommendations of the Board will take into consideration the outcome of court proceedings or Police investigation.

Although it is difficult for the Board to examine any person against whom a criminal charge is outstanding. It is imperative for the Accountant-General of the Federation apprised with the information relating to the loss, urgently, so that any weakness in the accounting system may be plugged. Ideally, evidence admitted by the Board, should be recorded verbatim. Where impracticable, the evidence is summarized by the Board in such a way as to effectively communicate the facts of the case.

3.22 Contents of the Board's Report

The contents of the Enquiry shall include the following:

- (a) A statement on the exact amount of loss sustained or involved.
- (b) Expression of idea as to whether or not the accounting system was faulty. Suggestions as to any remedy which may be instituted in the peculiar

circumstance.

- (c) Recommendations for improving the physical security measures, to remove current inadequacy.
- (d) Recommendations for the evaluation of the extent of negligence of the Officers who are responsible for the loss.

3.23 Remission of Copies of the Board's Reports

The President of the Board of Enquiry is responsible for transmitting five copies of proceedings and reports. Where practicable copies of supporting documents such as, Police reports and Court proceedings have to be forwarded to each of the following:

- (a) The Permanent Secretary of the Ministry or Head of Extra-Ministerial Department;
- (b) The Accountant-General of the Federation;
- (c) The Secretary, Federal Public Service Commission; and
- (d) The Auditor-General for the Federation.

3.24 Action Taken On the Board of Enquiry's Report

On the receipt of the Board's report, the Permanent Secretary or Head of Extra-Ministerial Department concerned will collate all information and urgently submit his comments to the following persons:

- (a) The Accountant-General of the Federation.
- (b) The Secretary, Federal Public Service Commission, and
- (c) The Auditor-General for the Federation.

His comments have to include the pinning down of responsibility for the loss and the amount, if any, to be surcharged.

ILLUSTRATION 10-2

The following information relate to the receipts of packets of stencils in the Central Store of Ogos State University, in the month of July, 20xx:

Date	Action	Supplier/Dept	S1V/SRV No.	Qty	Price N
1-Jul	Balance	--	--	1160	--
3-Jul	Issues	Health Education	371	112	
3 "	Issues	Economics	373	220	--
5 "	Issues	French	285	72	--

6 "	Purchases	Ola Bookshop	778	200	56
10 "	Issues	History	490	150	--
13 "	Issues	Chemistry	497	240	--
16 "	Purchases	Odus Bookshop	2840	600	58
18 "	Issues	Yoruba	514	230	
21 "	Issues	Medicine	532	280	--
26 "	Issues	Accounting	540	150	
30 "	Purchase	Olu Bookshop	2016	1000	60
31 "	Issues	Sociology	570	360	--

Required:

Enter the information on the Bin Card.

SUGGESTED SOLUTION 10-2

OGOS STATE UNIVERSITY BIN CARD FOR THE MONTH OF JULY, 20XX

Date	Particulars	SIV,SRV & Other Invoices	Receipt QTY	Issue QTY	Balance QTY
July 1	Balance B/F				1160
" 3	Issue to Health	71		112	1048
" 3	Issue to Economics	73		220	828
" 5	Issue to French Class	85,		72	756
" 6	Purchases from Olu	778	200		956
" 10	Issue to History.	0490		150	806
" 13	Issue to Chemistry	0494		240	566
" 16	Purchases from Odus	2840	600		1166
" 18	Issue to Yoruba	0510		230	936
" 21	Issue to Medicine	0530		280	656
" 26	Issue to Accounting	0540		150	506
" 30	Purchases from Ola	2016	1000		1,506
" 31	Issue to Sociology	0570		360	1146

Self-assessment exercise

Briefly explain the procedure of Board of Enquiry

4.0 CONCLUSION

In this unit you studied the distinction between Allocated, Unallocated, Expendable, Non-Expendable and Consumable Stores and the understanding of the use of the composition and functions of the Board of Survey and the Board of Enquiry.

5.0 SUMMARY

This unit discussed stores and store accounting, with clear distinctions between Allocated and Unallocated Stores. It also looked at Expendable, Non-Expendable and Consumable Stores. The unit concluded by examining the responsibilities of the Board of Survey and Board of Enquiry.

6.0 TUTOR MARKED ASSIGNMENT

- a) Distinguish between Allocated, Unallocated, Expendable, Non-Expendable and Consumable Stores
- b) Explain the composition and functions of the Board of Survey and the Board of Enquiry.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

MODULE 3

CONTENTS

Unit 1	Accounting Requirements for the Local Government
Unit 2	Budgeting and Budgetary Controls
Unit 3	Government Construction Contracts and Procurements
Unit 4	Auditing of Government Accounts and Audit Alarm Committee
Unit 5	Government Advances

UNIT 1 ACCOUNTING REQUIREMENTS FOR THE LOCAL GOVERNMENT

CONTENT

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Local Government Organisational Set-Up
3.2	Sources of Revenue of a Local Government Council
3.2.1	Statutory Sources of Revenue
3.2.2	Permissive Sources of Revenue
3.2.3	Incidental Sources of Revenue
3.3	Assessment of Tenement Rates
3.3.1	Annual Value Method
3.3.2	Capital Value Method
3.4	Statutory Allocation
3.5	Administration of Local Government Councils
3.5.1	Chairman as Accounting Officer
3.5.2	Vice-Chairman and Supervisors
3.5.3	Treasurer
3.5.4	Secretary to the Local Government
3.5.6	Act No. 3 OF 1991: Basic Constitutional and Transitional Provisions (Amendment) Act No.3 of 1991
3.6	The Council Legislature
3.6.1	Election of Leaders in the Council
3.6.2	Meetings of the Local Government Council
3.7	Council Clerk
3.8	Appointment of Supervisors
3.9	Types of Expenditure Incurred By the Local Government Council

- 3.9.1 Highlights of the Accounting Procedures
- 3.10 The Typical Local Government Council Final Accounts
 - 3.10.1 The Typical Format of a Statement of Revenue & Expenditure
 - 3.10.2 Format of Statement of Assets and Liabilities as at 31 December, 200X
 - 3.10.3 The new statutory financial statements to be prepared and published by each Local Government Council are made up of:
- 3.11 Accounting Policy Peculiar to Local Government Councils
- 3.12 Financial Control of Local Government Councils
 - 3.12.1 Internal Controls
 - 3.12.2 External Controls
- 3.13 Problems/Limitations of Local Government Councils
- 3.14 Local Government Councils Spending Limit
 - 3.14.1 Conditions/Procedures for Disbursing Money
- 3.15 Objectives of Grants-in-Aid System
- 3.16 Fee Charging Policies in Local Government Councils
- 3.17 Distribution of Revenue in the Federation Account
- 3.18 Budgeting and Budgetary Control
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

The Local Government the 'third-tier' Administration in Nigeria will be discussed in this unit. It is pertinent to mention that State Governments have considerable influence over the Local Government Councils as stated in the Fourth Schedule of the 1999 Constitution, as follows:

- (a) The consideration of economic planning and the making of recommendations to State Commission on the development of the Local Government areas.
- (b) Establishment and maintenance of cemeteries, burial grounds and homes for destitute or the infirmed.
- (c) Licensing of bicycles, trucks, motor cars, etc.
- (d) Establishment and maintenance of markets, car parks and public conveniences.
- (e) Construction and maintenance of roads, streets, drain, parks and other public facilities prescribed by the State Legislature.
- (f) Naming of roads and numbering of houses.
- (g) Provision and maintenance of public conveniences and facilities for refuse

- disposal.
- (h) Registration of deaths, births and marriages.
 - (i) Control and regulation of outdoor advertising, movement and keeping of pets, shops, kiosks, restaurants and other places for sale of food to the public and laundries.
 - (j) Licensing regulation and control of sale of liquor.
 - (k) In addition, LGCs in conjunction with the State Governments, make
 - (i) Provision for primary education.
 - (ii) Provision for primary health care services.
 - (iii) Provision for rural water supply.
 - (iv) Provision for rural feeder road.
 - (l) All such other functions as may be conferred on a Local Government Council by the House of Assembly of the State.

2.0 OBJECTIVES

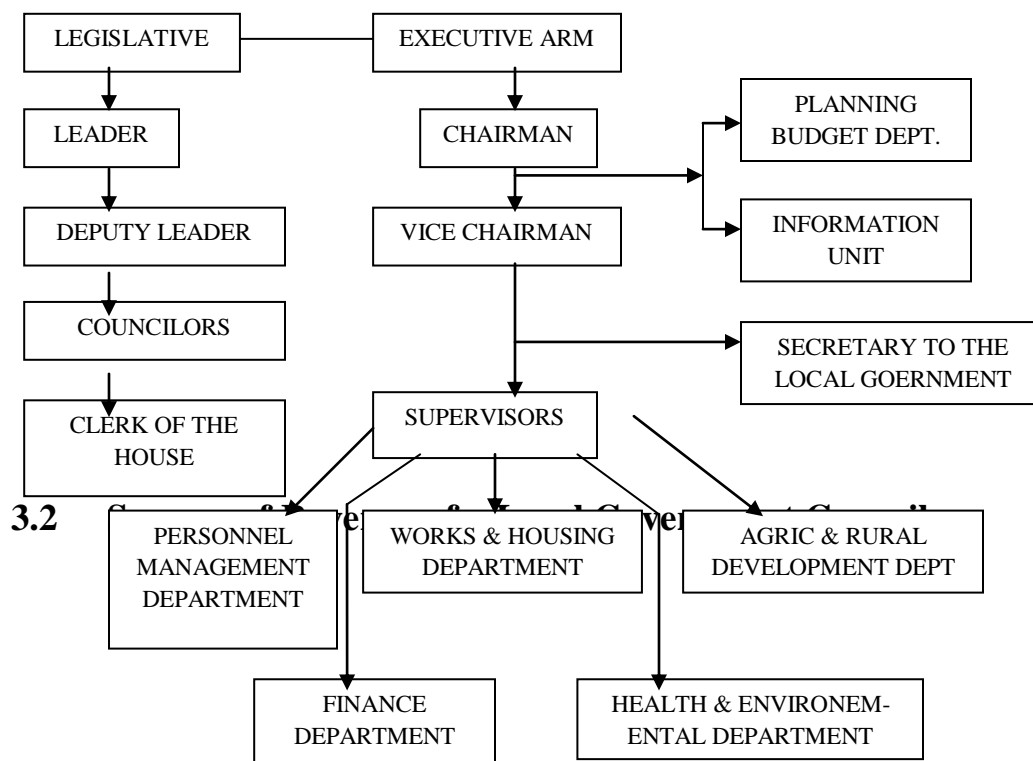
After studying this unit, you should be able to:

- Draw the organisation chart and identify the functions and sources of revenue of a Local Government Council (LGC).
- Identify the roles and functions of the Principal Officers of a LGC.
- State the financial controls and problems of a LGC.
- Identify types of expenditures incurred and budgetary control in a LGC.
- Explain the statutory allocation formula applicable to the third-tier of Government.

3.0 MAIN CONTENT

3.1 Local Government Organisational Set-Up

THE ORGANOGRAM OF A TYPICAL LOCAL GOVERNMENT COUNCIL (LGC)



The sources of revenue of a Local Government Council can be classified into three groups, viz;

1. Statutory Sources of Revenue;
2. Permissive Sources of Revenue; and
3. Incidental Sources of Revenue.

3.2.1 Statutory Sources of Revenue

- (a) Statutory allocations from the Federation Account. 20% of the federally collected revenue accrues to the Local Government Councils, paid directly by the Federal Government.
- (b) 10% of the State's internally generated revenue.
- (c) Fees and other charges imposed by the Council under its instrument of creation and Acts of Parliament promulgated from time-to-time,

3.2.2 Permissive Sources of Revenue

According to Act No. 21 of 1998, Local Government Councils may collect the following taxes and levies, only:

- (a) Shop and kiosk rates.
- (b) Tenement rates.
- (c) On and Off Liquor fees.
- (d) Slaughter slab fees.
- (e) Marriage, birth and death registration fees.
- (f) Naming of street registration fees, excluding any street in the State Capital.
- (g) Right of Occupancy fees on land in the rural areas, excluding those collectable by the Federal and State Governments.
- (h) Market taxes and levies, excluding any market where State finance is involved.
- (i) Motor park levies.
- (j) Domestic animal licence fees.
- (k) Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck.
- (l) Cattle tax payable by cattle farmers only.
- (m) Merriment and road closure levies.
- (n) Radio and television licence fees (other than on radio and television transmitter).
- (o) Vehicle radio licence fees (to be imposed by the Local Government Council of the State in which the car is registered).
- (p) Wrong parking charges.
- (q) Public convenience, sewage and refuse disposal fees.

- (r) Customary burial ground permit fees.
- (s) Religious places establishment permit fees.
- (t) Signboard and advertisement permit fees.

3.2.3 Incidental Sources of Revenue

- (a) Proceeds from economic projects undertaken, such as farming.
- (b) Grants from the Federal or State Government.
- (c) Investment incomes, e.g. interest and dividends received.
- (d) Proceeds of sale of seized goods, boarded vehicles, etc.
- (e) Donations.

Self-assessment exercise

Identify the various sources of revenue in the public sector.

3.3 Assessment of Tenement Rates

Every tenement rate collection is assessed, in the following two major ways:

- (a) Annual value method
- (b) Capital value approach.

3.3.1 Annual Value Method

This is the rent which a tenant might be willing to pay, if he undertakes to meet the cost of repair, insurance and other expenses. The rate is 70% of the rent.

3.3.2 Capital Value Method

This is the price which a purchaser might reasonably be expected to give for the property, excluding machinery in the building. The rate is 1% of the price.

3.4 Statutory Allocation

The statutory allocation of money to the Local Government Councils by the Federal and State Governments is covered by the Revenue Allocation Act of 1982. This Act was amended in 1986, 1988 and 1989.

Paragraph 162(3)(5) of the 1999 Constitution lends weight to the extant laws earlier cited. Up to 31/12/91, 15% of the collections in the Federation Account accrued to the

Local Government Councils. As from 1 January, 1992 the allocation rate rose to 20%.

Each State Government, by virtue of paragraph 162(7) of the 1999 Constitution, pays 10% of its internally generated revenue to the Joint Local Government Council Account, to be shared among the Local Government Councils under the State's supervision. Such revenue is shared, based on a number of considerations such as population and level of development.

3.5 Administration of Local Government Councils

The Local Government Council are administered by both the Executive and Legislative arms of government.

1. The Executive arm is made up of the following:
 - (a) The Chairman;
 - (b) The Vice - Chairman;
 - (c) Supervisors;
 - (d) Treasurer;
 - (e) Secretary and
 - (f) Head of Personnel Management.

3.5.1 Chairman as Accounting Officer

The Guidelines on the Civil Service Reforms describe a Local Government Council Chairman as the Chief Executive and Accounting Officer. As such, he alone initiates all decisions relating to finance and accounts. He presides over Council meetings and is entitled to cast a vote in the event of an election.

An ambitious and authoritarian Chairman could use his influence and political party Councillors to get through his financial decisions, whether or not such decisions are in the interest of the citizenry. The basis, rationale, and logic of separating the Executive from the Legislative Arms, according to the Federal Government, is to enhance the system of checks and balances in the presidential system. By the promulgation of the Basic Constitutional and Transitional Provisions (Amendment) Decree Number 3 of 1991, all the elected Councillors are constituted into the Legislature and could choose a leader of the Council Assembly whose role is synonymous with that of the Speaker of the State House of Assembly.

The major functions carried out by a Local Government Chairman are as follows:

- (a) Management of the Local Government Council for proper development.
- (b) Preparation and execution of the budget.
- (c) Managing the community efforts on development.

3.5.2 Vice-Chairman and Supervisors

Section 4 of Act No. 23 of 1991 states as follows:

"The executive power of the Local Government shall be exercised by the Chairman of a Local Government Council and may, subject to the provisions of the Edict or Law of the State, be exercised by him, either directly or through the Vice-Chairman or Supervisors of the Local Government. In the absence of the Chairman, the Vice-Chairman takes over. However, the Chairman is expected to assign duties to the Vice-Chairman. Where the Vice-Chairman is also appointed as a Supervisor, he has to perform the functions relating to that other portfolio".

Supervisors are expected to be closely involved in the management of their respective Departments, but are not allowed to interfere in the internal affairs. By paragraph 30 of the 1976 Guidelines on the Reforms of the Local Government, Supervisors perform the following functions:

- (a) As the political Heads of Departments, they are Vote Controllers and are accountable to the Council Chairman.
- (b) They are members of the Cabinet of the Local Government Council and automatic members of the Finance and General Purposes Committee.
- (c) Supervisors give directives to the executive Heads of Departments on general policy issues. They do not interfere in the day-to-day running of the departmental affairs.
- (d) They assist the Chairman in supervising the execution of Local Government Council projects under their purview.

3.5.3 Treasurer

A Local Government Treasurer office is established by law and is empowered to control and manage the Council's finances. The functions of Local Government Council Treasurer, as contained in the Civil Services and Local Government Reform of 1988 include:

- (i) Rendering financial advice to the Council;
- (ii) Serve as the Secretary to the Budget Committee;
- (iii) Receiving and disbursing money for the authorized ends;
- (iv) Keeping proper accounting records of money collected or utilized;
- (v) Verifying the accuracy and integrity of all accounting records;
- (vi) Ensuring compliance with all financial instructions or laws for safe custody of the Council money;
- (vii) Ensuring that vouchers are correctly made out and that funds are available in the

- appropriate vote of charge;
- (viii) Rendering necessary contemplated statutory returns to the State and Federal Governments;
 - (ix) Ensuring that all revenue belonging to the Council are collected as at when due;
 - (x) Ensuring that fiscal policies are executed and expenditure incurred with due diligence;
 - (xi) Maintaining effective run and staffed financial operations;
 - (xii) Keeping up to date statistical information in such a form as will enhance the submission of prompt and accurate reports;
 - (xiii) Submitting recommendations to the Council's in his capacity as the financial adviser;
 - (xiv) Serving as a signatory to the Council's bank account and other disbursements
 - (xv) Offering expert opinions on short, medium and long term bases.

3.5.4 Secretary to the Local Government

Before the 1988 reforms, the Secretary of a Local Government Council was the Chief Executive and Accounting Officer. By virtue of Sections 5.1 8.1 and 14.2 of the 1988 Guidelines, the Secretary of the Council controlled the various activities. However, his duties are now being performed by the Head of Personnel Management. Nonetheless, the Council Secretary:

- (a) Liaises with the Secretary to the State Government and other important dignitaries on matters of interest to Local Government Councils;
- (b) Co-ordinates the operations of the various Departments and represents the Chairman, as directed, at high-level meetings.
- (c) Is the Secretary to the Executive Arm of the Local Government and maintains the records of proceedings of meetings.
- (d) Performs other assignments as may be delegated by the Chairman, from time to time.

3.5.5 Head of Personnel Management

The Head of Personnel Management has assumed the position of dominance as a result of the Federal Government's Circular of 20th May, 1991. The circular listed the following duties/functions of Head of Personnel Management:

- (a) All vouchers and cheques shall be signed by the Head of Personnel Management.
- (b) All contractual agreements, local purchase orders, works and such other documents relating to contracts and supplies shall be signed by the Head of Personnel Management, subject to the approval of the Council Chairman.

- (c) The Head of Personnel Management is a facilitator to the Audit Alarm Committee of the Local Government Council.
- (d) He is the recognized second signatory to all the disbursements of the Council.
- (e) Based on Federal Government circular of May, 1991, he assumes the position of the Clerk of the Council Legislature, even if temporarily.
- (f) He implements audit reports on the weakness areas identified in the administration procedures.
- (g) He is the Head of the Junior Staff Management Committee.
- (h) He is also the Secretary and Chief Administrative Officer of the Council.

3.5.6 Act No. 3 OF 1991: Basic Constitutional and Transitional Provisions (Amendment) Act No.3 of 1991

With the promulgation of Act No. 23 of 1991, the functions of the Finance and General Purposes Committee (FGPC) were transferred to the Legislative Arm of the Council. However, the fact is that the management of the funds of the Local Government Council is that of the Executive Arm. Consequently, the Executive Arm runs a Funds Allocation Committee (FAC), comprising the Council Chairman, the Vice-Chairman, All Supervisory Councillors, the Secretary to the Local Government, the Treasurer and the Head of Personnel Management. The functions of the Funds Allocation Committee include, inter alia:

- (a) Receiving and considering monthly expenditure proposals of all Departments as collated by the Treasurer.
- (b) Arranging the payment of contractors' fees and approving all disbursements from the coffers of the Council, especially for the settlement of personnel emolument.
- (c) Deliberating on the monthly financial statements prepared by the Treasurer.

Self-assessment exercise

State one function of the following: i) LGC Chairman, ii) Head of Personnel and iii) Treasurer

3.6 The Council Legislature

The Legislature consists of the Leader of the House, his Deputy and the elected Councillors. The Local Government Council is the Legislative Arm of the Local Government. Members of the House perform the following functions:

- (a) Debating and passing of Local Government Legislations.
- (b) Debating, approving and possibly amending the Local Government Council's

annual budget, subject to the Chairman's veto, which could be over-ridden by two-thirds majority of the Council members

- (c) Vetting and monitoring the implementation of projects and programmes in the Local Government Council's annual budget.
- (d) Examining and debating monthly statements of income and expenditure rendered to it by the Executive Arm of the Local Government Council.
- (e) Consulting with the Local Government Council Chairman, who is the Head of the Executive Arm of the Local Government; and
- (f) Performing such other functions as may be assigned to it from time to time, by the State House of Assembly in which the Local Government Council is situated.

3.6.1 Election of Leaders in the Council

The Councillors shall elect from among themselves one person as the Leader. The role of the Council Leader shall be synonymous with that of the Speaker of the State House of Assembly.

3.6.2 Meetings of the Local Government Council

Councillors are part-time legislators. However, the Council shall meet at least once a month.

3.7 Council Clerk

The Head of Personnel Management Department is designated as the Council Clerk, in addition to his other normal duties. The Council Clerk provides normal secretarial service to the meetings of the Legislature. He liaises with the Secretary for the smooth-running of the administration of the Local Government Council.

3.8 Appointment of Supervisors

All Supervisory Councillors shall henceforth cease to exist. In their place, the Local Government Council Chairman shall appoint, from either within or outside the Council, Supervisors who shall not be fewer than three or more than five in number, depending on the size, revenue base and complexity of the area. The Supervisors, who are in charge of specific portfolios or responsibilities, shall be appointed in consultation with the Legislative Arm of the Local Government Council. However, in the event of an elected Councillor being appointed as Supervisor, such Councillor shall immediately vacate his Council seat. A by-election is later conducted by the State Independent Electoral Commission (SIEC) for the Councillors in the affected ward. The Council Chairman shall promptly report all such cases to the State Independent Electoral

Commission which shall arrange by-elections in accordance with the law. In the interest of progress, stability and orderly development, Supervisors shall, in all cases, be persons of outstanding merit with relevant educational and cognate experience in matters relating to their assigned portfolios. In addition, their appointments shall reflect the geographical character of the Local Government Council areas:

3.9 Types of Expenditure Incurred By the Local Government Council

These may be discussed as follows:

- (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 are incurred in constructing roads, motor parks, toilet facilities, etc.

Expenditure are classified into the main heads and appropriate sub-heads, departmentally.

3.9.1 Highlights of the Accounting Procedures

- (a) The sum total of the amounts disbursed under the Sub-heads of a particular Head are aggregated at the end of the financial year. The numbering of the sub-heads 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 are 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 organisations 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.

Self-assessment exercise

Identify types of expenditures incurred in a LGC.

3.10 The Typical Local Government Council Final Accounts

The typical final accounts are made up of:

- (a) A Statement of Income and Expenditure, for the year ended 31 December, 200X.
- (b) A Statement of Assets and Liabilities as at the year ended 31 December, 200X.

3.10.1 The Typical Format of a Statement of Revenue & Expenditure

JIBOWU LOCAL GOVERNMENT COUNCIL

	Note	Approved Estimates N	Actual N
Revenue		x	x
Local Rates	(1)	x	x
Local licence fees & fines	(2)	x	x
Earning from Commercial undertakings	(3)	x	x
Rent on Local Government property	(4)	x	x
Interest payment and dividend	(5)	x	x
Grant	(6)	x	x
Statutory allocation	(7)	x	x
A		<u>x</u>	<u>x</u>
Less expenditure			
The Council	(8)	x	x
Office of the Secretary	(9)	x	x
Finance Department	(10)	x	x
Education Department	(11)	x	x
Works housing	(12)	x	x
Traditional office	(13)	x	x
Education	(14)	x	x
Environmental sewage	(15)	x	x
Agricultural & rural development	(16)	x	x
Transportation	(17)	x	x
Workshop	(18)	x	x

B X X

General Revenue balance. (A - B)

3.10.2 Format of Statement of Assets and Liabilities as at 31 December, 200X

	N
Advances/Debtors	x
Cash and Bank	<u>x</u>
	<u>x</u>
Deposit	<u>x</u>
General revenue	<u>x</u>

3.10.3 The new statutory financial statements to be prepared and published by each Local Government Council are made up of:

- (i) 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.
- (ii) 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.
- (iii) Statement No 1: Cash Flow Statement
- (iv) Statement No 2: Statement of Assets and Liabilities
- (v) Statement No 3: Statement of Revenue and Expenditure

**STATEMENT NO 1
CASHFLOW STATEMENT
FOR THE YEAR ENDED 31ST DEC., 2XXX
LOCAL GOVERNMENT COUNCIL**

	NOTES	CURRENT YEAR Nm	PREVIOUS YEAR Nm
Cash flow from Operating Activities			
Receipts			
Internal Generated Revenue	3	x	x
Grants/ Subventions	4	x	x
VAT	5	x	x
Statutory Revenue Allocation	6	x	x
Miscellaneous	7	x	x
Total Receipts		<u>x</u>	<u>x</u>
Payments			
Personal Emoluments	8	(x)	(x)
Pensions and Gratuities		(x)	(x)
Consolidated Revenue Fund Charge		(x)	(x)
Overhead Costs		(x)	(x)
Public Debt Charges		(x)	(x)
Recurrent Grants and Subventions		(x)	(x)
Subsidies		<u>(x)</u>	<u>(x)</u>
Miscellaneous Expenses	9	<u>(x)</u>	<u>(x)</u>
Total Payments		<u>(x)</u>	<u>(x)</u>
Net Cash Flow from Operating Activities		<u>x</u>	<u>x</u>
Cash Flow from Operating Activities			
Purchase/ Consolidation of Assets	10	(x)	(x)
Purchase of Financial Market Instruments		(x)	(x)
Proceeds from Sale of Assets		X	X
Net Cash Flow from Investing Activities		x	x
Cash Flow from Financing Activities			
Proceeds from Loans & Others			
Borrowings	11	x	x
Dividends Received	12	x	x
Repayment of Loans	13	<u>(x)</u>	<u>(x)</u>
Net cash Flow from Financial Activities		<u>x</u>	<u>x</u>
Net Increase (Decrease) in Cash & Its Equivalent		x	
Cash & It Equivalent at 112/2xxx		x	x
Cash & Its equivalent at 31/12/2xxx		x	x

Accompanying notes are an integral part of these Statements.

**STATEMENT NO 2
ASSETS AND LIABILITIES
FOR THE YEAR ENDED 31ST DEC., 2XXX
LOCAL GOVERNMENT COUNCIL**

	NOTE	CURRENT YEAR Nm	ACTUAL PREVIOUS YEAR Nm
ASSETS			
Cash and Bank Balances	14	xx	xx
Investments	15	xx	xx
Advances	16	xx	xx
Others	17	xx	xx
		<u>xx</u>	<u>xx</u>
LIABILITIES			
Deposits	18	xx	xx
Loans	19	xx	xx
General Revenue Balanced	20	xx	xx
		<u>xx</u>	<u>xx</u>

Accompanying notes are an integral part of these statements.

**STATEMENT NO 3
REVENUE AND EXPENDITURE
FOR THE YEAR ENDED DEC., 31ST. 2XXX**

ACTUAL PREVIOUS YEAR Nm	NOTE	BUDGET CURRENT YEAR Nm	ACTUAL CURRENT YEAR Nm	VARIANCE %
xx	Opening Balance	xx	xx	xx
	ADD REVENUE			
xx	Rates	21	xx	xx
xx	Fines. Fees and Licenses	22	xx	xx
xx	Earning & Sales	23	xx	xx
xx	Rent on Government Property		xx	xx
xx	Interest & Dividend	24	xx	xx
xx	Taxes	25	xx	xx
xx	Statutory Revenue Allocation	26	xx	xx
xx	Miscellaneous	27	xx	xx
<u>xxx</u>	TOTAL REVENUE (a)	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>

LESS: EXPENDITURE

xx	General Administration	28	xx	xx	xx
xx	Health and Environment	29	xx	xx	xx
xx	Works and Housing	30	xx	xx	xx
xx	Education	31	xx	xx	xx
xx	Agric and social Development	32	xx	xx	xx
xx	Grants and Subsidies	33	xx	xx	xx
xx	Capital Projects	34	xx	xx	xx
xx	Miscellaneous Expenses	35	xx	xx	xx
xxx	TOTAL EXPENDITURE(b)		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
xxx	OPERATING BALANCE(a-b)		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>

The accompanying notes are an integral part of these Statements.

3.11 Accounting Policy Peculiar to Local Government Councils

The "cash basis" of accounting is generally used, just as it applies to the first and second tiers of Government.

Income is recognised only when the cash is received. Expenditure is recognised when the liability is paid for.

3.12 Financial Control of Local Government Councils

The financial control of the Local Government Councils can be appreciated in two realms, namely 'Internal Control' and 'External Control.'

These are discussed as follows:

3.12.1 Internal Controls

The internal control measures are:

- (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.

3.12.2 External Controls

The following are the external control measures:

- (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.

3.13 Problems/Limitations of Local Government Councils

These are:

- (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

3.14 Local Government Councils Spending Limit

In order to curtail wasteful spending, the regulation pegs the expenditure approval ceilings of each Principal Officer of Local Government Council, as follows:

Internal generated revenue ₦	Council chairman ₦	Vice chairman ₦	Head of personnel Management ₦	Head of department ₦
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

3.14.1 Conditions/Procedures for Disbursing Money

- (i) All expenditure approvals by an official shall be reported within a week to a higher officer.
- (ii) Every officer who authorizes expenditure will be personally liable for expenditure approved by him.
- (iii) Approval of expenditure is subject to the normal budgetary appropriation.
- (iv) Contracts above of Local Government Council limit should be approved by the Ministry of Local Government.

Self-assessment exercise

Explain the statutory allocation formula applicable to the third-tier of Government.

3.15 Objectives of Grants-in-Aid System

- (a) To augment the resources of Local Government Councils.
- (b) To meet the exceptional needs or the limited means of a particular area.
- (c) To assist central control over particular services.
- (d) To influence aggregate Local Government expenditure as part of the process of control.

3.16 Fee Charging Policies in Local Government Councils

A Local Government Council charges a fee for each service it performs for individuals and corporate bodies. It is the function of the Local Government Treasurer to advise on the level of the various charges for the services rendered. In formulating a charging policy, the Local Government authorities take into consideration the following:

- (a) The level of development in the area.
- (b) The status of people in the community.
- (c) The nature of services to be rendered.
- (d) The skills and technical competence of those required to perform the services.

3.17 Distribution of Revenue in the Federation Account

According to Allocation of Revenue (Federation Account, etc)Act, CAP A15 LFN 2005, the amount standing to the credit of the Federation Account, less the sum equivalent to 13percent (13%) of the revenue accruing to the Federation Account directly from any natural resources as a first charge for distribution to the beneficiaries of the derivation funds shall be distributed among the Federal and State Governments and the Local Government Councils in each State of the Federation on the following basis:

(a)	Federal Government	56%
(b)	State Governments	24%
(c)	Local Government Councils	20%

The 56% allocation to the Federal Government is to be utilized as follows:

(a)	Federal Government	48.5%	
(b)	General Ecological Problems	2.0%	
(c)	Federal Capital Territory	1.0%	
(d)	Stabilisation Account	1.5%	
(e)	Development of Natural Resources	3.0%	<u>7.5%</u>
			<u>56.0%</u>

The allocations can be restated as follows:

(a)	Federal Government	48.5%
(b)	Special Fund	7.5%
(c)	State Governments	24.0%
(d)	Local Government Councils	<u>20.0%</u>
		<u>100.0%</u>

3.18 Budgeting and Budgetary Control

The Executive Arm of Government prepares the budget for the approval of the Legislature, which is given assent to by the Council Chairman. The following are the budgetary control procedures:

- (i) **Approval:** Payments must be approved before spending.
- (ii) **Monthly Reports:** These are prepared to compare actual figures with the budgets and extract variations.
- (iii) Actual actions are taken to correct the errors or reflect variations.
- (iv) **Internal Audit:** From time to time, the Internal Auditors verify the integrity of the accounts and write reports appropriately.
- (v) **External Audit:** The Auditor-General for Local Government verifies the records of all Local Government Councils in the State.
- (vi) **Limit of Expenditure: Individual** Local Government Officers have limits of expenditure payments which they must not exceed.

4.0 CONCLUSION

In conclusion, the accounting requirements for the Local Government is based on 1999 constitution requirement and State Governments have considerable influence.

5.0 SUMMARY

This unit discussed the functions of the Local Government stated at the fourth Schedule, Part I of the 1999 Constitution. Its sources of income and types of expenditure are recognised statutorily. The Local Government Councils prepare yearly budgets and are required to adhere strictly to them.

In unit 2 of this module, you will learn about budgeting and budgetary control in the public sector

6.0 TUTOR MARKED ASSIGNMENT

- a) Identify the functions of a Local Government Council in line with revenue collection and accounting.
- b) State the financial controls and problems of a Local Government Council.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 2 BUDGETING AND BUDGETARY CONTROLS

CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Budget
 - 3.2 The Purposes of Budget
 - 3.3 Methods of Preparing Budgets by Government In Nigeria
 - 3.3.1 Traditional/Line Items/Incremental Budgeting
 - 3.3.2 Advantages of Line-Item Budgeting Method
 - 3.3.3 Disadvantages of the Line-Item' Budgeting Method
 - 3.4 Zero-Base Budgeting Technique (ZBB)
 - 3.4.1 Advantages of Zero-Base Budgeting
 - 3.4.2 Disadvantages/Problems of Zero-Base Budgeting
 - 3.5 Planning, Programming and Budgeting System (PPBS).
 - 3.5.1 The Main Steps in Planning, Programming and Budgeting System
 - 3.5.2 Advantages of Planning, Programming and Budgeting System the technique
 - 3.5.3 Disadvantages of Planning. Programming and Budgeting System
 - 3.6 Performance Budgeting
 - 3.7 Periodic Budgeting
 - 3.8 Flexible Budgeting
 - 3.9 Capital Expenditure Budgeting
 - 3.10 Base Estimate
 - 3.11 Rolling Plan or Continuous Budget
 - 3.11.1 Rolling Budget
 - 3.11.2 Perspective Planning
 - 3.12 Factors Militating Against the Budgeting System in the Public Sector
 - 3.13 Committed Growth
 - 3.14 Procedure for Preparation and Approval of Budgets
 - 3.14.1 The Ministerial or Pre-Treasury Board Phase
 - 3.14.2 Executive Council Phase
 - 3.14.3 The National or State House of Assembly/Legislative Phase
 - 3.14.4 Presidential/Governor's Assent
 - 3.15 Reserves/Balances
 - 3.16 Supplementary Estimates
 - 3.16.1 Conditions for Approving Supplementary Funds
 - 3.17 Uses of Budgets
 - 3.18 Personnel Cost Budget
 - 3.19 Overhead Cost Budget
 - 3.20 Revenue Budget

3.21	Functions of the Ministry Of Budget and Planning/ Department of Planning, In the Presidency
3.22	Budgetary Control
3.22.1	Objectives of Budgetary Control
3.23	Cash Budgeting
3.23.1	Advantages of Preparing Cash Budgets
3.23.2	Preparing Cash Budgets
4.0	Conclusions
5.0	Summary
6.0	Tutor Marked Assignment
7.0	References/Further Reading

1.0 INTRODUCTION

In this unit of this module 3, you will learn about budgeting and budgetary control in the public sector. You are led to explain budget, its preparation and implementation in the Public Sector.

2.0 OBJECTIVES

After studying this unit, readers will be able to:

- Explain budget and the different methods of preparing it.
- Identify the advantages and disadvantages of each method of preparing budget.
- Outline Budget implementation in the Public Sector.
- Describe Budgeting and budgetary control in the Public Sector.

3.0 MAIN CONTENT

3.1 Budget

A budget is a financial and/or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective. A budget is normally for a year. It is therefore a short-term plan. One of the primary objectives of budget is to measure the profit earnings of an organisation. However, in the case of Government, which is non-profit making, budgets are used:

- (a) As a guide for the present and future.
- (b) To plan, control and estimate the amount to be received and spent during a specified period.
- (c) To distribute limited resources.
- (d) To motivate managers towards the achievement of corporate goals.
- (e) As a means of evaluating performance.

- (f) To inform managers about the results and operations of their responsibility domains.
- (g) As a standard of measurement for the purpose of controlling on-going economic endeavours.

Government Units that obtain revenue from taxes and other sources use such for current operations by means of budget. A Government budget shows authorised appropriations and estimated revenue. Many however, perceive the term 'budget' as a restraining or impeding factor. Hence, people seem to develop a negative attitude to budgeting.

3.2 The Purposes of Budget

In an Government Units, the Executive arm prepares the budget and submits same to the Legislative arm for review, modifications and approval. The approved budget serves as a basis for the activities of that Government Unit for the fiscal period under focus. There are four main purposes which a government budget serves. These may be enumerated thus:

- (a) A budget is an economic and financial document. It highlights Governments policies which are designed to promote economic growth, full employment and enhance the quality of life of the citizenry.
- (b) It is a useful guide for the allocation of available resources.
- (c) Through the Legislature, the Executive arm uses the budget as a means of accountability for the money earlier entrusted and the appropriations newly approved.
- (d) The budget stands for the request of the Executive arm of Government for the Legislature to collect and disburse funds.

3.3 Methods of Preparing Budgets by Government in Nigeria

The budgeting approach used by Government to allocate funds for a succeeding year is the incremental or 'line-item' method. The approach is oriented to expenditure, itemizing proposed disbursements under different Heads and Sub-heads of the various Ministries and Extra-Ministerial Departments. The expenditure side of the 'line-item' or incremental budget is made up of personal emoluments, other charges and capital or developmental items.

3.3.1 Traditional/Line Items/Incremental Budgeting

The traditional budgeting method which is also often called 'Incremental Budgeting' involves picking last year's figures and adding a percentage to arrive at this year's budget. The percentage added is based essentially on three factors, namely:

- (a) Trend of economic event;
- (b) Inflation; and
- (c) The available funds,

Budgeting in Government can be appreciated as being made up of two main elements. The first aspect is the procedure of Budgeting. This consists of the practices, documentations and norms which govern the preparation, approval, implementation and review of the budget. The second element is "Budgeting System." This has to do with the management process: This provides for the purchase, allocation and use of available resources by setting in advance operational criteria which result in the achievement of corporate goals.

The line-item budgeting system has certain features, which include the following:

- (a) The budgets refer to the Ministries and Extra-Ministerial Departments for which they are prepared. No prominence is given to the ends for which the funds are provided.
- (b) The current year's budget is arrived at through routine and incremental reasoning, and not by scientific analysis.
- (c) The main thrust of the budget is the achievement of control and accountability.

3.3.2 Advantages of Line-Item Budgeting Method

These include the following:

- (a) It is simple to understand and operate.
- (b) It suits the country's level of development, where there is paucity of data.
- (c) It is cheaper to produce.
- (d) It encourages the continuity of projects.
- (e) The method ensures that budget is translated in monetary language and relates to the relevant activity operations.
- (f) Allocations into Heads and Sub-heads facilitate the monitoring of performance.

3.3.3 Disadvantages of the Line-Item' Budgeting Method

Although the foregoing shows the attributes of 'line-item' budgeting, the drawbacks of the method are:

- (a) The method allows past errors to be carried forward. It is therefore not efficient in its operations.
- (b) Detailed scrutiny is not contained in the budget. The budget preparation is consequently not well researched.
- (c) It fails to clarify the cost of alternative methods of achieving programmed objectives.

- (d) It results in continual growth budget totals related to inflation, as opposed to serious economic needs.
- (e) It fails to fund new programmes of high priority on &sufficiently reasonable scale.
- (f) The method does not clearly spell out the relationship between capital and recurrent expenditure. The approach is based on organisational set-ups rather than programmes.

Self-assessment exercise

List three different budgeting methods.

3.4 'Zero-Base Budgeting' Technique (ZBB)

It is a management effort which provides for systematic consideration of all activities and programmes.

The 'Zero-Base' budgeting technique is a programme budgeting reform that was introduced by Peter Pyhrr of Texas, but popularised by a Past President of the United States of America, Jimmy Carter, in 1976. The technique requires every item of expenditure to be justified as if the particular activity or programme is taking off for the first time. It is the preparation of operating budgets from a 'zero-base' of expenditure cost. Under the technique, resources are not necessarily allocated in accordance with the previous patterns. Each item of expenditure proposed has to be annually re-justified. 'Zero-Base' budgeting seeks to avoid perpetuating obsolete expenditure items.

In Government, the three key users of the 'Zero-Base' technique are:

- (a) The Legislature.
- (b) The Executive.
- (c) The various Ministries, Extra-Ministerial Departments and Parastatals.

The Legislature is more concerned with shifting emphasis on issues of objectives and priorities. Ministries and Extra-Ministerial Departments require adequate information to focus on implementation and efficiency.

'Zero-Base' budgeting involves the use of decision-package approach, based on the identification of activities which may be classified into the following five basic events:

- (a) Identification of 'decision units' and formulating operational plans. The entire Ministry or Parastatal is divided into smaller components called 'decision units.'
- (b) Analysing the whole budget into 'decision packages', based on the 'decision-units', to which costs are assigned and to the alternative ways of executing the same operation. It also involves assessing the effect of not performing the activity at all. Different levels of performance between the minimum and maximum points are

- evaluated so as to obtain optimality.
- (c) Ranking in priority the 'decision packages' covering the activities, both new and existing, in a competitive manner.
 - (d) Determination of the 'cut-off' point, to choose the packages which can be included and those to be rejected.
 - (e) Prioritisation of the packages, to highlight the ones which fit in with the available resources.

3.4.1 Advantages of Zero-Base Budgeting

The following advantages have been associated with the use of 'Zero-Base' budgeting:

- (a) It acts as a tool for change from which benefits are likely to accrue.
- (b) It allows for optimum allocation of resources. This is made possible by the formulation of alternative courses of action and evaluating each on its own merit. Resources are therefore allocated by need and benefit accruing, rather than political or emotional considerations.
- (c) It creates questioning attitude instead of assuming that current practice maximizes expected money value. Wasteful spending is thereby reduced.
- (d) It provides a better yardstick for the measurement of performance.
- (e) The technique allows for the participation of the various organs of the decision unit.
- (f) It focuses attention on the future rather than the past; old and new projects are therefore appraised on the same basis.
- (g) Under 'Zero-Base' budgeting, important projects can continue to receive funds, owing to their viability.
- (h) It is good for profit-oriented projects.

3.4.2 Disadvantages/Problems of Zero-Base Budgeting

The following are the disadvantages of using 'Zero-Base' budgeting:

- (a) Lack of and sometimes unreliable data may inhibit or undermine the usefulness of the approach in the less developed economic environment as ours.
- (b) It may cause a major shift in resource allocation.
- (c) Bureaucrats often do not trust the approach and hence frustrate its effectiveness.
- (d) In determining decision packages, there is, sometimes, the problem of fixing the minimum level of expenditure.
- (e) It involves the task of analyzing and ranking a lot of data and information which a number of civil servants find difficult to manage. This situation is further complicated by lack of qualified and competent personnel in the public sector, to handle the application of this technique.
- (f) There is need to make accounting structure conform with the 'Zero-Base

- philosophy, for the purpose of evaluation and control. This may necessitate a general review, overhauling, adding or scrapping of activities and functions,
- (g) It is not so good for recurrent expenditure. It has not been successful in the public sector.

3.5 Planning, Programming and Budgeting System (PPBS)

The Chartered Institute of Public Finance and Accountancy defines Planning, Programming and Budgeting System as:

"Primarily, a system associated with corporate management which identifies alternative policies, presents the implications of their adoption and provides for the efficient control of those policies chosen. It embraces several established concepts and analytical techniques within the framework of a systematic approach to decision making, planning, management and control. The principal features of Planning, Programming and Budgeting system are that it relates to objectives and outputs, as it emphasises the choice."

Planning, Programming and Budgeting Systems is a budgeting approach which is based on systems theory, output and objective orientation, with substantial emphasis on resource allocation on the principle of economic analysis.

The technique is not based on the traditional organisational structure but on programmes which involve grouping of activities which have common objectives.

The resources which are available to public sector organisations are limited, when compared with the demands for them. Consequently, choices have to be made to make sure that the meagre resources are distributed fairly to maximise benefits.

3.5.1 The Main Steps in Planning, Programming and Budgeting System

- (a) Identification and enumeration of goals and objectives of the organisation.
- (b) Defining the total system in detail, including objectives, environment, available resources, the programmes and their objectives, etc.
- (c) Planning and analysis: These involve continuous process of developing, comparing and analyzing alternative programmes, so as to evolve the most appropriate package for the organisation.
- (d) Development of the appropriate measures of performance for the programmes of the organisation.
- (e) Programming and Budgeting: The agreed package of "programmes" complete with resource requirements and expected results are expressed in the form of "programmed budgets".
- (f) Reporting and Controlling: Planning, Programming and Budgeting System requires sophisticated information service which is able to monitor the progress

made towards meeting the organisational objectives. Performance evaluation, therefore, emphasizes the attainment or non-attainment of the desired objectives, rather than the amount spent which is the focus in traditional budgeting system.

- (g) Development, each year, of a multi-year programme and financial plan.

3.5.2 Advantages of Planning, Programming and Budgeting System the technique

- (a) provides information on the objectives of the Organisation;
- (b) lays emphasis on long-term effects;
- (c) achieves effective use of budgeted resources and anticipated performance;
- (d) ensures rational decision-making and forces those seeking budgetary allocations to consider alternatives;
- (e) leads to rapid economic development.

3.5.3 Disadvantages of Planning, Programming and Budgeting System

The system is associated with the following disadvantages/ problems:

- (a) Natural resistance to change, particularly among the very Senior Officers in the Governmental hierarchy.
- (b) Transitional problems at the introductory stage.
- (c) Problem of staff shortage.
- (d) Paucity of data.
- (e) Re-orientation of the old accounting system to cater for the requirements of the new concept.
- (f) Problem of data collection and physical monitoring.
- (g) It is difficult to install.
- (h) It makes heavy demand on resources.
- (i) The uncertainty of the future makes long term planning difficult.

3.6 Performance Budgeting

Performance budgeting can be defined as a technique used for presenting public expenditure in form of functions or projects to be undertaken, highlighting the cost involvements. The anticipated costs are compared with the expected income. The focus of the technique is on results or output achieved, rather than how much has been expended.

The essential features of a Performance Budgeting System, are as follows:

- (a) Classification of budgets in terms of functions and activities.

- (b) Measurement of work done or output provided, by each activity.
- (c) Expression of the budget in a way which allows direct comparison between a project's cost and the anticipated income or benefit.
- (d) Monitoring of actual cost and performance against the budgeted results or expectations.

3.7 Periodic Budgeting

This is the operation of a fixed budget over a certain period of time, usually a year. The budget becomes fixed for the duration of the period concerned and revisions are not allowed till the end of the period.

3.8 Flexible Budget

This is a budget that recognizes the difference between the fixed and variable costs and gives room for result determination and evaluation under the varying levels of activities. Thus, it accommodates changing levels of production and facilitates the production of control reports for the prevailing levels of activities. It is a budget which takes cognizance of cost behaviour and adjusts according to the level of activities attained. It is used for control purposes.

3.9 Capital Expenditure Budget

It is the budget prepared in the public sector for capital projects such as the construction of bridges and major road projects. The expenditure on the projects are financed from the Development Fund.

3.10 Base Estimate

The base estimate for the current year is obtained by taking last year's budget and deducting the value of 'one off' transactions. Transactions that are 'one off' are those which do not recur year-in-year-out.

3.11 Rolling Plan or Continuous Budgets

Continuous Budget or Rolling Plan can be defined as the continuous updating of a medium- term plan spanning a specified period of time. For example, "1998 to 2000" within which special and core capital projects, such as the completion of Ajaokuta Steel Rolling Mill, will be accomplished. The time-horizon is a challenge or target date within which the capital project is expected to be completed. However, if constraints do not permit accomplishment, a fresh plan period will emerge to accommodate the development.

Nigeria started adopting Rolling Plan from the year 1990. The country had "1990 to

1992" Rolling Plan, to start with.

3.11.1 Rolling Budget

Any budget prepared from within the Rolling Plan is referred to as Rolling Budget. It is the yearly provision of funds to prosecute the capital projects spelt out in the plan period. Achievements made are documented and compared with the yearly targets set. Making use of management by exception attention of Government is particularly drawn to the areas of difficulties. Reports on the progress made are furnished by the Ministry or Extra-Ministerial Department concerned to the National Planning Commission.

3.11.2 Perspective Planning

Perspective Planning is long-term in nature. It covers fifteen or more years. It provides the broad view of a country's development process. Perspective planning aims at addressing fundamental and broad issues of development. It serves as a framework for designing and implementing Rolling Plans. A Perspective Plan is always split into many short-term plans of four or five years, in order to achieve long-term objectives.

Self-assessment exercise

Outline Budget implementation in the Public Sector.

3.12 Factors Which Militate Against The Budgeting System In The Public Sector

The key factors which militate against efficient and effective budget implementation in the public sector are as follows:

(a) Human Element

Top management members see budgeting as restraining and challenging. They tend to develop a lot of apathy towards its adoption and implementation. The lack of probity and accountability of some operatives affect successful budgeting.

(b) Uncertainties Underlying Data Inputs

There is a lot of uncertainties in the data used for the budget preparation. The projections in revenue accruing from oil may not be forthcoming in view of the vagaries in the world market. Lack of efficient data base also hamstrings reliable forecasts.

(c) The Type of Project for which Budget is Prepared

How successful a budget will be depends on the type of project to which it relates. Some projects are popular while others are not. Those which are not popular may

face stiff implementation problems.

(d) The Problem of Inflation

Inflation tends to reduce the purchasing power of money. When the value of money is falling, budget implementation may run into problems. The revenue available will not be able to cover the expenditure.

(e) Political, Social and Cultural Elements.

Each segment of the Nation has its own cultural beliefs and taboos which may take time to change. Introducing innovation may be met with stiff opposition. For example, a section of the Country may not be willing to provide land for development purposes. Secondly, where there is political instability, budget implementation is at risk.

(f) Changing Government Policies.

To implement a budget, a lot depends on the policy of Government. For effective budget implementation, Government policies have to be harmonized and consistent. Frequent changes of government policies affect budget implementation.

(g) The Problem of Debt Management and Optimal Use of Limited Resources.

There is the challenge of striking a balance between what part of the Nation's resources should be used for servicing debts and the amount that should be utilized for economic development.

(h) Low Agricultural Output.

Agricultural output is fast dwindling because the method of farming is outdated and the younger population is not attracted. The resources that should be used for economic development are therefore being diverted to the importation of food items.

(i) Fiscal Indiscipline.

Most spending Officers are budget maximizers. Under the incremental budgeting system, they tend to expend the last Naira available in a year's budget in order to justify the demand for increased allocation in the subsequent year, with little or nothing to show under the current dispensation.

3.13 Committed Growth

There are commitments in the previous year or years which will continue to impact on future spending areas. An example of such a committed fixed cost is salary payment. The fixed cost is technically known as "Committed Growth".

3.14 Procedure for Preparation and Approval of Budgets

The budgeting process is a cycle of events which occur sequentially every year and which result in the Approved Budget. In Ministries and Extra-Ministerial Departments, budget preparation and approval undergo three levels, viz:

- The Ministerial Approval
- The Executive Council Approval, and
- The Legislative Approval

3.14.1 The Ministerial or Pre-Treasury Board Phase

Before the issuance of the budget preparation guidelines, the Ministry of Budget and Planning (or the Ministry of Finance at the State level) receives policy pronouncements from the Presidency (or the State Governor). The guidelines are subsequently issued by the Ministry of Budget and Planning or Finance, in form of a call circular. When the call circular is received by the various Ministries, Extra-Ministerial Departments and Agencies, a Committee on 'Advance Proposals' is set up. The Committee which acts as Pre-Treasury Board is headed by the Permanent Secretary, Ministry of Budget and Planning (at the Federal Level) or Ministry of Finance, Budget and Planning (at the State Level). The Committee (or Pre-Treasury Board) is charged with the appraisal of the various budget proposals received, in the light of fund availability. The requirements, having received provisional approval, are transmitted to the Presidency or Treasury Board (headed by the State Governor).

Note: A Call Circular is issued by the Budget Department of the Ministry of Finance to all agencies of Government, requesting them to submit their revenue and expenditure estimates for the succeeding year.

3.14.2 Executive Council Phase

The Draft Estimates are presented to the cabinet members known as the Council of Ministers or the Executive Council (or Treasury Board) for further consideration and approval. Members of the Treasury Board are usually the Nation's President, Vice-President (Governor and Deputy Governor at the State), the Ministers (Commissioners at the State) and Permanent Secretaries of the Ministries of Finance, Works, Establishments and Training, Secretary to the Federal (or State) Government, Head of Service, Auditor-General for the Federation (or State), Accountant-General of the Federation (or State) and Planning and Budgeting Department (at the Federal Government level). The next destination of the Draft Estimates is the National Assembly or the State Legislature, in the form of Appropriation Bill.

3.14.3 The National or State House of Assembly/Legislative Phase

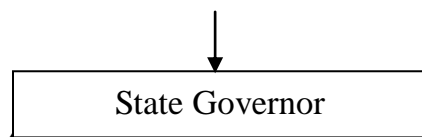
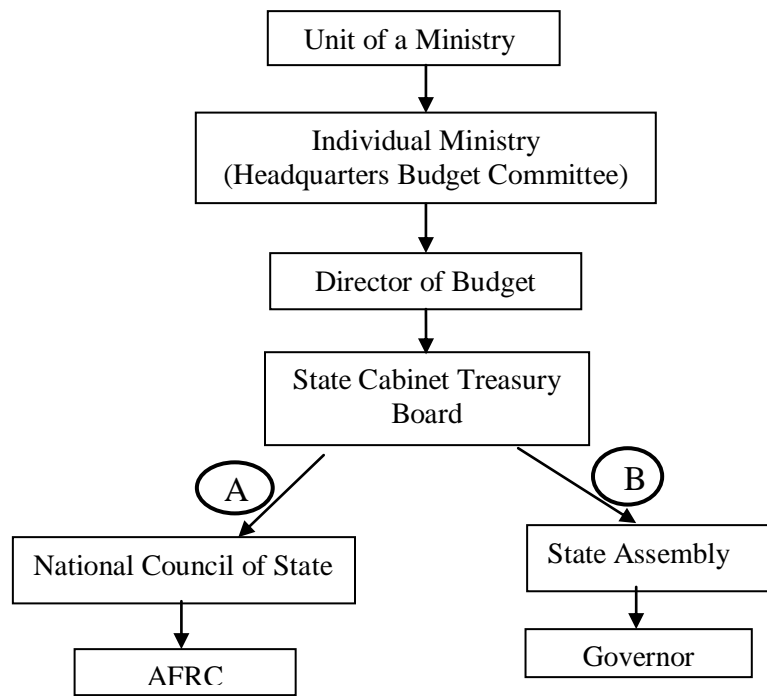
The President of Nigeria or State Governor presents his budget package and speech to the National Assembly (the joint meeting of the two Houses) or House of Assembly at the State Government Level. The meeting is known as the "Budget Session." In each House, there is a Standing Committee which considers the budget proposals. Each arm of the

National Assembly or the State House of Assembly approves the budgets. Where there are discrepancies or divergent opinions on some items, the two Houses appoint a Finance Committee which will harmonise the views. The resolution of the Finance Committee is final on the differences. The final stage is the consideration of the budget proposals at a joint session of the two Houses of the National Assembly

3.14.4 Presidential/Governor's Assent

The budget is sent back to the President or State Governor for his assent. It subsequently becomes the Appropriation Act. Copies of the approved Estimates are printed and distributed to the Ministries, Extra-Ministerial Departments and Agencies of Government.

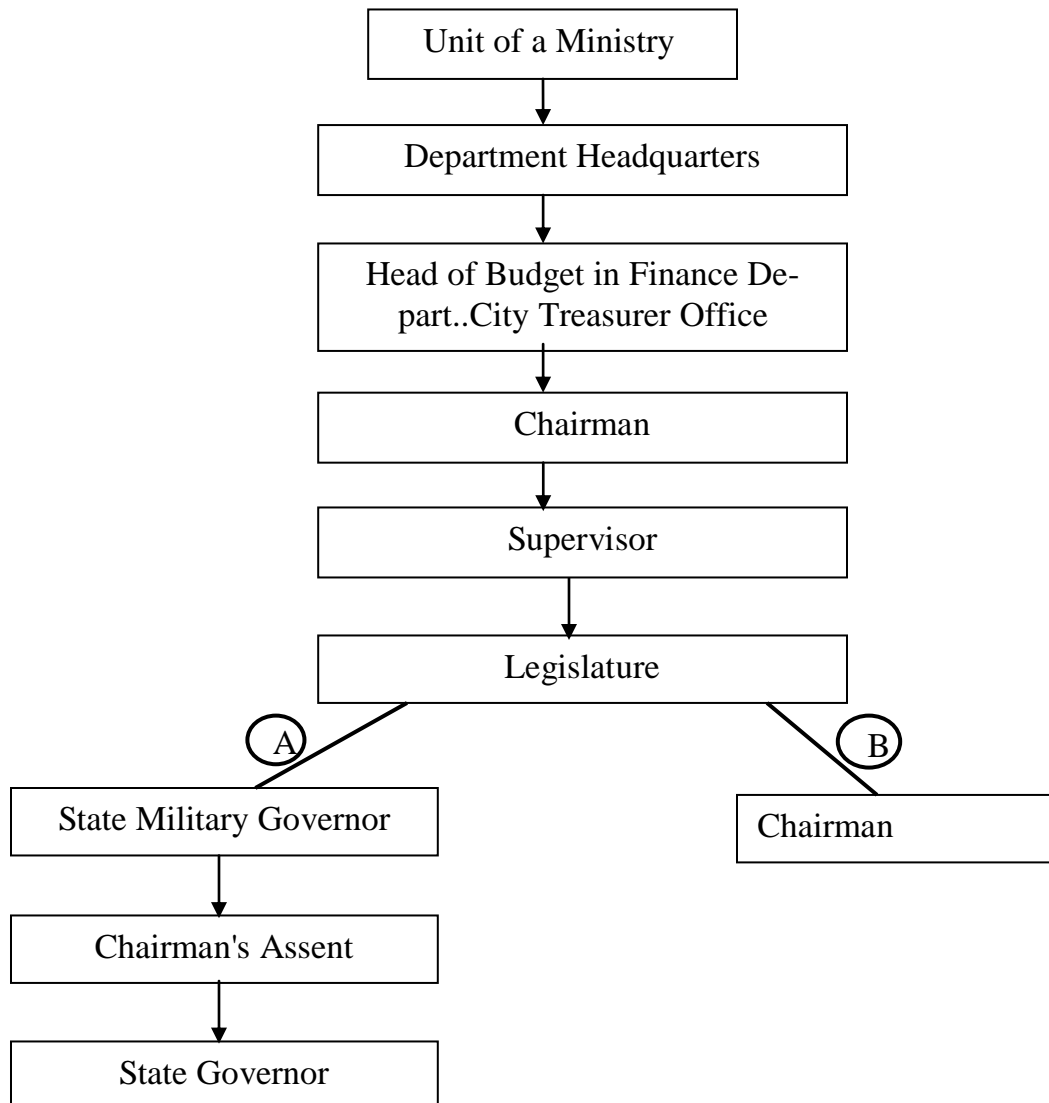
ILLUSTRATION 12-1 TYPICAL STAGES OF BUDGET PREPARATION IN A STATE IN NIGERIA



B Civilian Regime

ILLUSTRATION 12-2

TYPICAL STAGES OF BUDGET PREPARATION IN LOCAL GOVERNMENTS



A *Military Regime*

B *Civilian Regime*

3.15 Reserves/Balances

If the estimated income is more than the estimated expenditure the excess is 'budget

surplus'. Conversely, if the estimated income is less than the estimated expenditure there would be 'budget deficit'. Surplus or deficit financing is a policy of Government.

3.16 Supplementary Estimates

Government may request the National or State Assembly, as many times as possible, for supplementary allocation during the year. Unforeseen circumstances tend to force Government to request for such funds. However, Government may vire (or transfer) money between Sub-heads, provided they belong to the same Head or title of expenditure. Currently, Government requires the approval of the National Assembly before virements can take place, notwithstanding the stipulation in the Financial Regulations which vests the authorisation in the Minister of Finance.

3.16.1 Conditions for Approving Supplementary Funds

The conditions under which such requests may be granted are as follows:

- (a) The supplementary request must manifestly be in the public interest.
- (b) The need is so urgent that the additional provision request cannot be deferred till the following year when it will be incorporated in the new Estimates.
- (c) The need could not be foreseen when the current Estimates were being approved.
- (d) The money required cannot be sourced through virement.

3.17 Uses of Budgets

Budgets are used for the following:

- (a) **Planning**
Budgets are used to plan. Budgets are plans to which monetary values are assigned, of what are to be achieved in a determinable future time, for example, a year.
- (b) **Communication**
Budgets assist in communicating horizontally and vertically. When budgets are being prepared, individuals, groups, communities and associations will inform Government about their areas of interests. This is 'upward communication.' When the budget is approved, Government reads it to the members of the public and publishes it in the newspapers. This is 'communicating downwards'.
- (c) **Motivation**
A budget is a target to be achieved. Government motivates the staff through

promotions and improved conditions of service, for assisting in the full and successful implementation of the budget.

- (d) Standard for Measurement of Performance
Since a budget is a target, it is a measure of performance. What is achieved is recorded and compared with the target of performance set. The process of implementation draws management attention to problematic areas.
- (e) Evaluation of Economic and Social Policy
Budgets are used to solve the social problems of inflation and unemployment.
- (f) Cost Reduction Technique Project Appraisal Evaluation of operations and procedures may result in cost savings.

TUTORIAL NOTE:

The following forms of budgets are also relevant at this stage:

- (i) Personnel Cost Budget,
- (ii) Overhead Cost Budget, and
- (iii) Revenue Budget.

3.18 Personnel Cost Budget (PCB)

Personnel Cost Budget is the total of the basic salaries and allowances of the various categories of staff in each Ministry/Extra-Ministerial Department. The procedure is as follows:

- Identification of various positions ranging from GI. 01-17;
- Identification of the number of staff in each post, which may include newly promoted, new recruitment and the existing staff.
- Identification of grade level of each position;
- Identification of basic salary and the annual incremental rate.

In the public sector, grade levels and steps are used in preparing PCB. At the Federal Government level, there are GL 01 — 17 and the corresponding steps. The golden rule in preparing PCB is that the salary given is step 1 of each grade level.

The format for the preparation of PCB I as follows:

$$\{ \text{incremental rate } (x - 1) + \text{Basic Salary} \} n$$

Where:

x = new step each of the officer will be, 1 = constant

N = number of staff in each position.

ILLUSTRATION 12.3:

Mr. Olowolayemo is on Cl. 10, step 5 and the structure of the salary is given as 1460,000 x 20,000. Compute Mr. Olowolayemo's current basic salary

Solution:

Step		
1	60,000	Or { incremental rate (x - 1) + BSI 1
2	20,000	{ 20,000 (5-1)+ 60,000 } 1
3	20,000	= (80,000 + 60,000) x 1 =
		14140,000
4	20,000	
5	<u>20,000</u>	
	<u>140,000</u>	

For example:

Position	No. in Post	GL	Salary
DFA	1	17	₦25,000 x ₦20,000
DD - A & F	3	16	₦20,000 x ₦20,000
AD - Accts.	4	15	₦15,000 x ₦10,000
CA	6	14	₦10,000 x ₦ 5,000

Note: - 1" column in salary is the ABS, while the 2nd column is the incremental rate. Each staff salary should be based on Step 4 and staff allowances should be 30% of staff salary.

SUGGESTED SOLUTION 12.3:

PERSONNEL COST BUDGET.

Position	No. in Post	GL	Salary (₦)
DFA	1	17	85,000
DD - A & F	3	16	240,000
AD-Accts	4	15	180,000
CA	6	14	150,000
Sub-Total			655,000
Add staff allowances @ 30% of ₦655,000			196,500
Total Personnel Cost			851,500

Workings:

Formula in use = { Incremental Rate (x - 1) + Basic Salary }n	₦
DFA = { 20,000 (4 - 1) + 25,000 } 1 = { 20,000(3) + 25,000 } 1 =	85,000
DD = { 20,000 (4 - 1) + 20,000 } 3 = { 60,000 + 20,000 } 3 =	240,000
AD = { 10,000 (4 - 1) + 15,000 } 4 = { 30,000 + 15,000 } 4 =	180,000
CA = 1 5,000 (4 - 1) + 10,000 16 = 115,000 + 10,000 16 =	150,000

Government's Salary Scale

Government has a salary scale graded from levels 01 to 017. Incremental rates are tied to the salary earnings. A typical array of hypothetical salary grades and scales is as per the following table:

TYPICAL TABLE OF GOVERNMENT'S SALARY SCALE: GRADE LEVELS 01 TO 17

GRADE	STEPS					SALARY PLACEMENTS
	1	2	3	4	15	
	₦	₦	₦	₦	₦	₦
1	100	150	200	250	800	100 x 50 = 800
2	150	250	350	450	1,550	150x 100 = 1,550
3	250	400	550	700	2,350	250x i50 = 2,350
4	500	800	1,100	1,400	4,700	500 x 300 = 4,700
5	800	1200	1,600	2,000	6,400	800x 400 = 6,400
17	5,000	7,000	9,000	11,000	33,000	5,000 x 2,000 = 33,000

From the above table we can interpret as follows:

- (a) A Government officer can be employed or promoted and placed on between grade levels 1 and 17.
- (b) The highest step is 15. That is, the yearly increases have 15 steps.
- (c) From the above table we can interpret as follows:
- (d) A step which is a yearly increase has a fixed incremental rate for each level.
- (e) A staff will move from one step to the other following on yearly basis. It is automatic at the anniversary of a staff joining the service, provided, however, that he has good records in his file.
- (f) Staff can move from one grade to the other if he is promoted.
- (g) Double or triple promotion is allowed if the staff performs extraordinarily well or he has acquired additional qualification.
- (h) A newly employed staff will be on step 1 of the grade; if otherwise, the letter of appointment of the officer will state the step to which his salary has been placed.
- (i) Promotion is supposed to be given every four years, but it is not automatic.
- (j) The figures in the attached table relate to basic salaries alone.

ILLUSTRATION 12 -4

Suppose Mr. Karim is a Government staff on level 1 step2, of 4150 per annum. He recently got promoted and was placed on level 2 step 2. What is McKarim's latest salary?

SUGGESTED SOLUTION 12-4

Mr. Karim's latest basic salary per annum is N250. Generally, the rule is that upon promotion or advancement, an officer must earn more than what he was taking before the elevation.

ILLUSTRATION 12-5

Using the formula earlier stated, you are required to compute the entitlements for the following:

- (a) Grade level 3 step 7
- (b) Grade level 4 step 7
- (c) Grade level 5 step 7
- (d) Grade level 17 step 7

SUGGESTED SOLUTION 12-5

- (a) Grade level 3, step 7:

$$B + (n - 1) i$$

$$= \text{₦}250 + (7 - 1) 14150$$

$$= \text{₦}250 + (6 \times \text{₦}150)$$

$$= \text{₦}1,150$$
- (b) Grade level 4, step 7:

$$B + (n - 1) i$$

$$= \text{₦}500 + (7 - 1) \text{₦}300$$

$$= \text{₦}500 + (6 \times \text{₦}300)$$

$$= \text{₦}2,300$$
- (c) Grade level 5, step 7:

$$B + (n - 1) i$$

$$= 4\ 800 + (7 - 1) \text{₦}400$$

$$= \text{₦}800 + (6 \times \text{₦}400)$$

$$= \text{₦}3,200$$
- (d) Grade level 17, step 7:

$$B + (n - 1) i$$

$$= \text{₦}5,000 + (7 - 1) \text{₦}2,000$$

$$= \text{₦}5,000 + (6 \times \text{₦}2,000)$$

$$= \text{₦}17,000$$

ILLUSTRATION 12.6

The Ministry of Commerce & Industries in Kwara State of Nigeria is about to prepare its 2010 Budget for submission to the State Budget Department. The Permanent - Secretary of the Ministry made available to you the following information in respect of the personnel costs.

Job Title	Number in post	Grade Level (GL)	Salary ₦
Director of Commerce	--	17	60,000 x 20,000

Deputy Director of Commerce	2	16	55,000 x 18,000
Assistant Director of Commerce	3	15	50,000 x 15,000
Chief Accountant	4	14	45,000 x 12,000
Assistant Chief Accountant	5	13	40,000 x 10,000
Principal Accountant	4	12	35,000 x 9,000
Senior Commercial Officers	8	10	30,000 x 8,000
Commercial Officer 1	5	09	25,000 x 7,000
Commercial Officer 11	10	08	20,000 x 6,000
Principal Trade Officer	12	10	30,000 x 8,000
Senior Trade Officer	10	09	25,000 x 7,000
Higher Trade Officer	12	08	20,000 x 6,000
Executive Trade Officer	15	07	15,000 x 5,000
Assistant Executive Trade Officer	18	06	12,000 x 4,000
Clerical Officer	25	04	10,000 x 3,000
Assistant Clerical Officer	20	03	8,000 x 2,000
Office Assistant	5	03	8,000 x 2,000
Drivers	10	03	8,000 x 2,000
Cleaners	12	03	8,000 x 2,000

The following relevant information is also available.

- (i) All the salary levels shown above are step one of the grades and it is the Ministry's policy to prepare personnel cost budget based on step 4 of the grade level.
- (ii) One Deputy Director, two Assistant Directors, one Chief Accountant are due for promotion during the budget year.
- (iii) During 2010, four senior commercial officers will be employed to strengthen the Commercial Division.
- (iv) Staff allowances constitute 40% of staff salary.

You are required to prepare in summary form, personnel cost budget for the Commerce Division of the Ministry

SUGGESTED SOLUTION 12.6

**MINISTRY OF COMMERCE & INDUSTRIES
KWARA STATE MINISTRY OF COMMERCE & INDUSTRIES
PERSONNEL COST BUDGET FOR 2010 FISCAL YEAR**

Job Title	No. in Position	GL	Salary ₦
Director	1	17	120,000
Deputy Director	3	16	327,000
Assistant Director	2	15	190,000
Chief Accountant	3	14	243,000

Asst Chief Accountant	5	13	350,000
Senior Comm. Officer	12	10	648,000
Comm. Officer 1	5	09	230,000
Comm. Officer 11	10	08	380,000
Principal Accountant	4	12	248,000
Prin. Trade Officer	12	10	648,000
Snr. Trade Officer	10	09	460,000
Higher Trade Officer	12	08	456,000
Executive Trade Officer	15	07	450,000
Asst. Trade Officer	18	06	432,000
Clerical Officer	25	04	475,000
Asst. Clerical Officer	20	03	280,000
Office Assistant	5	03	70,000
Drivers	10	03	140,000
Cleaners	12	03	168,000
Sub-Total			6,315,000
Add Staff Allowances @40% of 146,315,000			<u>2,526,000</u>
TOTAL PERSONNEL COST			<u>8,841,000</u>

SUGGESTED SOLUTION 12.6

			₹	
D	=	{(4-1) 20,000 + 60,000} 1	=	120,000
DD	=	{(4-1) 18,000 + 55,000} 2 - 1 + 2 = 3	=	327,000
AD	=	{(4-1) 15,000 + 50,000} 3 - 2 + 1 = 2	=	190,000
CA	=	{(4-1) 12,000 + 45,000} 4 - 1 = 3	=	243,000
ACA	=	{(4-1) 10,000 + 40,000} 5	=	350,000
PA	=	{(4-1) 9,000 + 35,000} 4	=	248,000
SCO	=	{(4-1) 8,000 + 30,000} 8 - 4 = 12	=	648,000
CO 1	=	{(4-1) 7,000 + 25,000} 5	=	230,000
CO II	=	{(4-1) 6,000 + 20,000} 10	=	380,000
PTO	=	{(4-1) 8,000 + 30,000} 12	=	648,000
STO	=	{(4-1) 7,000 + 25,000} 10	=	460,000
HTO	=	{(4-1) 6,000 + 20,000} 12	=	456,000
ETO	=	{(4-1) 5,000 + 15,000} 15	=	450,000
AETO	=	{(4-1) 4,000 + 12,000} 18	=	432,000
CO	=	{(4-1) 3,000 + 10,000} 25	=	475,000
ACO	=	{(4-1) 2,000 + 8,000} 20	=	280,000
OA	=	{(4-1) 2,000 + 8,000} 5	=	70,000
Drivers	=	{(4-1) 2,000 + 8,000} 10	=	140,000
Cleaners	=	{(4-1) 2,000 + 8,000} 12	=	168,000

3.19 Overhead Cost Budget

Overhead Cost Budget is prepared using the principle of incremental or traditional budgeting approach, by increasing the previous year budgeted expenditure by inflation rate.

There are two ways examiners can test overhead cost budget under traditional budgeting system:

a) Where the increase is given in values, the formula to apply is

$$b_i = (b_0 \times i) + (c_0 \times i)$$

where;

b_i = budgeted activities level;

b_0 = base year activity;

i = inflation factor

C_0 = current year activity

b) Where the increase is given in percentages (%), $b_i = b_0 \times i \times \%$.

ILLUSTRATION 12.7

•Using the 1" as a case study:

The following is in respect of Ministry of Agriculture where 20 tractors were maintained for +425 million in year 2010. The call circular from Ministry of Agriculture made provision for additional 10 tractors to be procured to strengthen the operation of the Ministry next year. Information from National Bureau of Statistics show that inflation factor is 10%.

SUGGESTED SOLUTION 12.7

$$\begin{aligned} b_i &= (b_0 \times i) + (c_0 \times i) \\ &= 10\%, b_0 = 20 \text{ tractors}, c_0 = 10 \text{ tractors} \\ B_i &= ?? \\ b_i &= (25 \text{ m} \times 1.1) + (12.5 \text{ m} \times 1.1) \\ 27.5 \text{ m} + 13.75 &= \text{₦}41.25 \text{ million.} \end{aligned}$$

•Where the increase is given as a percentage.

To compute the overhead cost budget, let us assume the following actual expenditure occurred in the OAGF in 2010 budget year.

	₦
Maintenance of Motor Vehicle	40,000
Traveling & transport	100,000
Hotel Accommodation	200,000
Utility Services	100,000
Others	240,000

SUGGESTED SOLUTION 12.7

**OFFICE OF ACCOUNTANT — GENERAL FOR THE FEDERATION
OVERHEAD COST BUDGET for the Year 2011 Fiscal Year**

	2010 Actual(₦)	Inflation Factor @ 10%	Year 2011 Estimate (₦)
Maintenance of motor Vehicle	40,000	(120% of N40,000)	= 48,000
Transport & traveling	100,000	(20% of N100,000)	= 120,000
Hotel Accommodation	200,000	(20% of N200,000)	= 240,000
Utility Services	100,000	(20% of N100,000)	= 120,000
Others	<u>240,000</u>	(20% of N240,000)	= <u>288,000</u>
Total Overhead Cost budget	<u>680,000</u>		<u>816,000</u>

3.20 Revenue Budget

This is computed by aggregating all the various incomes accruing to a particular ministry, state or local government. The revenue of the government is derived from Oil and Non-Oil sources. It refers to all government revenue, which accrue into the Federation Account, Consolidated Revenue Fund, Contingency Fund and Development Fund.

PURPOSES OF REVENUE BUDGET

The following are the purposes of revenue budget.

- (a) To determine the level of aggregate income receivable by the government;
- (b) To determine the level of expenditure acceptable to the government;
- (c) To determine areas of weakness in terms of revenue generation;
- (d) To identify the major sources of income to the government;
- (e) To evolve policies that will enhance revenue generation to the government;
- (f) To plan the cash flow of the government;
- (g) To serve as a basis for the control of income and expenditure of the government.

ILLUSTRATION 12.8

IJUMU L.G.A. has a population of 10 million citizens of which 7 million are taxable adults who will pay tax at the rate of N500 per adult. It also has 20,000 market stalls rented to traders at N80,000 per annum per stall. There are 12,000 hawkers who will pay entrance fees to the market on daily basis at the rate of N100 per day. There are 28 days in a month and 12 months in a year. Prepare the revenue budget of the Local Government for the year 2010.

SUGGESTED SOLUTION 12.8

**IJUMU LOCAL GOVERNMENT AREA.
REVENUE BUDGET FOR THE YEAR 2010**

Taxes N(7,000,000 x 500)	3,500,000,000
Market Stall Rentals N(20,000 x 80,000 p.a.)	1,600,000,000
Hawkers (12,000 x 3100 x 28 days x 12)	<u>403,200,000</u>
Total Revenue Budget	<u>5,503,200,000</u>

3.21 Functions of the Ministry of Budget and Planning/ Department of Planning, in the Presidency

For preparation of the Annual Estimates and the formulation of the fiscal, monetary and other policies which are needed to support the economy, the Ministry of Budget and Planning performs the following functions:

- (a) Developing reasoned economic assumptions and forecasts.
- (b) Issuing budget guidelines to the Ministries and Extra-Ministerial Departments.
- (c) Acting as the liaison between the Presidency, Ministries and Extra-Ministerial Departments during the budget preparation.
- (d) Compiling total revenue and expenditure estimates.
- (e) Drafting the budget speech.
- (f) Supervising and controlling the implementation of the budget.
- (g) Monitoring and evaluating the performance of programmes funded through the Government budget.
- (h) Assessing the impact of the budget on the economy.
- (i) Developing formats of returns aimed at ensuring cost effectiveness in the use of Government resources.
- (j) Carrying out research on budget utilization and the attainment of National or State objectives.

3.22 Budgetary Control

It is the whole system of controls - financial or otherwise - to ensure that income and expenditure are in line with the budgets and that wastage is reduced to the barest minimum. Budgetary control is a positive and integral part of a public sector organisation's planning and appraisal activities so as to achieve the set objectives. In other words, budgetary control is a process of comparing the actual with a budgeted activity, resulting in a variance, which could be favourable or adverse.

3.22.1 Objectives of Budgetary Control

The objectives of budgetary control may be discussed as follows:

- (a) To combine the ideas of all levels of management in the preparation of budgets.
- (b) To co-ordinate all the activities of a business or organisation.
- (c) To centralise control.
- (d) To decentralise responsibility to each manager.
- (e) To act as a guide for management decision when unforeseeable conditions affect the budgets.
- (f) To plan and control income and expenditure so that maximum benefit is achieved.
- (g) To channel capital expenditure in the most profitable manner.
- (h) To ensure that sufficient working capital or cash is available for the efficient operation of the business or organisation.
- (i) To provide a yardstick against which actual results can be compared:
- (j) To show management where action is needed to remedy a situation.

Self-assessment exercise

In your own words explain budgetary control and list 3 objective

3.23 Cash Budgeting

The preparation of cash budgets is part of the budgetary control exercise. It forecasts the cash inflows (receipts) and outflows (payments) of a Ministry or Parastatal, usually over three to six months at a time. Cash budgeting is designed principally to stave off liquidity problems.

3.23.1 Advantages of Preparing Cash Budgets

The advantages may be highlighted, as follows:

- a) A cash budget assists in the availability of cash to pay debtsowing as they fall due.
- b) It facilitates the appreciation of the amount of liquid cash available to execute capital projects.
- c) The Organisation may invest surplus and idle fund and consequently earn some return.
- d) Conversely, the cash budget monitors when the establishment is likely to be short of fund, so that some loan or overdraft can be raised or marketable securities sold.

3.23.2 Preparing Cash Budgets

The figures of receipts and payments are arrayed in tabular form under each month, covering the period to which the cash budget relates. The opening balance(s) of cash in-

hand would be the ending figure(s) for the previous month or months. The whole exercise is a sequential arrangement of figures, monthly, revealing surpluses or deficits carried forward and brought forward before the show of current transactions in receipts and payments. It has to be noted that, in the preparation of a cash budget, items that do not involve movement of cash (depreciation, sunk cost, net book value of an asset) should be ignored.

ILLUSTRATION 12-9

INAGLIE State Government has a problem of not being able to pay the salaries of workers promptly. Apart from the statutory allocations receivable from the State and Federal Governments, internally generated sources are meagre. You are the Chief Accountant assigned the responsibility of managing the Treasury. The following information are available:

On 31 May, 2009, the State anticipated the underlisted transactions up to 31 December, 2009:

- (a) Prepare the Cash Budget of the State for June to November, 2009.
- (b) Advise the Government on the ways of optimizing the use of liquid funds.

	Statutory Allocation	internally Generated Revenue	Salaries	Others
	₦'000	₦'000	₦'000	₦'000
June	50,000	10,000	5,000	600
July	70,000	12,000	4,900	620
August	65,000	8,000	5,100	650
September	72,000	11,000	6,000	630
October	61,000	5,000	7,200	580
November	42,000	3,000	15,000	710
December	49,000	1,560	15,550	490

SUGGESTED SOLUTION 12-9

a) **INAGIJE STATE OF NIGERIA CASH BUDGET-JUNE to NOVEMBER, 2009**

	June	July	August	September	October	November
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Balance b/f	-	54,400	130,880	198,130	274,500	332,720

Receipts:						
Statutory	50,00	70,000	65,000	72,000	61,000	42,000
Internal	10,00	12,000	8,000	11,000	5,000	3,000
	<u>60,00</u>	<u>136,40</u>	<u>203,880</u>	<u>281,130</u>	<u>340,500</u>	<u>377,720</u>
Payments:						
Salaries	5,000	4,900	5,100	6,000	7,200	15,000
Others	600	620	650	630	580	710
	<u>5,600</u>	<u>5,520</u>	<u>5,750</u>	<u>6,630</u>	<u>7,780</u>	<u>15,710</u>
Balances c/f	<u>54,40</u>	<u>130,88</u>	<u>198,130</u>	<u>274,500</u>	<u>332,720</u>	<u>362,010</u>
	<u>60,00</u>	<u>136,40</u>	<u>203,880</u>	<u>281,130</u>	<u>340,500</u>	<u>377,720</u>

(b) Advice on Liquid Fund Optimization

The liquidity position of the State Government is not under any threat, whatsoever. However, the Government is advised, as follows:

- (i) Purchases of materials should be done in bulk to secure quantity discount.
- (ii) Excess liquid cash of about (N50,000,000, *1125,000,000, N195,000,000, N270,000,000, N330,000,000 and N360,000,000 should be invested in marketable securities and fixed deposit accounts, for the months of June to December, respectively. Doing so would attract considerable returns.

ALTERNATIVE SOLUTION CASH BUDGET - JUNE TO NOVEMBER, 2009

	June	July	August	September	October	November	TOTAL
RECEIPTS:	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	
Statutory Allocations	50,000	70,000	65,000	72,000	61,000	42,000	360,000
Internal Revenue	10,000	12,000	8,000	11,000	5,000	3,000	49,000
TOTAL (A)	<u>60,000</u>	<u>82,000</u>	<u>73,000</u>	<u>72,000</u>	<u>66,000</u>	<u>49,000</u>	<u>409,000</u>
PAYMENTS:							
Salaries	5,000	4,900	5,100	6,000	7,200	15,000	43,200
Others	600	620	690	630	580	710	3 790
	<u>5 600</u>	<u>5 570</u>	<u>5 750</u>	<u>6 630</u>	<u>7 780</u>	<u>15 710</u>	<u>46 990</u>
TOTAL (B)							
Balances (A - 13)	54,400	76,480	67,250	76,370	58,220	29,290	362,010
Balances b/I	-	54,400	130,880	198,110	274,500	312,720	-
Balances c/f	<u>54 400</u>	<u>130880</u>	<u>198) 30</u>	<u>774,500</u>	<u>332 720</u>	<u>367 010</u>	<u>3621110</u>

ILLUSTRATION 12.10

The Permanent Secretary of the Federal Ministry of Women Affairs is concerned about the liquidity problem of the Family Advancement Unit of the Ministry which deals in the sale of "gold trinkets". The Unit sells on both cash and credit terms. Customers who pay their accounts within 15 days are given a cash discount of 5% and likewise, the unit always pay cash for purchases made in order to obtain 4% discount.

The balances at the end of June 2010 are as follows:

	June N'000	July N'000	August N'000
Credit Sales	80	80	80
Cash Sales	20	25	27
	100	105	117

The profit 'mark-up' on sales gives a gross profit margin of 50% on cost. It is estimated that the above sales will require stock of goods of N90,000 in sales value to be maintained. An analysis of the customers' accounts disclosed that 80% of credit customers pay on time to take advantage of cash discount: 10% pay at the end of 30days and the remainder at the end of 60 days. There were virtually no bad debts. On average, 25% of the credit sales in any one month to customers who take the benefit of cash discount will be in debtors at the end of the month.

The estimated other expenses payable monthly are as follows:

- Fixed N14,000per month,
- Variable 10% of gross sales

Included in the fixed expenses is a depreciation charge of N3,000. A capital payment of N20,000 is required to be made during July.

The balances at the balances at the beginning of June are as follows:

- Cash N16,000
- Stock N50,000
- Debtors N18,000

Credit sales for May, a low sales month, were N35,000 of which N14,000 was still outstanding at the end of the month. The remainder of the debtors represents April sales. You are required to prepare a monthly cash budget for June to August 2010. All workings should be shown.

prepared and approved prior to a defined period of time for the purpose of attaining a given objective which is prepared annually, being implemented through budgeting and budgetary control in the Public Sector.

5.0 SUMMARY

A Government Budget is prepared periodically for the approval of the National or State Assembly before implementation. Budgeting and budgetary control are powerful tools of sound financial management, most especially in the Public Sector where there is great emphasis on economy, efficiency, effectiveness, probity and accountability.

In unit 3, you will learn of government construction, contracts and procurements in the Public Sector.

6.0 TUTOR MARKED ASSIGNMENT

- a) Explain budget and the different methods of preparing it.
- b) Describe Budgeting and budgetary control in the Public Sector.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 3 GOVERNMENT CONSTRUCTION, CONTRACTS AND PROCUREMENTS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Contract Payment Vouchers
 - 3.1.1 Payments for Contracts and Procurements
 - 3.1.2 Implementation of the E-Payment Procedure
 - 3.1.3 Contract Registers
 - 3.1.4 Attachments to Contract Payment Vouchers
 - 3.2 Tenders Board
 - 3.2.1 Types of Tenders' Boards
 - 3.2.1.1 Ministerial Tenders Board
 - 3.2.1.2 Armed Forces/Ministry of Defence Tenders Board
Composition the composition of the Board is
 - 3.2.1.3 Nigeria Police Tenders and Purchasing Board (Ministerial)
 - 3.3 Powers of Boards of Corporations and Parastatals over Tenders
 - 3.4 Federal Executive Council
 - 3.5 Tender Splitting
 - 3.6 Competitive Tenders
 - 3.7 Bid Security
 - 3.8 Performance Bond Guarantee
 - 3.9 Procurement Plan
 - 3.10 Services of International Agents
 - 3.11 Mobilization Fee
 - 3.12 Interest on Delayed Payment
 - 3.13 Registration of Contractors/Suppliers
 - 3.14 Audit Inspection
 - 3.15 Operation of Tender Boards
 - 3.16 Notice of Invitation
 - 3.17 Selective Tenders
 - 3.18 Deposit For Tender
 - 3.19 Tender Procedure
 - 3.20 Award of Contract
 - 3.21 Post-Contract Award Activities
 - 3.22 Terms of Contract
 - 3.23 Operation of the Public Procurement Act, 2007
 - 3.23.1 Procurement in Government
 - 3.23.2 Membership of National Council on Public Procurement (NCPP)

	3.23.3 Bureau of Public Procurement (BPP)
3.24	Fundamental Principles of Public Procurement
	3.24.1 Procurement Methods (Goods and Services)
	3.24.2 Invitation to Bids
	3.24.3 National Competitive Bidding
	3.24.4 International Competitive Bidding
3.25	Due process Guidelines on Government Contracts
3.26	Limit of Authority to Incur Expenditure/Spending Limit
3.27	Revised Guidelines and Thresholds on Public Procurements
4.0	Conclusions
5.0	Summary
6.0	Tutor Marked Assignment
7.0	References/Further Readings

1.0 INTRODUCTION

The unit discusses the procedures for awarding contracts and making procurements in the Public Sector. It highlights the requirements of the Public Procurement Act, 2007 and the implementation of the electronic payment system. According to the Statement of Accounting Standard No. 11 (SAS II) and the International Public Sector Accounting Standards No II (IPSAS II), Construction Contract refers to the execution of a building and civil engineering projects, mechanical and electrical engineering installations and other fabrications normally evidenced by agreements between two or more parties. In Government, a construction contract is a capital project which is normally financed by appropriations from the Capital Development Fund.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain 'Construction Contract'?
- Discuss the procedures for awarding such contracts.
- Discuss the role of Tender Boards in the award of contracts and procurements.
- Explain the accounting procedure for construction contracts and procurements. The powers and duties of the National Council on Public Procurements. The functions of the Bureau of Public Procurement.

3.0 MAIN CONTENT

In this unit, you will learn of government construction, contracts and procurements in the Public Sector.

3.1 CONTRACT PAYMENT VOUCHERS

All payment vouchers relating to contract awards should contain the following information:

- (a) The names and addresses of the contractors.
- (b) Contract numbers.
- (c) The votes of charge.
- (d) Description of projects.
- (e) Certificate numbers being paid.
- (f) The gross amounts and retention fees (if any) of the contracts.
- (g) The authority for payment.
- (h) If it is part payment of a certificate, a statement to show the full amount of the contract and the balance outstanding, should be disclosed.

3.1.1 Payments for Contracts and Procurements

The Federal Government's policy from January 2009 is that public fund would henceforth be made electronically; payments are henceforth to be effected to the contractors by electronic transfers to their bank accounts. The objective of the new system is to eliminate delay in effecting payments to the creditors, contractors, etc. of government and minimise undue interaction between the agents of Government and third parties. The ultimate objective is to reduce, if not completely put a stop to, corruption and other vices.

3.1.2 Implementation of the E-Payment Procedure

Treasury Circular Reference No TYR/A8 & B8/2008, reference OAGF/CAD/026/ Vol. 11/465 of 22nd October, 2008 conveys the guidelines for the implementation of the 'e-payment' procedure, as follows:

- (i) All forms of payments from all government funds are to be made through the banks, either Commercial Banks or Central Bank of Nigeria.
- (ii) All organs of Government, Ministries, Departments and Agencies are to stop using cheques to make payments to contractors.
- (iii) All bank accounts in respect of all Government funds shall cease to be cheque accounts.
- (iv) Government contractors must indicate their current accounts particulars with Commercial Banks on the invoices submitted for payment under their corporate seals.
- (v) Mandates containing details of payments shall be issued to Banks authorizing

them to pay into the contractors' designated bank accounts, the proceeds of executed contracts and supplies.

- (vi) In addition to the existing monthly financial returns, every organization of Government, Ministry, Department or Agency must forward copies of mandates issued to Banks to the Office of Accountant-General of the Federation.
- (vii) Henceforth, all employees of the Federal Government of Nigeria must open accounts with the commercial banks into which all payments due to them as individuals would made.
- (viii) On no account should Central Pay Officers (CPO) collect cash from the bank for the purpose of disbursement to any government official.

3.1.3 Contract Registers

Copies of all contract agreements must be forwarded to the Accounts Division of relevant Ministry or Extra-Ministerial Department. They should be entered in a Contract Register maintained.

The register will contain the following information:

- (a) Name and address of contractor.
- (b) Contract number.
- (c) Contract sum.
- (d) Contingency and variation (if any).
- (e) Payment terms.
- (f) Completion period of contract work.
- (g) File number.
- (h) Particulars of payment and balance outstanding.
- (i) Signature of officer controlling expenditure.

In the case of a big project in respect of which there are many contracts a project register may be maintained as a summary of various contracts, to ascertain at any given time how much has been paid.

3.1.4 Attachments to Contract Payment Vouchers

Before a contract payment voucher is processed for payment, the following items should be ascertained and attached:

- (a) A copy of the minutes of the Tenders Board awarding the contract. It should be ascertained that the amount of the contract is within the Board's power.
- (b) A completion certificate of work done, signed by a competent authority in the field, such as an Engineer, a Surveyor or an Architect.
- (c) A copy each of the letter of award and contract agreement.

- (d) In the case of supplies, original copies of delivery notes and store receipt vouchers issued.
- (e) A bill or invoice submitted by the firm requesting for payment.

Self-assessment exercise

Name two information that contract register will contain.

3.2 The Tenders' Board on Contracts

A tender is a proposal for the supply of some services or goods. It is usually made and presented as a result of an invitation. It is legally accepted as an offer for acceptance.

The Tenders Board is the assemblage of public officers constituted to handle public tenders in respect of all government contract works and/or services.

Government introduced the new policy guidelines on the procurement and award of contracts in all Ministries and Extra-Ministerial Departments in the year 2001, on the strength of Federal Ministry of Finance's circular no. F15775 of 27 June, 2001.

3.2.1 Types of Tenders' Boards

The Departmental Tenders Board and the Federal Tenders Board have been abrogated. The functions are now assumed by the Permanent Secretaries and Ministerial Tenders Board, respectively. Contracts of works, services and purchases of up to one million naira (141,000,000) can be approved by the Permanent Secretary/Chief Executive without open competitive tendering. However, at least three relevant written quotations should be obtained from suitably qualified contractors/ suppliers. All expenditure incurred under this policy should be documented and reported to the Honourable Minister on quarterly basis, for information.

3.2.1.1 Ministerial Tenders Board

The set-up may be discussed, as follows:

- (a) **Composition**

The Chairman is the Permanent Secretary/Chief Executive of the Ministry or Extra-Ministerial Department, respectively. Other members are all Directors/Heads of Departments in the Ministry or Establishment.
- (b) **Limit of Expenditure**

The Ministerial Tenders Board is empowered to award any contract which its value exceeds N1,000,000.00 (One million naira) but not more than N50,000,000.00 (Fifty million naira).
- (c) **Approval**

The decision of the Ministerial Tenders Board (MTB) shall be confirmed by the Honourable Minister.

3.2.1.2 Armed Forces/Ministry of Defence Tenders Board Composition the composition of the Board is:s

- (a) The Chairman of the Armed Forces/Ministry of Defence Tenders Board shall be the Permanent Secretary, Ministry of Defence.
- (b) Other members are representatives of the Army, Navy, Air Force and the Director of Finance and Accounts of the Ministry of Defence.
- (c) Approval
The decision of the Armed Forces/Ministry of Defence Tenders Board shall be subject to the confirmation of the Minister of Defence.

3.2.1.3 Nigeria Police Tenders and Purchasing Board (Ministerial)

According to Government Financial Regulations and the Ministry of Finance's circular No. F15775 of 27 June, 2001, the Composition of the Board is:

- (a) The Chairman shall be the Permanent Secretary, Police Affairs.
- (b) Other members are:
 - (i) The Deputy Inspector-General of Police (Finance and Administration).
 - (ii) All the Heads of Departments.
 - (iii) The Head of Finance and Accounts Department.

Approval

Each contract awarded by the Nigeria Police Tenders and Purchasing Board shall be subject to the confirmation of the Minister of Police Affairs.

3.2 Powers of Boards of Corporations and Parastatals over Tenders

- (a) The Chief Executive of a Parastatal is empowered to make purchase or award a contract, the value of which does not exceed 14700,000.00 (Seven hundred thousand Naira) only, without open competitive tendering. However at least three relevant written quotations should be obtained from suitably qualified contractors or suppliers. Any expenditure incurred under this policy should be documented and reported to the Chairman of the Board of the Corporation on quarterly basis, for information, see 13.28(a) for current situation.
- (b) Any contract exceeding 44700,000.00 (Seven hundred thousand Naira) but not more than 420,000,000.00 (Twenty million Naira) shall be referred to the Board of the Corporation, for approval, see 13.28(a) for current situation.
- (c) Any contract whose value exceeds 4420,000,000.00 (Twenty million Naira) but not more than 450 million (Fifty million Naira) shall be referred to the Ministerial Tenders Board (MTB) of the relevant supervising Ministry or Corporation/Parastatal, for consideration, see 13.28(a) for current situation.

3.4 Federal Executive Council

Any contract, the value of which exceeds N50,000,000.00 (Fifty million Naira) shall be approved by the Federal Executive Council, see 13.28(a) for current situation.

3.5 Tender Splitting

Government's Financial Regulation regards it as "an offence for any public officer to deliberately split tenders, contracts of works, purchases procurement or services so as to circumvent the provisions of this chapter and the circular earlier referred to. Such breach of the rules will be severely dealt with by a competent disciplinary authority".

3.6 Competitive Tenders

The Ministerial Tenders Board must adopt the open competitive tendering procedures. However, if it is considered necessary to use selective or limited tender procedures, the short-listing or selection of contractors or suppliers should be done by the Ministerial Tenders Board. In addition, the following procedures and practices should be adopted:

- (a) All contracts above 410million (Ten million Naira) should be advertised in at least two national dailies and/or Government gazette. The advertisement will be at least six weeks before the deadline for submitting bids for goods and works, and at least one month for consultancy services. Notices of all other tenders must be pasted at the notice board of procuring agencies.
- (b) Opening of tenders must be done in the 'open' at a designated date and time and opening should immediately follow the closing of the bidding period, to minimize the risk of bid tampering. The following people should be invited to the opening tender:
 - (i) The bidders or their representatives.
 - (ii) Members of the civil society.
 - (iii) Members of the press, if they wish to attend.
- (c) Bid evaluation criteria should be clearly defined in the bidding documents and the award of all contracts should be based on the criteria so defined.
- (d) There should be a committee made up of professionals for the evaluation of the bids. The Secretary of the Tenders Board should be Secretary of the Committee. Members of the Evaluation Committee, Tenders Boards, and approval authorities should be obliged to declare any conflict of interest and exclude themselves from bid evaluation and approval processes.

- (e) The award of any major contract of 420,000,000 (Twenty million Naira) and above should be published in two national dailies, stating:
 - (i) Description of the contract.
 - (ii) Name of the contractor.
 - (iii) Contract price.
- (f) Contract awards should be properly handled so as to avoid or minimize variations. Contract variations should not be allowed except when absolutely necessary, subject to approval and/or the recommendation of the Ministerial Tenders Board (MTB). The method for determining price variation during contract execution should be incorporated into the contract. Such price variations shall be for contracts extended for more than eighteen (18) months.

3.7 Bid Security

All contracts established to cost NW million (Ten million Naira) and above should attract a Bid Security in an amount of not less than the bid price in form of bank guarantee issued by reputable banks.

3.8 Performance Bond Guarantee

Performance Bond Guarantee in an amount of 10% of contract price should be obtained for all contracts in the sum of N10 million and above.

3.9 Procurement Plan

Quantity procurement arrangement should be evolved and used to determine the requirement of funds for various Government offices during the fiscal year. Such plans should spell out the timing for different procurement actions and hence, the funding requirements at different stages. Release of funds should be on the basis of realistic, approved and updated procurement plans.

3.10 Services of International Agents

The services of International Procurement Agents of the highest repute may be obtained, to assist in medium and large scale contracting where necessary.

3.11 Mobilization Fee

Mobilization fee where necessary and appropriate shall not exceed 25% of the contract sum. However, payment of such mobilization fee shall be effected upon written

application and an unconditional Bank Guarantee for equivalent amount valid until the goods are supplied or until the mobilization fee has been repaid, in the case of works contracts. Only Unconditional Bank Guarantees issued by reputable Banks should be accepted.

3.12 Interest on Delayed Payment

There shall be a provision of interest payment to contractors for delayed payments by Ministries/Extra Ministerial Departments. Such payment should however be made:

- (a) At the interest rate specified in the contract agreement;
- (b) If there is delay in the settlement of the claim of more than 60 days, from the date of submission of the contractor's invoice/valuation certificate and the confirmation/authentication by the relevant Ministry.

3.13 Registration of Contractors/Suppliers

All eligible contractors/suppliers must be duly registered with the Federal Ministry of Works and Housing or their respective Ministries or Extra-Ministerial Departments. They must produce their VAT Registration Certificates before registration.

3.14 Audit Inspection

The following must be forwarded to the Auditor-General for the Federation:

- (a) Certified true copies of all contract agreements.
- (b) The minutes of Tenders Board meetings, and
- (c) Full records of all tendering processes which shall be made available for the inspection of Auditor-General for the Federation and the Accountant-General, at short or no notice. The records shall be kept for verification for a period of seven (7) years, from the date of completion and takeover of the project.

As a condition for final payment for contracts exceeding N5million (Five million Naira), the Auditor-General for the Federation or his representative and a very senior member of the Ministry/Agency should countersign the certificate releasing final payment.

3.15 Operation of Tender Boards

When approval has been obtained in respect of a contract for the supply of goods and/or services and availability of fund confirmed, the Tenders Board Secretariat will be informed of the magnitude of the amount so required. The Secretary to the relevant Board will inform the Chairman as to when the contract will be slated for consideration.

Where the Board meets periodically, the Secretary will present the issue at such a meeting. However, where the contract award necessitates any urgency, an emergency meeting may be summoned.

3.16 Notice of Invitation

At its meeting, the Board orders a notice of invitation to tender for the contract to be put up. Such notice will include all necessary details in respect of the jobs/services to be awarded. Where the use of tender forms applies the information disclosed in the notice may be limited while the form will contain the details. The media through which such notice shall be published includes one official gazette and/or the national newspapers and magazines. The notice board of the offices of the Ministry concerned shall also be used in displaying the advertisement. A specific date is always given as closing date for the submission of tenders.

3.17 Selective Tenders

Where the implementation of a project is to be accelerated, selective or limited tender procedure may be applied. In this case, the number of contractors to be invited to tender shall not be less than five.

3.18 Deposit For Tender

Where deposit is required before a tender form is submitted, it may be required that a Treasury receipt for the required amount is attached to it before the form is considered at all. Sometimes, the Treasury receipt or the amount paid by the depositor is confirmed before the tender form is issued.

3.19 Tender Procedure

Tenders are usually submitted in sealed envelopes to the Secretariat of the Tenders Board. At the close of the notice of invitation to tender, the Secretary under the close supervision of the Chairman or a member deputizing for him, will open the Tenders. They will be numbered serially and authenticated by the initials of the Secretary, with the dates indicated. The tenders will thus be listed, in duplicate, and kept in safe custody.

A meeting of the Board will then be summoned to, among other things, discuss the tenders and make necessary selections for onward transmission to the approving authority. The Board usually selects the best of the tenders. Consideration will include the past records of the contractors, the quality of service being offered, experience as can be deduced from the tender price (rate). It is necessary to emphasise that the lowest

tender does not necessarily have to be the best, as many other things are considered.

If all the tenders are rejected, fresh applications shall be called for. However, if one of the tenders is recommended, all the bids shall be forwarded with a duplicate list to the approving authority with comments or remarks on why each tender is recommended or not.

3.20 Award of the Contract

The approving authority will communicate his position to the Tenders Board. The Secretary will subsequently write a letter of award to the successful tenderer and/or invite him for the signing of the contract. Where necessary, a bond will have to be signed and/or sureties provided. In principle, the award of the contract has to be published in the newspapers and gazette and unsuccessful tenderers informed as such.

As earlier stated, certified true copies of the contracts are to be forwarded to the Auditor-General as well as the Accountant-General. It should be emphasised that Government contracts are not to be 'sub-let', "assigned", except the terms of the agreement require or permit this. The sale of Government property may be made by tender, in the same way as award of contract.

3.21 Post Contract Award Activities

These may be briefly discussed, as follows:

(a) Tender Board Information on Voucher

Payment voucher in respect of a contract awarded through tender must contain among other things:

- (i) Certified true copy of all the minutes of the meetings of the Tenders Board in relation to the award of the contract.
- (ii) Certified true copy of the contract agreement.
- (iii) Copy of the approving authority.
- (iv) Copy of each voucher in respect of payments already made on the contract.

(b) Tenders Board Information Availability

Minutes of the Tenders Board meetings and the full records in respect of the various types of tendering, shall be made available to the Accounting Officer on request and for inspection of the Auditor-General, on demand.

3.22 Terms on Contract

These are:

(a) Contingencies Clause

This is one of the clauses in contract agreements which states that if the contractor had taken reasonable care in executing the job and he is still faced with unexpected situation, the contractee or the owner of the project shall bail out the contractor by making more money available, or review upward the contract sum. If otherwise, the contractor will bear the cost.

(b) Retention Fee

It is a clause in a contract agreement which states that after the completion of the project, Government shall with-hold about 5% of the contract sum, for six (6)months. The amount withheld will be paid to the contractor thereafter if the project is properly executed and constructional error is not noticed.

If the job is not properly executed, e.g if there is a crack on the wall and is due to an error which arose from construction, then the amount withheld will be used to correct the anomaly. If the amount withheld is not enough, Government will ask the contractor to pay in the difference. If the contractor fails to pay it in, he may be blacklisted.

Self-assessment exercise

What is mobilization fee?

3.23 Operation of the Public Procurement Act 2007

3.23.1 Procurement in Government

The National Council on Public Procurement was established by the Public Procurement Act, 2007. The Council is to carry out the following functions:

- (a) Consider, approve and amend the monetary and prior review thresholds for the application of the provisions of the Act by procuring entities.
- (b) Consider and approve policies on public procurement.
- (c) Approve the appointment of the Directors of the Bureau of Public Procurement.
- (d) Receive and consider, for approval, the audited accounts of the Bureau of Public procurement.
- (e) Approve changes in the procurement process to adapt to improvements in modern technology.
- (f) Give such other directives and perform such other functions as may be necessary in order to achieve the objectives of the Act.

3.23.2 Membership of National Council on Public Procurement (NCP)

- (a) Minister of Finance, as Chairman.
- (b) Attorney-General and Minister of Justice of the Federation.
- (c) Secretary to the Government of the Federation,
- (d) Head of Service of the Federation.
- (e) Economic Adviser to the President.
- (f) Six Part-Time members representing:
 - (i) Nigeria Institute of Purchasing and Supply Management.
 - (ii) Nigeria Bar Association.
 - (iii) Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture.
 - (iv) Nigeria Society of Engineers.
 - (v) Civil Society.
 - (vi) The media.
- (g) Director- General of the Bureau who shall serve as the Secretary to the Council

3.23.3 Bureau of Public Procurement (BPP)

The Bureau was established by the Public Procurement Act, 2007. Its Objectives include:

- (a) Harmonization of existing government policies and practices on public procurement and ensuring probity, accountability and transparency in the procurement process.
- (b) 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) Attainment of transparency, competitiveness, cost effectiveness and professionalism in the public sector procurement system.

The Bureau's functions as stated by the Act include:

- (a) Formulating the general policies and guidelines relating to public sector procurement for the approval of NCPP;
- (b) Publicising and explaining the provisions of the Act;
- (c) Certifying Federal Government procurement prior to the award of the contract;
- (d) Supervising the implementation of established procurement policies;
- (e) Monitoring the prices of tendered items and keeping a national database of standard prices;

- (f) Publishing the details of major contracts in the procurement journal;
- (g) Publishing paper and electronic editions of the journal and maintaining an archival system for the procurement journal;
- (h) Maintaining a national database of the particulars and classification and categorization of Federal contracts and service providers;
- (i) Collating and maintaining in an archival system, all federal procurement plans and information;
- (j) Undertaking procurement research and surveys;
- (k) Organising training and development programmes for procurement professionals;
- (l) Periodically reviewing the socio- economic effect of the policies on procurement and advice NCPP accordingly;
- (m) Preparing and updating standard bidding and contract documents;
- (n) Preventing fraudulent and unfair procurement and where necessary to apply administrative sanctions;
- (o) Reviewing the procurement and award of contract procedures of every entity to which the Act applies;
- (p) Performing procurement audits and submit report to the National Assembly bi-annually;
- (q) Introducing, developing, updating and maintaining related database and technology;
- (r) Establishing 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;
- (s) Co-ordinating relevant training programmes to build institutional capacity;

3.24 Fundamental Principles of Public Procurement

All public procurements must be conducted:

- (a) subject to prior review of thresholds set by the Bureau.
- (b) based only on procurement plans supported by prior budgetary provisions/appropriations and a "Certificate of 'No Objection' to Contract Award" from the BPP;
- (c) by open competitive bidding;
- (d) in a transparent, timely and equitable manner which will ensure accountability and conformity with the Act;
- (e) with the aim of achieving value-for-money and fitness for purpose;
- (f) in a manner which promotes competition, economy and efficiency;
- (g) in accordance with the procedures laid down in this Act and as may be specified by the Bureau from time to time.

3.24.1 Procurement Methods (Goods and Services)

All procurements of goods and works by all procuring entities should be by open competitive bidding. Open competitive bidding is a process by which a procuring entity effects public procurements by offering to every interested bidder, equal and simultaneous information and opportunity to offer the goods and works needed.

3.24.2 Invitation to Bids

This could be by National or International Competitive Bidding.

3.24.3 National Competitive Bidding

The invitation for bids must be advertised on the notice board of the procuring entity, on any official websites of the procuring entity, in at least two national newspapers and in the procurement journal not less than six weeks before the deadline for submission of the bids.

3.24.4 International Competitive Bidding

The invitation for bids must be advertised in at least two national newspapers, and one relevant internationally recognised publication, any official websites of the procuring entity and the Bureau of Public Procurement as well as the procurement journal not less than six weeks before the deadline for the submission of the bids.

3.25 Due Process Guidelines on Government Contracts

The doctrine of Due Process is an assurance that there is compliance with the budgetary, procuring and payment guidelines by all parties to government contracts.

The process ensures that:

- (a) Competitive bidding has been conducted in line with the procurement and contract award procedures.
- (b) The best evaluated bid is selected among the pre-qualified bidders.
- (c) The cost is in conformity with comparable best value.

3.26 Limit of Authority to Incur Expenditure/Spending Limit

Officer/Body	Spending Limit	Action Required
1. Permanent Secretary/ Accounting Officer	₦1,000,000	Report to the Hon. Minister on quarterly basis

2.	Ministerial Tenders Board Board (MTB)	₦1000,001- ₦50,000,000	Decisions of MTB must be confirmed by the Honorable Minister or Head of Extra-Ministerial Department
3.	Armed forces/Ministry of Defence Tenders Board	₦1,000,001- ₦50,000,000	
4.	Federal Executive Council	More than ₦50,000,000	
Officer/Body		Spending Limit	Action Required
5.	Parastatals, Corporations, Authorities, Agencies, Commissions. etc. (a) Director-General/Chief Executive	Not more than ₦700,000,000	Report to the Chairman of the Parastatal' Board of Directors on quarterly basis
	(b)Board of Directors of Parastatals	₦700,001- ₦20,000,000	
	(c)Ministerial Tenders Board of the Supervising Ministry of the relevant parastatal	₦20,000,001 to ₦50,003,000	
	(d)Federal Executive Council	More than ₦50,000,000	

Above spending limits were those in operation before circular No. SGF/OP/1/5.3NI11/57 of 11¹¹ March, 2009 was issued. Details of the circular are given below, vide 13.28(a), (b) and (c).

3.27 Revised Guidelines and Thresholds on Public Procurements

According to circular No SGF/OP/1/5.3N111/57 of 11th March, 2009 issued by the Secretary to the Government of the Federation, the Federal Government has approved a review of the existing guidelines and thresholds on public procurements. The revised guidelines and thresholds are for service-wide application and special application to the Federal Ministry of Petroleum in relation to Nigerian National Petroleum Corporation (NNPC) expenditure. The revised guidelines are as follows:

- (a) **Procurement Approval Thresholds for Bureau of Public Procurement, Tenders Boards and Accounting Officers (PSs and (CEOs) for all Ministries, Departments and Agencies**

Approving Authority/ "No Objection" to Award	Goods	works	Non- Consultant Services	Consultant Services
BPP issues No Objection"to award/FEC approves	N100million and above	N1.0billion and above	4100million and above	N100million and above
Ministerial Tenders Board	45million and above but less than N100million	410million and above but less than 41.0billion	45million and above but less than N100 million	N5million and above but less than MOO million
Parastatal Tenders Board	42.50million and above but less than N50million	N5million and above but less than 4250millior	N2.50million and above but less than N50million	N2.50million and above but less than MOO 450million

Approving Authority/ "No Objection" to Award	Goods	Works	Non- Consultant Services	Consultant Services
Accounting Officer: Permanent Secretary	Less than N5 million	Less than N10million	Less than N5 million	Less than N5 million
Accounting Officer: Director General/CEO	Less than 142.50million	Less than N5million	Less than N2.50 million	Less than N2.50 million

(b) Revised Special Financial Limits and Thresholds, Procurement Methods and Thresholds of Application and for Expenditure related to the Nigerian National Petroleum Corporation:

Approving Authority/"No Objection" to award	Special Works (NNPC)
BPP issues "No Objection" to award/FEC approves	₦2.70billion (US\$20m) and above
Ministerial Tenders Board (NNPC Tenders Board)	₦1.40billion (US\$10m) and above but less than N2.70billion (US\$20m) for NINPC Tenders Board
Group Headquarters/Tenders Board	₦540million (US\$4m) and above but ₦1.40billion (US\$10m) for GEC NINPC
Parastatal Tenders Board (Refinery & Petrochemicals/Exploration & Production/Corporate Supply Chain Tenders Boards)	₦270million (US\$2m) and above but less than 14540million (US\$4m) for SBU B/GED/(DEXCOM)
Parastatal Tenders Board (Minor Refinery & Petrochemicals/Exploration & Production/Corporate Supply Chain Tenders Boards)	₦70million (US\$0.5m) and above but less than N270million (US\$2m) for SBU MD/MT/(MEXCOM)

Parastatal Tenders Board (Business Unit Refinery & Petrochemicals/Exploration Production/Corporate Supply Chain Tenders Boards)	₦1350million (US\$0.10m) and above but less than N70million (US\$0.50m) for SBU ED/MT/(DIVCOM)
Accounting Officer: Permanent Secretary (Group Managing Director at CHQ Level)	Less than ₦40million (US\$0.30m)
Accounting Officer: Director General/CEO (Managing Director at SBU Level)	Less than ₦13.50million (US\$0.10m)

(c) Procurement Method and Thresholds of Application

Procurement/Selection Method and Prequalification	Goods	Works (₦)	Non-Consultant Services (₦)	Consultant Services
International/National Competitive Bidding	N100million and above	₦1 billion and above	₦100million and above	Not Applicable
National Competitive Bidding	₦2.5million and above but less than ₦100million	₦2.5million and above but less than ₦1 billion	₦2.5million and above but less than ₦100million	Not Applicable
Procurement /Selection Method and Prequalification	Goods	Works (-₦)	Non-Consultant Services (₦)	Consultant Services (₦)
Shopping (market Survey)	Less than ₦25million	Less than ₦2.5million	Less than ₦2.5 million	Not Applicable
Single Source/Direct Contracting (Minor Value Procurements)	Less than ₦0.25million	Less than ₦40.25million	Less than ₦0.25 million	Less than ₦0.25million
Prequalification	₦100million and above	₦300million and above	₦100million and above	Not Applicable
Quality and Cost Based	Not applicable	Not applicable	Not applicable	₦25million and above
Consultant Qualifications	Not applicable	Not applicable	Not applicable	Less than ₦25 million
Least Cost	Not applicable	Not applicable	Not applicable	Less than ₦25 million

(d) Composition of Tenders Boards

Ministry:	Chairman:	Permanent Secretary
	Members:	Heads of Departments
Parastatals:	Chairman:	Chief Executive Officers
	Members:	Heads of Departments

4.0 CONCLUSION

In this unit, you have learnt that Government contracts are awarded after the bids have been reviewed by one of the different Tender Boards. The contract execution and payments should follow due process of tendering and subsequent awards of contract. Public Procurement Act, 2007 also gives detailed guidelines on the awards of government contracts.

5.0 SUMMARY

In summary, the following were discussed; government construction, contracts and procurements, emphasizing Contract Payment Vouchers, Tenders Board, Award of Contract and Operation of Public Procurement Act 2007

In unit 3, you will learn of auditing of government accounts and audit alarm committee.

6.0 TUTOR MARKED ASSIGNMENT

- a) Discuss the procedures for awarding such contracts.
- b) Explain the accounting procedure for construction contracts and procurements.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 4 AUDITTING OF GOVERNMENT ACCOUNTS AND AUDIT ALARM COMMITTEE

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Nature of Auditing
 - 3.2 Types of Audit
 - 3.2.1 External Audit
 - 3.2.2 Internal Audit
 - 3.2.3 Annual/Statutory Audit
 - 3.2.4 Ad-Hoc or Special Audit
 - 3.2.5 Pre-payment Audit
 - 3.2.6 Post-Payment Audit
 - 3.2.7 Value-for-Money Audit
 - 3.2.8 Interim Audit
 - 3.2.9 Final Audit
 - 3.2.10 Management Audit
 - 3.2.11 Operational or Systems Audit
 - 3.2.12 Vouching Audit
 - 3.2.13 Verification Audit
 - 3.3 Factors Contributing to an Effective Audit
 - 3.4 Audit Alarm Committee (ALC)
 - 3.4.1 Composition of the Audit Alarm Committee
 - 3.4.2 Audit Queries
 - 3.5 The Federal Audit
 - 3.5.1 The Public Accounts Committee (PAC)
 - 3.6 Functions of External (Federal) Audit
 - 3.6.1 Steps Taken In Auditing Financial Statements
 - 3.7 Reliance of the External Auditor on the Internal Auditor's Work
 - 3.8 Assurance Engagement
 - 3.8.1 Contents of Assurance Report
 - 3.9 The Objectives of Internal Auditing
 - 3.9.1 The Scope of Internal Audit Functions
 - 3.9.2 The Role of a Government Internal Auditor in the Presidential System
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn of auditing of government accounts and audit alarm committee.

2.0 OBJECTIVES

After studying this unit you should be able to:

- Explain Auditing and Types of Audit.
- Identify Objectives and steps in Auditing.
- Explain Investigation and steps in investigation.
- State Objectives of Audit Alarm System in the public sector.

3.0 MAIN CONTENT

3.1 Nature of Auditing

Auditing is an independent appraisal process often governed by statute, for examining, investigating and verifying the financial statements of an organisation, by a person competently appointed. The Auditor seeks to establish an opinion concerning the truth, accuracy, validity, reliability and fairness or otherwise of the statements and the underlying records on which the statements have been built and whether or not they comply with any statutory or other requirements. He also makes a report to the users of the financial statements, giving his opinion concerning the accuracy and integrity of the accounting records and information.

3.2 Types of Audit

These may be briefly discussed, as follows:

3.2.1 External Audit

In an external audit, a report is made to a person external to the audited entity and its management. External Audit is carried out by a professional who has the authority of the law to vouch the financial statements and records of the entity. Under paragraph 85 of the 1999 Constitution, the Auditor-General for the Federation vouches the financial statements and records of Public Offices. He has indirect control over the accounts and audit of the Federal Parastatals. Conversely, the State Auditor-General, under section 125

of the 1999 Constitution, exercises the same powers and influence as his Federal counterpart. Nonetheless, by the laws creating the Parastatals, they have the authority to appoint independent auditors. These are external auditors.

3.2.2 Internal Audit

An internal audit is an independent appraisal activity within an organisation for the review of accounting, financial and other operations as basis for services to management. It is carried out by an individual designated as internal auditor as a control process. In Government, audit certificates are issued before contractors and suppliers are paid.

3.2.3 Annual/Statutory Audit

Annual audit is a regular responsibility covered by the statute. It is a requirement of the law. It is carried out on a yearly basis by an independent person to establish proper, adequate and accurate stewardship on the part of management.

3.2.4 Ad-Hoc or Special Audit

Ad-hoc or special audit is a "one-off" assignment arising from a special request for investigation to be made. It could be in respect of an arm or a unit of the organisation; for example, a case of fraud involving an officer could be the ground for investigation.

3.2.5 Pre-payment Audit

Pre-payment audit is carried out before payment is effected. It is common in Government Services. An example is the audit carried out before contractors are paid. 'Prepayment audit' is carried out by the internal auditor to evaluate the extent to which management has achieved economy, efficiency and effectiveness and adhered to laid down rules and regulations.

The Objectives of Pre-payment Audit are:

- (a) To guide against unreasonable or extravagant expenditure;
- (b) To ensure that sufficient funds are available to enable payment to be effected.
- (c) To ensure compliance with budgetary, civil service rules, financial memorandum, legislation and other legal requirements on payment; and
- (d) To ensure that goods/services conform with the prescribed standards before payments.

3.2.6 Post-Payment Audit

Post-payment audit is carried out after payment for the goods and services has been effected. 'Post payment audit' is executed by both Internal and External Auditors. The exercise is to complement the prepayment audit and ensure that disbursements take place in consideration of organisational interests and policies.

3.2.7 Value-for-Money Audit

Value-for-money audit is the review of the financial transactions to confirm that an organisation has received adequate benefit for the money expended. In other words, we can describe it as a review to confirm whether or not a company has committed its resources economically, efficiently and effectively.

The steps to be taken in carrying out Value-For-Money audit are:

- (a) Do initial analysis of the financial statements.
- (b) Review the management system.
- (c) Plan and control.
- (d) Carry-out compliance test. Check for approval by authorized office and limits of authority.
- (e) Carry out substantive tests

Substantive test is subdivided into three, as follows:

- (i) Economy Test. The objective of Economy Test is to ensure that resources (inputs) are obtained at the cheapest prices.
The tests to be carried out are:
 - Oral interview, and
 - Circularisation.
- (ii) Efficiency Assessment. The objective of Efficiency Assessment is to ensure that wastages are reduced to the barest minimum.
The tests to be carried out are:
 - Physical asset verification.
 - Check to 'third party' evidence.
 - Review computation.
 - Review extension.
 - Circularisation.
 - Conduct oral interview.
 - Review internal audit report.
- (iii) Carry out 'Effectiveness Review'. The objectives of 'Effectiveness Review' is to confirm the popularity of the policy adopted by the organisation.
The tests to be carried out are:
 - Circularisation, and
 - Oral interview.
- (iv) Write the report.
To evaluate efficiency and effectiveness, it is necessary to carry out physical verification of assets, check to evidences of third parties, review computations for

occupancy, consider internal audit reports, circularise debtors and conduct oral interview.

3.2.8 Interim Audit

This is an audit carried out by the external auditor for the earlier months of the year. It is designed to reduce the workload at the end of the year. It has the advantage of early detection of frauds and mistakes, and evaluation of the adequacy of the existing internal control.

3.2.9 Final Audit

This is the audit carried out after the end of the year to finalise the audit since the interim audit was carried out.

3.2.10 Management Audit

Management Audit is a review of the performance of management during a period. It is synonymous with the investigation or performance review of the management, otherwise called 'operational audit.'

3.2.11 Operational or Systems Audit

The review concentrates on the operational aspect of management performance. The review evaluates the efficiency and effectiveness of management practices in rendering services to the members of the public.

3.2.12 Vouching Audit

Vouching audit checks the relevance and adequacy of the supporting documents of a transaction. Receipts are checked to third parties while evidence and all other financial papers are traced to the ledgers.

3.2.13 Verification Audit

This is a review to confirm the existence and ownership of the assets. It is undertaken by physical asset verification and review of evidence of ownership.

Self-assessment exercise

What is management audit?

3.3 Factors Contributing to an Effective Audit

The following factors make for an effective audit:

- (a) **The independence of the auditor:** He should be given free hand to do a good job. The auditor should not be under the control of management of the Organisation.
- (b) The adequacy and scope of **the auditor's power:** The authority of the auditor should be guaranteed. The Auditor must be given adequate authority to discharge his responsibilities.
- (c) **The expertise and professionalism of the Auditor and his staff:** The Auditor should be adequately trained, versatile and skilful at his job.
- (d) The resources at **the Auditor's** disposal: There should be enough funds at the disposal of the Auditor to carry out his assignment.
- (e) **Freedom of reporting and the qualitative nature of reports** the reports which the auditor transmits should be promptly looked into and timely and effective decisions taken.

3.4 Audit Alarm Committee (ALC)

Section 35 of the Civil Service Re-Organisation Act No 43 of 1988, established the Audit Alarm Committee. In the new service reform, the Chief Internal Auditor or Head of the Internal Audit is empowered to raise an alarm on any payment which he considers not appropriate. Once there is alarm, it is an offence to process further the payment voucher, until the issue is resolved by the appropriate Committee. The alarm system assists in monitoring expenditure and ensuring compliance with the financial regulations and stipulations of the Treasury Circulars.

3.4.1 Composition of the Audit Alarm Committee

The composition of the Committee at the three-tiers of Government may be discussed, as follows:

Federal Level:

- (a) The Auditor-General for the Federation - Chairman
 - (b) The Accountant-General of the Federation - Member
 - (c) A representative from the Office of the President - Member
 - (d) The Auditor-General of the State (Chairman)
 - (e) The Accountant-General of the State (Member)
 - (f) A representative from the Office of the Governor (Member)
- Local Government Level:
- (g) The Auditor-General for the Local Government (Chairman)
 - (h) A representative of the State Accountant-General (Member)
 - (i) Director, Local Government Inspectorate to represent the State Government (Member)

3.4.2 Audit Queries

Audit queries are observations raised by the auditor about missing links in a particular transaction. Those raised by the internal auditor are 'pre-audit queries' while those made by the external auditor are 'post-audit' queries. They, serve as an important part of the mechanism of financial control and valuable means of detecting and preventing errors, frauds, etc. The guidelines on Civil Service Reforms have given prominence to audit queries by specifying the time limit for transmitting replies. There are sanctions for failure to respond in time. Punishable offences on which queries may be raised are classified into three, viz:

- (a) Irregularities resulting in losses to the Government due to either fraudulent activities of the functionaries or their negligence.
- (b) Irregularities which infringe upon budgetary and proper financial management.
- (c) Irregularities arising through poor or inefficient management and accounting which may lead to losses to the Government.

The following are the time limits within which audit queries are to be answered and the stipulated sanctions for failure to comply:

**GUIDELINES ON AUDIT QUERIES AND SANCTIONS
as Per Act 43 Of 1988**

*The Time Sanctions
Limit
for Reply
to Oleo'*

(A) Irregularities Resulting
in Losses to Government Due To me
Fraudulent Activities, Negligence or
Incompetence
of the Functionaries Offences:

(i)	Inflation of Contract	30 days	If committed by an Accounting Officer, report to State Governor (or Mr. President in the case of a Federal Government Staff). If by any other officer, surcharge him and remove from the schedule.
(ii)	Unauthorized variation of contracts	30 days ditto	
(iii)	Inflation of price of procurements	21 days	Impose appropriate surcharge.
(iv)	Payment for jobs not executed (1) Mobilization fees (2) Payment through false Certificate of Completion	30 days	Recovery from beneficiary and blacklisting of the contractor
(v)	Payment through fake Certificate of Completion	21 days	Report to the Police for prosecution. Blacklist contractor and demote the officer who certified the job.
(vi)	Irregular or wrong Payment	21 days	Recover the amount involved and remove the officer from the schedule.
(vii)	Shortages or losses of stores by Store keeper	days 14 days	Recover the amount involved and transfer the officer to another schedule.
(viii)	Shortages or losses of cash by Cashier	21 days ditto	
(ix)	Assets paid for but not collected	21 days	Recover the amount, blacklist the contractor and transfer the officer to another schedule.
(x)	Payment to a ghost worker	7 days	Interdict the officer and report to the police.

(xi)	Over-payment of Salaries and Allowances to staff	21 days	Recover the amount and warn the negligent officer
(xii)	Failure to collect govt. revenue	21 days	Surcharge and transfer the affected officer to other schedule.
(xiii)	Failure to account for govt.		7 days Surcharge and report to the revenue. Police for prosecution.
(xiv)	Non-payment for use of Government property	30 days	Recover the amount immediately
(xv)	Premature scrapping of	30 days	Demote the officer affected
	govt. fixed assets and selling at ridiculously low prices.		
(xvi)	Poor cash management	30 days	Surcharge and warn the affected officer.
B. Irregularities not Resulting in Losses to Government But Affecting Budgetary Control and Proper Financial Management			
(i)	Splitting of contracts to side track tender procedures	21 days	Demote and transfer the affected officer to another schedule.
(ii)	Irregular award of contracts	21 days	ditto
C. Irregularities Arising through Poor or Inefficient Management of Accounts which may Result in Losses			
(i)	Non recovery of advances	21 days	Recover all losses but if there is no loss, warn the defaulting officer.
(ii)	Non-posting of ledger accounts	21 days	ditto
(iii)	Cash in transit over 3 months	21 days	ditto

(iv)	Failure to prepare Bank Reconciliation Statement	14 days	ditto
(v)	Failure to retire touring advances	21 days	ditto
(vi)	Non-rendering of monthly and Other returns	21 days	ditto
(vii)	Failure to raise Audit Alarm by Internal Auditor, Treasurer or Secretary	7 days	ditto

3.5 The Federal Audit

The External Auditor to the Federal Government is the Auditor-General for the Federation. This is an institution or office or person established or authorized by law to audit the accounts of all the Ministries and Extra-Ministerial Departments. The Auditor-General submits his report directly to the National Assembly

3.5.1 The Public Accounts Committee (PAC)

The Committee is a Body established by law to study and examine the reports submitted by the Auditor-General, especially in the areas of fraud practices or embezzlement of public funds. The Body is also to make appropriate recommendations to the National Assembly

3.6 Functions of External (Federal) Audit

The functions of the external audit are to ascertain whether:

- (a) Government is carrying out the activities authorised by the National or State Assembly in conformity with the mandate of the people.
- (b) The programmes and activities are conducted in an effective, efficient and economic manner and in compliance with the requirement of ethical standards.
- (c) Funds, property and personnel are adequately controlled and utilized.
- (d) All monies collected are properly accounted for.
- (e) The accounting system complies with prescribed principles, standards and requirements.

3.6.1 Steps Taken In Auditing Financial Statements

These are:

- (a) **Review of the Financial Statements:** The Financial Statements of the Organisation will be analyzed into various departments and reviewed on monthly basis,
- (b) **Review of the system:-**The Ministry's or departmental system is reviewed for internal control adequacy or otherwise.
- (c) **Planning and Control**
Based on the review of the system, the audit will be planned and samples picked, for testing. Departments which have weak system will supply large sample and vice versa. Samples may be picked, using scientific or 'best-of-judgement' approaches.
- (b) **'Compliance Test' otherwise called 'Walk-Through Test.'** This approach involves tracing a chosen transaction from initiation to conclusion. The objective of the test is to test the compliance and effectiveness of the system. It is an assessment of the reliability of the internal control system in operation.
- (e) **'Substantive Test'**—This involves 'in depth test' to provide audit evidence as to the completeness, accuracy and validity of the information contained in the accounting records or the financial statements.

Tests are conducted into such issues as:

- (i) Physical asset verification.
- (ii) Proof of ownership.
- (iii) Checking to third party evidence.
- (iv) Review of computations.
- (f) **Writing of Report -** Based on the outcome of the Compliance and substantive tests conducted, audit reports are written and transmitted to the Audit Unit, Department or Ministry, highlighting the areas of deficiencies which require overhauling.

3.7 Reliance of the External Auditor on the Internal Auditor's Work

Before an external auditor could rely on the work of the internal auditor, the former would have made the following assessments:

- (a) The degree of independence of the internal auditor.
- (b) The scope and objectives of the internal audit functions as defined by the management.
- (c) Due professional care, that is, whether or not the internal audit work is properly planned, recorded and reviewed.
- (d) The technical competence of the internal auditor. This raises the question as to whether the internal auditor belongs to any reputable professional accounting body or has relevant practical experience in internal audit work.
- (e) The quality and quantity of the internal audit reports and to what extent they are

- being acted upon by the management are of interest to the external auditor.
- (f) The quality and standard of internal audit working papers are of significance, showing the extent of work done.

3.8 Assurance Engagement

Assurance engagements are enquiries commissioned by client firms or government to find out the cause or causes of an event, so that remedial actions may be taken.

The internal and external auditors can be requested to carry out an investigation into a financial transaction. They will adopt standard audit review investigation steps such as:

- (a) Reviewing Financial Statements.
- (b) Reviewing of the system,
- (c) Evaluating the application of the relevant financial legislation.
- (d) Conducting Compliance Test.
- (e) Conducting Substantive Test.
- (f) Writing of report.

3.8.1 Contents of Assurance Report

The following must be stated in assurance report:

- (a) Confirmation and amount of loss.
- (b) The regulation which was violated.
- (c) Recommendations to effect correction and prevent a reoccurrence.
- (d) Name and post of officer involved.
- (e) Degree of negligence of individual officers.
- (f) Recommendation and necessary sanction.

3.9 The Objectives of Internal Auditing

The objectives of Internal Auditing may be outlined, thus:

- (a) Determining the adequacy of the system of internal control which is in existence.
- (b) Investigating compliance with the existing financial memorandum, laws and financial regulations.
- (c) Checking the adequacy of monthly returns of activities.
- (d) Verification of the physical existence of assets and liabilities.

3.9.1 The Scope of Internal Audit Functions

The duties and responsibilities of internal auditors are at the discretion of management.

However, from empirical studies, the following are the areas of interest to an internal auditor, viz:

- (a) Pre-audit.
- (b) Vouching of payroll and third party claims.
- (c) Auditing of store movements and records.
- (d) Conducting internal investigations and evaluation for management.
- (e) Constant review and appraisal of the existing internal control measures.

3.9.2 The Role of a Government Internal Auditor in the Presidential System

The main idea of introducing the presidential system of Government is to further ensure accountability and probity. In this perspective, there are various laws, rules and procedures that must be complied with, to ensure sanity in the polity and Governance.

The Internal Auditor is expected to render 'exception reports' on continuous basis on the financial activities of Government. He writes his reports to the Accounting Officer and copies the Auditor General. The presidential system of Government empowers the Legislative House to interview the Auditor-General on his position on actions already taken by the Executive arm which he had endorsed as correct. The system of Government expects him to ensure budget discipline through continued monitoring of receipts and payments.

He is expected to be objective, fair and articulate in reacting to the views of opposing parties on financial matters.

The Auditor-General for the Federation can audit any State or Local Government Council on how the Federal's special allocations as Ecology Fund are being utilized.

Self-assessment exercise

Discuss the Role of a Government Internal Auditor in the Presidential System

4.0 CONCLUSION

In this unit, you have learnt that Control of expenditure is necessary to ensure that the resources obtained are used for the purposes for which they are meant. Audit is an independent appraisal of financial statements of an organisation, with a view to expressing opinion on the fairness and truth or otherwise of those statements. Investigations are carried out from time to time to sort out allegations of misappropriation of funds or assets.

5.0 SUMMARY

In summary, the following were discussed Auditing of Government Accounts and Audit

alarm committee. In unit 5, you will learn of government advances.

6.0 TUTOR MARKED ASSIGNMENT

- a) Explain Auditing and Types of Audit.
- b) State the objectives of Audit Alarm System in the public sector.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 5 GOVERNMENT ADVANCES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Advances
 - 3.1.1 Non-Personal Advances
 - 3.1.2 Personal Advances
 - 3.1.2.1 Salary and Rent Advances
 - 3.1.2.2 Motor Vehicle Advance/Refurbishing Loan
 - 3.2 Considerations for and Repayments of Advances
 - 3.2.1 Correspondence Advances
 - 3.2.2 Bicycle Advances
 - 3.2.3 Advances for Estacode for Overseas Tours
 - 3.2.4 Motor Vehicle Advances
 - 3.2.5 Spectacle Advances
 - 3.2.6 Advances to Retiring Officers
 - 3.3 General rule
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn of government advances, identifying consideration for and repayments of Advances and the general rule thereof.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- c) Differentiate the types of Government advances.
- d) Identify the conditions for granting the various advances.

3.0 MAIN CONTENT

3.1 Advances

Generally, advances are cash sums as short-term loans granted to the employees in the

service of an organisation. Advances are granted by the three-tiers of Government, public and private enterprises. In the Federal Government Service, granting advances is guided by Chapter 17 of the Financial Regulations of Year 2006.

Basically, advances can be grouped into two categories. These are 'personal' and 'non-personal' advances, discussed as follows:

3.1.1 Non-Personal Advances

Advances of non-personal nature shall be authorised by the Minister of Finance, through the Accountant-General of the Federation. They are chargeable to the non-personal account of the Ministry or Unit concerned; for example, an advance for training of staff outside Headquarters. Advances granted under the authority of the Financial Regulations and those up to 450,000 in value are approved by the Accounting Officer. Specifically, a non - personal advance is one granted to an officer to carry out certain tasks for the organisation. This type of advance has to be retired within a reasonable time; otherwise, the total sum advanced shall be deducted from the officer's salary embloc. It is against the spirit of Financial Regulation to grant a non - personal advance to an officer when the initial ones are yet to be retired,

3.1.2 Personal Advances

These are advances of cash to individual officers in the employment of the Federal Government of Nigeria for their personal benefits. These include:

3.1.2.1 Salary and Rent Advances

Salary and rent advances are granted to officers under the following conditions:

- (a) If an officer is returning from leave of not less than 21 days duration, and/or he is to proceed on transfer and bear the cost of his transportation.
- (b) If an officer is assuming first appointment and is not living in Government residential quarters.
- (c) If an officer is returning to Nigeria by sea and is to be stationed elsewhere other than in Lagos.
- (d) If an officer is on posting to an overseas office of the Ministry of External Affairs.

3.1.2.2 Motor Vehicle Advance/Refurbishing Loan

Motor vehicle advances and/or refurbishing loans are granted to the following categories of officers:

- (a) All officers on grade level 8 and above are entitled to

motor vehicle loans.

- (b) Officers on salary grade levels 06 and 07 shall be granted advances for the purchase of motor cycles while those on salary grade level 01-05 shall receive advances for bicycles.

Self-assessment exercise

In your own word explain the meaning of advances.

3.2 Considerations for and Repayments of Advances

- (a) No Officer shall be eligible for an advance until after five years of previous advance, except where the vehicle so purchased had become a 'write-off', based on the evidence from an insurance company. Moreover, the previous advance ought to have been fully repaid.
- (b) All payments for the purchase of the motor vehicles shall be made to the vendors.
- (c) An Officer to whom an advance is given to purchase a motor vehicle will be required to insure the vehicle comprehensively with an insurance company on the approved Government list during the period of repayment of the advance.
- (d) A salary/rent advance of one month shall be repaid in three (3) installment monthly deductions. Advances of up to two (2) and three (3) months salary shall be repaid in six equal installments, respectively.

3.2.1 Correspondence Advances

These are advances taken for correspondence courses. The conditions to be fulfilled for the grant of a correspondence advance are:

- (a) That the ability and efficiency of the officer warrant his taking the course.
- (b) That the subjects in the course to be pursued are related to his work.
- (c) That the study is likely to increase his efficiency.
- (d) That the course is with a reputable college or establishment.
- (e) That its completion does not itself constitute grounds for advancement.
- (f) That the officer will enter into agreement for repayment.
- (g) That the advance shall be granted free of interest.
- (h) That the officer produces receipts to show that the whole advance has been appropriately utilized.
- (i) That the advance does not include an element for postage, stationery, examination or other fees, etc.
- (j) That the advance shall be recovered in twenty-four (24) consecutive installments.

3.2.2 Bicycle Advances

Accounting Officers are authorized to approve bicycle advances, subject to the following conditions:

- (a) That they are satisfied that a bicycle will facilitate the performance of the duties of the official or employee concerned.
- (b) That the advance does not exceed the actual purchase price of the bicycle to be acquired, subject to an overriding maximum of N20,000.00.
- (c) That the official or employee concerned has not received a bicycle advance within a period of two years, provided that a fresh advance may be granted if the bicycle bought with the previous advance has been stolen or damaged beyond repairs and if the old advance has been fully repaid.
- (d) The rate of interest chargeable shall be 4%.
- (e) That the officer receiving the advance completes the agreement form T.F. 50B and the interest shall be deductible en block in the first instalment.

3.2.3 Advances for Estacode for Overseas Tours

Cash advances may be granted to meet estacode allowance due to an officer travelling overseas. It will normally be drawn in Nigeria in the form of traveler's cheques made payable to the officer travelling singly or to a designated officer travelling with a delegation. The traveler's cheques will be obtained from the Central Bank of Nigeria, against a cheque drawn on Government Account.

At the end of any duty tour, officers shall submit all the receipts and air tickets in order to account for the amount received as travelling expenses for the duty tour. This will serve as a proof that the journeys were undertaken for the number of days approved.

3.2.4 Motor Vehicle Advances

Under the Financial Regulations of Year 2006, motor vehicle advances are granted to officers on salary grade level 08 and above, upon the written approvals of Accounting Officers of the Ministries and Extra-Ministerial Departments. However, an officer may not be considered for an advance when the maintenance cost of the car and installment repayments will likely cause him financial embarrassment.

All Heads of Departments, confirmed officers and Police Officers on the above-stated salary grade levels are covered under the dispensation.

The amounts of the various advances granted now vary from one State Public Service to another and repayment terms are not uniform.

This form of advance has been abolished in the Federal Public Service and some State

Governments.

3.2.5 Spectacle Advances

Interest free advances, not exceeding 1415,000.00, may be granted to officers by the Permanent Secretaries/Heads of Extra-Ministerial Departments for the purchase of spectacles, provided they have been prescribed by a Medical Officer and an Optician's receipt is subsequently provided as evidence of payment. The advance will be refunded in not more than twenty four (24) consecutive monthly installments.

3.2.6 Advances to Retiring Officers

In order to minimize the sufferings of retiring officers, an advance payment of three (3) month salary shall be paid to every retiring officer by his Ministry/Extra-Ministerial Department which shall be deducted en-bloc from his final entitlements. Accounting Officers must ensure that the advances taken by the retiring officers are reflected in their pension forms. This form of advance has also been abolished in the services, as a result of introduction and implementation of Pension Reform Act of 2004.

3.3 General Rule

As a general rule, an officer may be granted more than one type of advance at a time but care has to be taken to ensure that the total recoveries will not result in financial embarrassment to the officer or be more than two thirds (V,) of his monthly salary. All advances will be recorded in total in the control ledger account while details of each individual advance will be reflected in the subsidiary ledger in the name of the officer to whom the advance has been granted.

TUTORIAL NOTE

Readers should please note that chapter 17 of the Financial Regulations which deals with advances on motor vehicles, motor cycles and bicycles has been modified with the circular on monetization of fringe benefits. The monetization policy states that car loans are to be provided by the banks on a single digit interest, to be guaranteed by the employer, Federal Government.

Car loans are at the following rates:

- | | | | | | | |
|----|----------------------------|---|------|----|--------|-------|
| 1. | Officers on GL 01 – 05 | - | 100% | of | Annual | Basic |
| 2. | Officers on GL 06 – 07 | - | 150% | of | Annual | Basic |
| 3. | Officers on GLO8 and Above | - | 200% | of | Annual | Basic |

4.0 CONCLUSION

In this unit it was concluded that Advances are cash granted by the Government to employees, under different conditions, for various reasons and needs. They are repaid within the agreed terms and as stipulated in chapter 17 of the Federal Government Financial Regulations (Updated to January, 2006).

5.0 SUMMARY

In summary, the general Government Advances were learnt along identifying consideration for and repayments of Advances.

6.0 TUTOR MARKED ASSIGNMENT

- a) Differentiate the types of Government advances.
- b) Identify the conditions for granting the various advances.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

MODULE 4

- Unit 1 Pensions and gratuity
- Unit 2 Treasury Internal Control Questionnaires Professional Pronouncements on Government
- Unit 3 Accounting by the United Nations
- Unit 4 Investment Appraisal in the Public Sector
- Unit 5 Interpretation of Accounts, Cash Flow and Value Added Statements

UNIT 1 PENSIONS AND GRATUITY

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Definition of Terms
 - 3.2 Application of the Provisions of the Pension Act, No.102 Of 1979
 - 3.2.1 Conditions for Granting Retirement Benefits
 - 3.3 Statutory Age of Retirement
 - 3.4 Notice of Withdrawal or Retirement
 - 3.5 Qualifying Service for Pension and Gratuity
 - 3.5.1 The Armed Forces Act No. 103 of 1979
 - 3.6 Death Gratuity
 - 3.6.1 5 years but below 10 years:
 - 3.6.2 10 years and above:
 - 3.7 Minimum and Maximum Pension Payable
 - 3.8 Death Gratuity In Course of Service
 - 3.8.1 Where An Officer Is Killed
 - 3.8.2 Limitations
 - 3.9 Tutorial
 - 3.10 Definition of a Child
 - 3.11 Transfer of Service
 - 3.12 Merger of Service
 - 3.13 Minimum Years for Collecting Pension
 - 3.14 Non-Pensionable Service
 - 3.15 Pension & Gratuity: Table Applicable With Effect from 1/6/92202
 - 3.15.1 Derived Formula
 - 3.16 General Information

- 3.17 Pension Reform Act, 2004
 - 3.17.1 National Pension Commission
 - 3.17.2 Powers of the Commission
 - 3.17.3 The Principal Objective of the Commission
 - 3.17.4 Functions of the Commission
 - 3.17.5 Composition of National Pension Commission
 - 3.17.6 The Rates of Deductions
 - 3.17.7 Withdrawal from Retirement Savings Account
 - 3.17.8 Age of Contributor
 - 3.17.9 Payment of Retirement Benefits
 - 3.17.9.1 Death of Employee
 - 3.17.9.2 Where an Employee is missing
 - 3.17.10 Exemption from Tax
 - 3.17.11 Contribution under the Scheme
 - 3.17.12 Exemption from the Scheme
 - 3.17.13 Transfer from One Employment to the Other
 - 3.17.14 Pension Fund Administration
 - 3.17.14.1 Prescribed Structure of Pension Fund Administration
 - 3.17.15 Pension Fund Custodians
 - 3.17.16 Dispute Resolution
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit you will learn of Pension and Gratuity in the Public Sector Accounting and Finance.

2.0 OBJECTIVES

After studying this unit you will be able to:

- Capture the concepts of pension and gratuity and the conditions for granting retirement benefits.
- State the Provisions of Pensions Act, 1979 (as updated) and Pension Reform Act of 2004.
- Explain the composition, objectives, powers and functions of the following:
 - (i) National Pension Commission.
 - (ii) Pension Fund Administrators.
 - (iii) Pension Fund Custodians.
- Illustrate the computation of retirement benefits.

3.0 MAIN CONTENT

3.1 Definition of Terms

- (a) Pension: It is a monthly payment made to a retired officer who has served for a statutory period. Pension is payable for a minimum period of five years or till death.
- (b) Gratuity: It is a lump sum of money paid once to a retired officer who has served for the minimum of 5 years in service.
- (c) Pensionable Emoluments: It is the gross salary (basic salary and allowances) attached to a retiring officer's substantive rank.
- (d) Withdrawal of service: This is the cessation of service after an officer has served for a minimum of 5 years, but below 10 years, qualifying him only for gratuity.
- (e) Retirement: It is the cessation of service after an officer has served for a minimum of 10 years, qualifying the person for gratuity and pension.
- (f) Qualifying Service: Means service after an officer has served for a period of not less than the minimum qualifying years, which is 5 years for gratuity and 10 years for gratuity and pension. Qualifying service determines the qualification or otherwise of the person for pension and gratuity.
- (g) Next of Kin: Means those persons whose names were furnished by the deceased officer on his record of service kept in the Records Office of the Establishment or furnished by him to the Ministry, in writing, at any time before his death.
- (h) Public Service: Means any service or employment under the Government of the Federation in a civil position, recognised as such by the Establishment. It shall include employment declared as Approved Service, by the Pension Act (as updated).

3.2 Application of the Provisions of the Pensions Act, No.102 of 1979

3.2.1 Conditions for Granting Retirement Benefits

The conditions for granting retirement benefits may be listed, as follows:

- (a) On voluntary retirement, after a qualifying service of 10 years.
- (b) On compulsory retirement for the purpose of facilitating improvement in the Department or Ministry.
- (c) On compulsory retirement upon attaining the retiring age of 60 years or 35 years in service, whichever comes earlier.
- (d) On total or permanent disablement while in service.
- (e) Public Interest.
- (f) Abolition of Office, e.g. for the reasons of re-organisation and redundancy.

3.3 Statutory Age of Retirement

All officers shall retire on reaching the age of 60 years or having served for 35 years in service, whichever comes earlier. But an officer may be retired at anytime on reaching the minimum age of 50 years, subject to 3 months' notice in writing or 3 months' salary in lieu of notice being paid.

3.4 Notice of Withdrawal or Retirement

Officers who have served for less than ten (10) years give one month's notice or pay a month's salary in lieu. Those who have put in ten (10) or more years service give three months' notice or pay three (3) months' salaries in lieu of notice.

3.5 Qualifying Service for Pension and Gratuity

- (a) For gratuity, the officer must serve for minimum of (but not up to ten (10) years) five (5) years.
- (b) For gratuity and pension, the officer must serve for at least ten (10) years. Pension is payable when the retiring officer reaches the age of 50 years, with the exception of ill-health or compulsory retirement of officer in the public interest, when pension becomes payable immediately without the officer reaching the age of 50 years.
- (c) 'War Services' are in connection with the internal security, maintenance of law and order, between 27 May, 1967 and 15 January, 1970, and other services as may be declared by the President of Nigeria.

3.5.1 The Armed Forces Act No. 103 of 1979

Under the Armed Forces Act No. 103 of 1979 quoted above, the considerations are:

- (a) Each completed year of war service shall count as two years.
- (b) Period of war service exceeding 4 months but below 6 months is counted as 6 months.
- (c) Period of war service below 4 months is counted as 6 months.
- (d) Period of war service exceeding 6 months is counted as 1 year.

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

ILLUSTRATION 16-1

An officer who has served 14 years, 8 months and 10 days is deemed to have rendered

15 years service. But an officer who has served 9 years, 11 months and 28 days will be entitled to only gratuity. This is because he has not rendered the minimum qualifying service of 10 years.

3.6 Death Gratuity

Where an officer dies in service, a death gratuity based on the rates below will be paid to his legal representative or his survivor, viz:

3.6.1 5 years but below 10 years:

5 years: 100% final pay

6 years: 108% of final pay.

7 years: 116% of final pay.

8 years: 124% of final pay

9 years: 132% of final pay,

3.6.2 10 years and above: death gratuity is based on the rates as per the Table at 16.15: Pension and Gratuity Table.

Note: In addition, the dependants will be paid 5 years pension, based on completed years served as shown on the Table above.

3.7 Minimum and Maximum Pension

The minimum pension payable is N8,000.00 per annum, while the maximum is 80% of final pay.

Self-assessment exercise

State the conditions for granting retirement benefits

3.8 Death Gratuity in Course of Service

3.8.1 Where an Officer Is Killed

- (a) Where an officer, e.g. a pilot, is killed in the course of carrying out his official duty, the following entitlements shall be paid to his next of kin or designated survivors:
 - (i) Gratuity to which the officer would have been entitled to at the date of his death.
 - (ii) A pension for life to his widow if the officer leaves any provided the widow remains unmarried and of good character. However, the pension should not be more than $1/3^{\text{rd}}$ of the deceased officer's accrued pension at the date of his death.

OR

- (b) In addition to 'i' above, if the deceased leaves a number of children below 18 years, pension of not more than the deceased officer's one month pay shall be paid to each child until they attain 18 years of age.
- (c) If the deceased officer leaves only one child below 18 years a pension not more than 2/3rd of the deceased officer's accrued pension shall be paid to the child until he reaches 18 years of age.
- (d) If the deceased officer leaves a child or children and a widow to whom a pension is granted under 'i' above, subsequently dies, a pension in respect of each child as from the date of the death of the widow until such child attains the age of 18 years, of 1/3rd of the accrued pension of the deceased officer.

3.8.2 Limitations

- (a) The pension shall not be paid to more than 6 children.
- (b) A pension granted to a female child ceases when she marries or attains 18 years, whichever comes first.
- (c) Where the deceased officer leaves more than one widow, the Minister may grant pension to one or more of such widows. However, the pension to be shared among the widows shall not be more than the one to be granted to a sole widow.

3.9 Tutorial

Section 173 (3) of 1999 Constitution says "Pensions shall be reviewed every five years or together with any Federal civil service salary reviews, whichever is earlier."

Section 173 (4) of the Constitution stipulates that "Pensions in respect of service in the public service of the Federation shall not be taxed." According to Section 84(5) of the 1999 Constitution, "Any person who has held office as President or Vice President shall be entitled to pension for life at a rate equivalent to the annual salary of the incumbent President or Vice-President, provided that such a person was not removed from office by the process of impeachment or for breach of any provision of this Constitution." Section 84 (6) of the Constitution says that "any pension granted by virtue of subsection(s) of this section shall be a charge upon the Consolidated Revenue Fund of the Federation."

3.10 Definition of a Child

The Pension Act, 1979 (as amended) defines a child as:

- (a) Posthumous child.
- (b) A child born out of wedlock, but whose paternity has been accepted.
- (c) A step child or a child adopted in a manner recognised by a law before the death of the deceased officer.

3.11 Transfer of Service

Where an officer moves from one Government service to the other, e.g. from the Federal to the State Service, such officer may transfer the years he has served from the old to the new employer.

However, the following conditions must be complied with, viz:

- (a) The transfer must be effected within two (2) years.
- (b) The normal procedure for recruitment to such appointment has to be followed, e.g. by advertisement and interview.

3.12 Merger of Service

This is applicable to all military organisations and the conditions are the same with those of transfer of service.

3.13 Minimum Years for Collecting Pension

All officers who qualify for pension will enjoy it for a minimum period of five (5) years. That is, where an officer dies within five (5) years after retirement, his next of kin will be entitled to the same pension till the end of five (5) years, from the date of his retirement. For example, where an officer retired in 1990 and died in 1993, his survivor will be entitled to his pension for the years 1994 and 1995. This may, however, be paid en-bloc, monthly or annually

3.14 Non-Pensionable Service

- (a) Where an officer joins service before the age of 15 years, all the years he served before reaching 15 years of age shall not be recognised for computation of his pension or gratuity.
- (b) Where an Officer was absent from duty, or was on leave without pay, except prior permission has been received from the Minister, such period will be regarded as non-pensionable.

3.15 Pension & Gratuity: Table Applicable With Effect from 1/6/92

Years in Service	Old i.e. up to 31/5/92 Gratuity %	Pension %	New i.e. wet 1/6/92 Gratuity%	Pension%
5	-	-	100	-
6	-	-	108	-
7	-	-	116	-
8	-	-	124	-
10	100	-	100	30
11	110	-	108	32

12	120	-	116	34
13	130	-	124	36
14	140	-	132	38
15	100	30	140	40
16	110	32	148	42
17	120	34	156	44
18	130	36	164	46
19	140	38	172	48
20	150	40	180	50
21	160	42	188	52
22	170	44	196	54
23	180	46	204	56
24	190	48	212	58
25	200	50	220	60
26	210	52	228	62
27	220	54	236	64
28	230	56	244	66
29	240	58	252	68
30	250	60	260	70
31	260	62	268	72
32	270	64	276	74
33	280	66	284	76
34	290	68	292	78
35	300	70	300	80

3.15.1 Derived Formula

The following formula may be used, instead of the table above, to compute any gratuity or pension due, viz:

$$\text{Gratuity} = 100 + \{(x - 10) \times 8\}\%$$

$$\text{Pension} = 30 + \{(B - 10) \times 2\}\%$$

'B' is the qualifying years for pension, and 'X' is the qualifying years for gratuity.

ILLUSTRATION 16-2

If 'x' is 20 years,

$$\text{gratuity is: } 100 + \{(20 - 10) \times 8\}\%$$

$$\text{Therefore gratuity is: } (100 + 80)\% = 180\%$$

If 'B' is 20 years,

$$\text{pension is: } 30\% + \{(20 - 10) \times 2\}\%$$

$$= 30\% + (10 \times 2)\%$$

$$= 30\% + 20\% = 50\%$$

NOTE: The computations are expressed in percentages. 16.16

GENERAL INFORMATION

- (a) **Medical Certificate**
Every pensioner has to obtain a medical certificate from a Government medical doctor, confirming that he is alive and physically fit. This must be submitted before the first payment of the pension is effected in the new year.
- (b) **Arrears Pensions** are paid in arrears, either monthly, quarterly or yearly
- (c) **Qualifying Age**
Qualifying year for pension is recorded when the employee attains the age of 15 years. If an employee joins the Government service before attaining that age, the period he served previously will not be taken into consideration in computing the qualifying age for his retirement.
- (d) **Processing Retirement Documents**
If an employee worked for the three tiers of Government (Federal, Local and State) the retirement benefit will be collected from his last office.
- (e) **Sharing of Retirement Benefit Liability**
If an employee works for different arms of Government, e.g. for Federal, States and Local Government Council the retirement benefit liability will be shared among the three tiers in the proportion of length of service.
- (f) **Continuity of service**
Only continuous and unbroken service shall be taken into account as qualifying service, so that any break caused by a temporary suspension from employment not arising from misconduct may be disregarded for the purposes of the calculation of qualifying services.

3.17 Pension Reform Act, 2004

The Pension Reform Act 2004 is to regulate, supervise and ensure the effective administration of pension matters. The promulgation of the new law has been informed by the need for the Federal and State Governments to ensure that adequate provisions are made for the prompt payment of gratuities and pensions of retiring officers. The former President, Chief Olusegun Obasanjo, in one of his monthly briefings, stated that the total amount being owed to all pensioners throughout the country amounted to about N2.3 trillion. There is no doubt that paying this amount will definitely not be an easy task, hence the need for the introduction of a contributory pension scheme in the public sector and the establishment of National Pension Commission.

3.17.1 National Pension Commission

Objectives

The objectives of establishing the National Pension Commission are:

- (a) To ensure that every person who works in the public service of the Federation, FCT and private sector receives his retirement benefits as and when due.
- (b) To assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age.
- (c) To establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the public service of the Federation, Federal Capital Territory and the private sector.

3.17.2 Powers of the Commission

According to the Act, the Commission shall have power to:

- (a) Formulate, direct and oversee the overall policy on pension matters in Nigeria,
- (b) Fix the terms and conditions of service, including remuneration of the employees of the commission,
- (c) Request or call for information from any employer or pension administrator or custodian or any other person or institution on matters relating to retirement benefit,
- (d) Charge and collect such fees, levies or penalties, as may be specified by the Commission,
- (e) 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,
- (f) Establish standards, rules and regulations for the management of the pension funds,
- (g) Investigate any Pension Fund Administrator, custodian or other party involved in the management of pension funds,
- (h) Impose administrative sanctions or fines on erring employers or Pension Fund Administrators or Custodians,
- (i) Order the transfer of management or custody of all pension funds or assets being managed by a pension fund administrator or held by a custodian whose licence has been revoked or subject to insolvency proceedings to another pension fund administrator or custodian,
- (j) Do such other things which in its opinion are necessary to ensure the efficient performance of the functions of the Commission.

3.17.3 The Principal Objective of the Commission

The principal objective of the Commission, according to the Pension Reforms Act, 2004, is "to regulate, supervise and ensure the effective administration of pension matters in Nigeria."

3.17.4 Functions of the Commission

The functions of the Pension Commission as stated in S.20 of the Act are:

- (a) To regulate and supervise the scheme established under this Act.

- (b) To issue guidelines for the investment of pension funds.
- (c) To 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.
- (d) To establish standards, rules and guidelines for the management of the pension funds under this Act.
- (e) To ensure the maintenance of a National Data Bank on all pension matters.
- (f) To carry out public awareness and education on the establishment and management of the scheme.
- (g) To promote capacity building and institutional strengthening of pension fund administrators and custodians.
- (h) To receive and investigate complaints of impropriety levelled against any pension fund administrator, custodian or employer or any of their staff or agent.
- (i) To perform such other duties which, in the opinion of the commission, are necessary or expedient for the discharge of its functions under the Act.

According to the pension reform, all employees in the service of the Federation, Federal Capital Territory and private sector shall henceforth contribute certain percentages of their monthly emoluments towards their retirement. However, this reform will not apply to those who have less than three years to retire.

3.17.5 Composition of National Pension Commission

The Commission comprises:

- (a) A part-time Chairman in possession of a University Degree or its equivalent and 20 years experience.
- (b) A Director-General who shall be the Chief Executive Officer of the Commission and in possession of appropriate professional skills with not less than twenty years cognate experience.
- (c) Four (4) full time Commissioners, who shall each possess professional skills and not less than 20 years cognate experience in Finance, Investment, Accounting, Pension Management, Business Administration or Actuarial Science.

Representatives of:

- (d) Head of the Civil Service of the Federation.
- (e) The Federal Ministry of Finance.
- (f) The Nigeria Union of Pensioners.
- (g) The Nigeria Employers' Consultative Association.
- (h) The Central Bank of Nigeria.
- (i) The Nigerian Labour Congress.
- (j) The Securities and Exchange Commission.

3.17.6 The Rates of Deductions

The rates of deductions may be stated as follows:

- (a) Federal Government Employees: minimum of 7.5% by the employees while Federal Government will add minimum of 7.5%.
- (b) Military employees: minimum of 2.5% by the employees while employer contributes 12.5%.
- (c) Others: 7.5% by employees and 7.5% by the employers.

These deductions should be made from the workers' salaries at source, while Government's contributions shall be a first charge on the Consolidated Revenue Fund of the Federation. In addition to the rates specified above, employers shall maintain life insurance policies in favour of the employees for a minimum of three times the annual total emoluments of the individuals.

No employee will be allowed to withdraw or have access to his contributions until he clocks 50 years of age.

3.17.7 Withdrawal from Retirement Savings Account

The conditions which govern withdrawal from the scheme are as follows:

- (a) Withdrawal is not allowed until the attainment of 50 years of age.
- (b) An officer retired and is less than 50 years, on the advice of suitably qualified physician or properly constituted Medical Board, certifying that the employee is no longer mentally and physically capable of carrying out the function of his office, may withdraw: OR
If the officer is retired due to his total or permanent disability either of mind or body
- (b) Where the employee retires before the age of 50 years in accordance with the terms and conditions of his employment he shall be entitled to make withdrawals.

The Medical Board or suitably qualified physician, at the request of the employee, be made once in every two years to review the fitness of the employee and where the Medical Board certifies that he is now mentally and physically capable of carrying out the functions of his office, he may re-enter the scheme upon securing another employment.

3.17.8 Age of Contributor

The authentic age of an employee entering the public service or any other employment shall be that submitted by him on entering the service or taking up the employment.

3.17.9 Payment of Retirement Benefits

- (a) A holder of retirement savings account upon retirement or attaining the age of 50 years, whichever is later, shall utilize the balance standing to the credit of his

retirement saving account for the following benefits:

- (i) Programmed monthly or quarterly withdrawals calculated on the basis of an expected life span.
- (ii) Annuity for life purchased from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments.
- (iii) A lump sum from the balance standing to the credit of his retirement savings account, provided that the amount left after that lump sum withdrawal shall be sufficient to procure an annuity of fund programmed withdrawals that will produce an amount not less than 50 per cent of his annual remuneration as at the date of his retirement.
- (iv) Where an employee retires before the age of 50 years, the employee may request for withdrawal of lump sum of money of not more than 25% per cent of the amount standing to the credit of the retirement savings account, provided that such withdrawals shall only be made after six months of such retirement and the retired employee does not secure another employment.

3.17.9.1 Death of Employee

Where an employee dies:

- (a) The entitlement under the life insurance policy maintained shall be paid to his retirement savings account.
- (a) The pension fund administrator shall add the amount paid from life insurance policy in favour of the beneficiary under a will or the spouse and children of the deceased or the absence of wife and child, to the recorded next of kin or any person designated, by him during his life time or in the absence of such designation, to any person appointed by the Probate Registry as the administrator of the estate of the deceased, in line with the payment of retirement benefit.

3.17.9.2 Where an Employee is missing

Where an employee is missing and is not found within a period of one year from the date he was declared missing, and a Board of Inquiry set up by the Commission concludes that it is reasonable to presume that he has died, normal payment of pension proceeding should be followed. That is to say that the employee's entitlements under the life assurance policy maintained shall be paid to his retirement savings account.

3.17.10 Exemption from Tax

Any amount payable as a retirement benefit under this Act shall not be taxable. Any voluntary contribution shall be subject to tax at the point of withdrawal where the withdrawal is made before the end of 5 years from the date the voluntary contribution was made. Any contribution under the scheme shall form part of tax deductible expenses in the computation of tax payable by an employee OR employer under the relevant income tax law.

3.17.11 Contribution under the Scheme

Every employee shall maintain an account referred to as retirement savings account, in his name, with any Pension Fund Administrator of his choice. The employee may, not more than once in a year, transfer the retirement savings account maintained from one pension administrator to another without adducing any reason for such transfer.

3.17.12 Exemption from the Scheme

Any employee who at the commencement of the Pension Reform Act 2004 is entitled to retirement benefits under any pension scheme existing before the commencement of this Act but has three (3) or less years to retire shall be exempted from the scheme.

3.17.13 Transfer from One Employment to the Other

Where an employee transfers his service on employment from one employer or organisation to another, the same retirement savings account shall continue to be maintained by him.

3.17.14 Pension Fund Administration

Pension funds shall be managed by only Pension Fund Administrators licensed by the Commission. The Pension Fund Administrators shall carry out the following functions, viz;

- (a) Open retirement savings accounts for all employees with personal identity numbers (PIN) attached.
- (b) Invest and manage pension funds and assets.
- (c) Maintain books of accounts on all transactions.
- (d) Provide regular information on investment strategy, market returns and other performance indicators to the Commission and employees or beneficiaries of the retirement savings accounts.
- (e) Provide customers' service support to employees, including access to employees' account balances and statements on demand.
- (f) Process the calculations and payments of retirement benefits.
- (g) Carry out other functions as National Pension Funds Commission may assign from time to time.

3.17.14.1 Prescribed Structure of Pension Fund Administration

The following Standing Committees are required to carry out the Fund's functions and ensure compliance with the Act:

- (a) Risk Management
 - (i) To determine the risk profile of the investing portfolios of the Pension Fund Administrator.
 - (ii) Draw up programmes of adjustments in the case of deviations.
 - (iii) Determine the level of reserves to cover the risk of

- the investment portfolios.
 - (iv) Advise the Pension Fund Administrators in maintaining adequate internal control measures and procedures.
 - (v) Carry out such other functions relating to risk management as the Pension Board may direct.
- (b) Investment Strategy Committee
- (i) Formulate strategies for complying with investment guidelines issued by the Commission.
 - (ii) Determine an optimal investment mix consistent with risk profile agreed by the Board of the Pension Fund Administration.
 - (iii) Evaluate the value of the daily 'marked-to-marked' portfolios and make proposals to the Board of the Pension Fund Administration.
 - (iv) On a periodic basis, review the performance of the major securities of the investment portfolios of the Pension Fund Administration.
 - (v) Carry out such other functions relating to investment strategy as the Board may determine from time to time.

3.17.15 Pension Fund Custodians

Section 46 of Pension Reforms Act of 2004 states that Pension Fund Custodian must be a licensed financial institution set up to hold pension fund assets on trust with a minimum net worth of 145 billion

The pension fund custodians shall carry out the following functions:

- (a) Receive the total contributions remitted by employers on behalf of the pension fund administrators.
- (b) Notify the pension fund administrators within 24 hours of the receipt of contribution from any employer.
- (c) Hold pension funds and assets in safe custody on trust for the employees and beneficiaries of the retirement savings account.
- (d) Settle transactions and undertake activities related to pension fund investments, including the collection of dividends and related activities.
- (e) Provide data and information on investment to the Pension Fund Administration and the Commission.

3.17.16 Dispute Resolution

Any employee or beneficiary of a retirement savings account who is dissatisfied with a decision of the Pension Fund Administrator or Custodian may request, in writing, that such a decision should be reviewed by the Pension Fund Commission.

Self-assessment exercise

List four functions of Pension Fund Administrators.

5.0 CONCLUSION

In this unit, you learnt of Pension Reform Acts of 2004 introduced to improve the management of pension funds both in the public and private sectors. The Act established a uniform management of pension funds for the two sectors. The old Pension Act is however, still applicable to workers who have three (3) years to retire.

4.0 SUMMARY

In the unit, the summary of the Pension Reform Acts of 2004 was discussed.

6.0 TUTOR MARKED ASSIGNMENT

- a) Briefly capture the concepts of pension and gratuity.
- b) Explain the composition, objectives, powers and functions of the National Pension Commission

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 2 TREASURY INTERNAL CONTROL QUESHONNAIRES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Benefits of Questionnaires and Reports
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn of one of the responsibilities of the Accountant-General as to ensure that Government funds are used judiciously for the purposes for which they are earmarked. To ensure the above, the Chief Treasury Officer of the Federation (that is, Accountant-General), moves round the various offices to ascertain compliance. The representatives of the Accountant-General make use of Treasury Inspection Questionnaires and Reports, to perform the appraisal and control functions.

A Treasury Inspection Questionnaire is a set of standard questions to be answered and a list of documents to be made available during the time of visits to the different Accounts Departments.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- Identify benefits of Treasury Questionnaires and Reports.
- Outline detailed internal control checks carried out by the Accountant-General's Office.

3.0 MAIN CONTENT

3.1 The Benefits of Questionnaires and Reports

- (a) They assist the Inspector to complete the assignment so that there will not be any omission.
- (b) They state clearly the standard of performance required.
- (c) Questionnaires state the requirements to be met.

(d) They show in details the level of assignments required.

ILLUSTRATION 17-1

SPECIMEN OF TREASURY INSPECTION QUESTIONNAIRES AND REPORTS

PERIOD COVERED _____ DATE OF REPORT _____			
MIN/DEPT _____		NAME OF INSPECTOR _____	
NAME OF OFFICER IN CHARGE _____		ACCOUNTS BRANCH OFFICE _____	
Sections & Records Inspected	Enquiries made during Inspection	Answers Obtained	Remarks
Central Pay Office Revenue Receipt and Licence Book Safes Imprest Accounts Cash Books Payments Cheque Book	<p>(a) Cash Survey Check cash to see if it agrees with the cash book balance. Check cash specification. Is the cash book certified by a senior officer daily?</p> <p>i) Are these two key holders to the safe? ii) Has the Safe a Treasury Number? iii) Is the Safe Contents Register maintained? iv) Check the contents of safe and cash. Does cash produced agree with cash balance in the cash book? Is cash book duly certified daily by a Senior Officer? v) Are all security books, cheque books, stock of stamps kept in the Safe?</p> <p>(b) Revenue i) Is there a notice displayed that official receipts must be obtained for all moneys paid to Government? ii) Are prescribed receipts (T.B 6, 6A and 6B) issued and signed by payers also? iii) Is there proper control and safeguard of receipt and licence books? iv) Is there enough safeguard to ensure that all moneys received are accounted for? v) Are cash receipts deposited into bank promptly and not later than the next business day? vi) Is the revenue collector's cash book properly kept and Treasury Receipts obtained and posted in the cash book vide FR 309 and 310?</p> <p>(c) Paper Money Register i) Is the register kept by the officer opening mails other than the cashier?</p>		

Source: Federal Treasury Accounting Manual (Policy and Procedure); pp 417 to

Sections & Records Inspected	Enquiries made during Inspection	Answers Obtained	Remarks
	<p>ii) Is the register properly maintained and corresponding receipt numbers, licence numbers correctly detailed therein?</p> <p>Receipt and Licence Books</p> <p>i) Is the stock and distribution register properly kept for warrants, receipt books, licence books, fixed fee tickers?</p> <p>ii) Are the receipt book issue notes issued by the Sub-Treasurer properly filled and agreed with the serial number in the stock register?</p> <p>iii) Do the serial numbers of receipt books issued by the Sub-Treasurer tally with numbers taken in the Ministry/Department?</p> <p>honoured Cheque Register</p> <p>i) Is the register properly kept?</p> <p>ii) Are reasons for cheque dishonoured stated?</p> <p>iii) Has action been taken to recover the cash equivalent?</p> <p>iv) what is the total amount of outstanding cheques not yet repaid?</p> <p>v) Has action been taken against officers responsible to avoid future recurrence?</p> <p>(f) Sub-Accounting Officer's Cash Book</p> <p>i) Is the prescribed Book 153 or 153A well maintained?</p> <p>ii) Is the cash book posted daily and balance and signed by the Senior Officer in charge of the pay office?</p> <p>iii) Is it signed by the Head of Accounts Section monthly?</p> <p>iv) Are vouchers numbered consecutively monthly?</p> <p>v) Are receipts paid to bank promptly?</p> <p>vi) Are unclaimed salaries/wages returned to the Sub-Accounting Officer within 3 days?</p> <p>vii) How often is the bank statement reconciled with the cashbook?</p> <p>Cheque Summary Register</p> <p>(i) Is the register kept by an officer who is not the Cashier?</p> <p>(ii) Are cheques issued and credits to the bank recorded daily in the register?</p> <p>(iii) Is the register balance on daily basis and do the totals agree with the balance shown in the cash</p>		

	book? (iv) Is the register authenticated daily by the Sub-Accounting Officer?		
Sections & Records Inspected	Enquiries made during Inspection	Answers Obtained	Remarks
Other Charges Section 1. AIE Register 2. Payment Voucher	<p>cheque Delivery Register</p> <ul style="list-style-type: none"> i) Are signed cheques carefully locked in cash rank and safeguarded? ii) Is the register properly kept and cheques entered serially? iii) Do payers print their names in block letters indicate address and sign for cheques <p>(i) Outstanding Payment Vouchers Register</p> <ul style="list-style-type: none"> i) How many vouchers are outstanding judging from the number and date of cheque order forms and substitute vouchers? ii) What action has been taken to recover the PVs or equivalent cash? iii) Has a report been made to the Accounting Officer in respect of PVs outstanding over 14 days? <p>(j) Examination of Payment Vouchers</p> <ul style="list-style-type: none"> i) Are all paid vouchers and supporting documents stamped "PAID" and also stamped "CHEQUE SIGNED" to differentiate them from new vouchers ii) Are cheque numbers entered on paid vouchers? iii) Are payment vouchers received in the CPO through schedules controlled serially or through Vouchers Movement Register? iv) Are the payment vouchers checked, properly made out? v) Is there adequate safeguard to ensure that payment are made only to the right people and for good consideration? <p>(k) Imprest Accounts</p> <ul style="list-style-type: none"> i) Is a bank account opened for imprest over N20,000? ii) Is the cash book properly kept? iii) Are vouchers properly classified? iv) Is the imprest amount correctly accounted for at the time of your check? v) Is the LPO register kept by the imprest holder and cash disbursement for LPO made by him? vi) Are receipts issued for unspent cash returned? vii) How are outstanding cash advanced being accounted for? <p>a) AIE Register</p> <ul style="list-style-type: none"> i) Are separate register kept for AIE's issued and AIE's received? ii) Are the AIE's entered in the liability column of the 		

Register	vote book and initiated by the authorized signatory?		
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Sections & Records Inspected	Enquiries made during Inspection	Answers Obtained	Remarks
3. DVEABooks 4. Bills/Invoices/LPO Register 5. Adjustment Voucher Register 6. Expenditure Control	iii) Is the authorized expenditure within approved estimates? iv) Are AIE's backed by cash? b) Payment Vouchers Register (i) Are vouchers numbers in serial sequence? (ii) Is a separate column kept for schedule number control? (iii) Is the register initiated by the vote controller? (iv) Does the register provide columns for the <ul style="list-style-type: none"> • Initial of the checking officer? • Initial of the officers signing cheques? • Initial of the officer in charge of Central Pay office? (v) Is a column provided for date of return of cash/cheque order form? (vi) Are there any outstanding misplaced or lost voucher? c) Departmental Vote Expenditure Accounts Book (i) Are separate vote books maintained for separate Heads and Sub-heads? (ii) Is the authorized vote and additional provision recorded in the column provided at the top corner of the vote book? (iii) Are the prescribed reductions entered in RED INK and deducted from the accounts provided? (iv) Are Virement Warrants also recorded in the vote books as required? (v) Are liability columns completed fully as required? (vi) Is the vote book regularly balance so as to avoid excess expenditure? (vii) Is the vote book initiated appropriately by the vote controller? d) Bills/Invoices/LPO Register (i) Is the register maintained in such manner that: * All LPO's issued are accounted for? * All bills and invoices received are recorded according to date of receipt? (ii) How many bills/invoices are outstanding and why were they not paid? (iii) What action has been taken to settle outstanding bills? (iv) are LPOs entered in the DVEA books as liabilities and cleared when bills are paid?		

Sections & Records Inspected	Enquiries made during Inspection	Answers Obtained	Remarks
	<p>e) Adjustment Voucher Register</p> <p>(i) Are adjustment vouchers raised properly authorized by the officer controlling vote?</p> <p>(ii) Are the classifications charged to the appropriate Heads and Sub-</p> <p>(iii) Are the debits and credits entered correctly in the DVEA books?</p> <p>f) Expenditure Control</p> <p>(i) Are payment vouchers, cheques. AIE's signed by an officer not below the rank of rank of Executive Officer?</p> <p>(ii) Has expenditure been spread evenly over the year to avoid excess expenditure or unnecessary rush towards the end of the financial year?</p> <p>(iv) Have the quarterly returns of outstanding bills been sent to the Accountant-General of the Federation?</p>		

<p>(C) PERSONAL EMOLUMENTS SECTION</p> <p>1. Personal Emolument form.</p> <p>2. Group Registers</p> <p>3. Variation Advice</p>	<p>(v) Have the vote books been reconciled with Treasury Schedules and sub-head cards and reconciliation statements prepared?</p> <p>(a) Group Register</p> <p>(i) Are separate registers maintained for Senior and junior staff?</p> <p>(ii) Are names recorded alphabetically in the group register and the monthly summary of cards in each group displayed boldly on the front cover of the register?</p>		
<p>Sections & Records Inspected</p>	<p>Enquiries made during Inspection</p>	<p>Answers Obtained</p>	<p>Remarks</p>
<p>4. Variation Control Cards</p> <p>5. Personal Emolument Cards</p> <p>6. P.E. DVEA Books</p> <p>7. PV and payroll Number Register.</p> <p>8. Advice of Deductions of FGSHB</p> <p>9. Unclaimed</p> <p>10. Last Pay Certificates</p>	<p>(iii) Are the numbers allotted to each officer serial and consistent?</p> <p>(iv) How are changes in register reviewed periodically?</p> <p>(v) What is the grade of the officer controlling the register and how does he obtain information for making entries in the Registers?</p> <p>(b) Variation Advice and Control</p> <p>(i) Is the officer in charge of variation control of the grade of Executive Officer (NC) or above?</p>		

<p>11. On-payment voucher register</p>	<p>(ii) Is he also in charge of payroll preparation?</p> <p>(iii) Are the variation advice sheets signed by the authorised officer? Is there a fixed date for closing variation advice?</p> <p>(iv) Are variation control sheets (TF 208) prepared independently without compa Cards so as to avoid collusion?</p> <p>(C) Personal Emolument Cards</p> <p>(i) Are PE cards stamped and authenticated by Internal Audit and supported by individual particulars duly signed by each officer at the commencement of the financial year?</p> <p>(ii) Are the approved PE records used and all columns provided fully completed both on the face of the card and on the reverse sides?</p> <p>(iii) Does the officer in charge safeguard the PE records in a cabinet or safe? How were PE cards disposed off?</p>		
	<p>(d) PV and Payroll Number Register</p> <p>(i) Is the control of payroll numbers recorded in PV register and the voucher linked with the payroll number in the register?</p> <p>(ii) Does the Vote Controller initial the PV register as and when payroll PV'S are authorised?</p> <p>(iii) What is the grade of officer signing the vouchers?</p>		

	<p>(e) DVEA Books And On-Payment Deductions</p> <p>(i) Are the DVEA Books for PE and labour properly kept and balanced? Are they signed by the Vote Controller?</p> <p>(ii) Are separate sections kept for on-payment deductions, e.g. Tax, Rates, Union Dues, etc? Are these entries signed by the authorising officer?</p> <p>(iii) Are the DVEA Books reconciled with Treasury Schedules and sub-head cards? Are vote book reconciliation statements</p> <p>(f) Unclaimed Wages Register</p> <p>(i) Is the register properly kept and under the custody of the senior officer in charge?</p> <p>(ii) Are TRV's for unclaimed salaries kept by the cashier in a safe and are properly filed and accounted for?</p> <p>(iii) Does the Vote Controller initial the register when withdrawals are made and are the PV particulars for withdrawals shown?</p>		
	<p>(iv) What action is taken periodically for cross-checking repeated cases of unclaimed salaries against personal</p>		
<p>(D) SUBSIDIARY ACCOUNTS AND ADVANCES</p> <p>1. Advances Register</p> <p>2. Advances Ledgers</p> <p>3. Salary Advances</p>	<p>(g) Last Pay Certificates</p> <p>(i) Is a control register kept for incoming and outgoing LPC's?</p> <p>(ii) Are LPCs numbered serially and signed by the authorised officers?</p> <p>(iii) Are adjustments effected between</p>		

<p>4. Motor Vehicles Advances</p> <p>5. Bicycle Advance</p> <p>6. Duty Tour Allowance</p> <p>7. Motor Vehicle Comprehensive insurance Register</p> <p>8. Deposits Register</p> <p>9. Reconciliation of Advances Accounts with Treasury</p>	<p>Ministries/Departments for recovery of salaries/allowances over-paid after date of transfer and for outstanding debts and advances owing by the officers transferred?</p> <p>(iv)Are such transactions noted in the register?</p> <p>(a) Advances Registers and Ledgers</p> <p>(i) Is a register maintained for all advances issued and initialed by a senior supervising officer?</p> <p>(ii) Is the prevailing procedure for authorising advances considered satisfactory? Are advances approved by the appropriate Head of Finance and Accounts?</p> <p>(iii) Are there any advances wrongly granted</p> <p>(iii)Are the Ledger Cards opened for new advances and initiated by the authorizing officer?</p>		
	<p>(v)Are the postings in the Ledger Cards up to date?</p> <p>(b) Salary Advances</p> <p>(i) Are advances authorised for officers returning from vacation leave? If so, is the net paid related to the difference between transport expenses incurred by the officer for himself and family and the leave grant paid to him (FR 1706-1713)?</p>		

	<p>(ii) Are advances for rent of accommodation limited to 2 months, issued within 12 months of appointment or posting?</p> <p>C) Motor Vehicles and Bicycles Advances</p> <p>(i) Are recoveries commenced in the month following date of payment?</p> <p>(ii) Are advances paid within the officers' entitlement?</p> <p>(iii) Are bicycles/motor vehicles physically examined to ensure that the advances were properly utilized for the purpose approved? How often is the verification made?</p>	
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Sections & Records Inspected	Enquiries made during Inspection	Answers Obtained	Remarks
	<p>(iv) Are transport allowances paid in accordance with approved rates?</p> <p>(v) Is the motor vehicle comprehensive insurance register maintained and kept up to date? Is there a record of 'call up' instructions by the Head of Department to ensure that insurance particulars are submitted annually by officers?</p> <p>(vi) Are there any advances outstanding against officers who have left the service?</p> <p>(d) Duty Tour Allowances and Transport Costs</p>		

	<p>(i) Are payments made to cover transport/air tickets and cost of local running being accounted for by the production of used air tickets etc?</p> <p>(ii) Are duty tour allowances for unspent number of days paid back to chest?</p> <p>(e) Deposits Register</p> <p>(i) Are there any debit balances on any account?</p> <p>(ii) Is monthly reconciliation carried out with the Treasury?</p> <p>(iii) Are balances ruled off annually and outstanding deposits brought down in detail?</p> <p>(iv) Are old deposits over 5 years reported to the Accountant-General of the Federation?</p>		
Sections & Records Inspected	Enquiries made during Inspection	Answers Obtained	Remarks
(E) FINAL ACCOUNTS	<p>(a) Analysis Abstracts Register</p> <p>(i) Is a senior officer in charge of the schedule and not below the rank of HEO Accounts?</p> <p>(ii) Are separate registers kept for receipts and payments?</p> <p>(iii) Are totals in the register reconciled with the cash book monthly before posting to the ledgers?</p>		

<p>1. Analysis Register Recurrent Heads Revenue and Expenditure.</p> <p>Capital Expenditure and Receipts</p> <p>Below-the-Line Classification</p> <p>2. The Journal</p> <p>3. Subsidiary Ledger</p> <p>4. Main Ledger</p> <p>5. Summary Statement of Accounts</p>	<p>(b) The Journal</p> <p>(i) Is it kept in a satisfactory manner?</p> <p>(ii) Are JVs serially numbered and full details of transactions entered for credit and debit adjustments?</p> <p>(iii) Are all transactions other than cash entered in the Journal?</p> <p>(c) Subsidiary Ledgers</p> <p>(i) Are the ledgers controlled by a senior officer?</p> <p>(ii) Are separate ledgers kept for separate sub-heads of revenue recurrent expenditure, capital expenditure, advances, deposits and other individual accounts?</p>		
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Sections & Records	Enquiries made during Inspection	Answers Obtained	Remarks
	<p>(iii) Are postings made from receipt and payment vouchers?</p> <p>(iv) After posting for the month, are balances reconciled with balances of corresponding accounts in the main ledger?</p> <p>(d) Main Ledgers</p> <p>(i) Are postings to the ledgers made from the Analysis/Abstract books through the Journal?</p> <p>(ii) Up to what month have the postings been made?</p> <p>(iii) Do total credits and debits after postings for the month, agree with those recorded in the Vote Books?</p>		

(iv) Have any differences been verified and accounted for immediately?

(e) Summary Statements of Accounts

(i) Are all vouchers complete as shown in the Cash Book? If there are missing vouchers what action has been taken to find them?

(ii) Are original vouchers kept safely in boxes while duplicate vouchers are arranged according to classification?

(iii) Up to what month have transcripts been sent to the Treasury? When was the current return due?

(iv) Are bank reconciliation statements up to date?

(f) Reconciliation with the Treasury

(i) Have all the sub-head cards and schedule received from the

(ii) If there are rejections, have the reasons been shown on reverse of voucher schedule and returned to Treasury?

(iii) Are balances shown on monthly sub-head cards compared with Books, the Main Ledger, Advances Account etc?

(iv) Have the duplicate copies of sub-head cards been returned to Treasury after acceptance?

<p>(F) STORES SECTION</p> <p>1. Store Ledgers</p>	<p>(v) Have reconciliation statements with supporting lists of balances been rendered to the Treasury monthly for Advances, Deposits, etc?</p> <p>(a) Stores Ledgers</p> <p>(i) Are stock records maintained in a proper manner and are postings made up to date?</p> <p>(ii) Are stock ledgers kept apart from the store keeper's bin cards?</p>		
<p>2. Tally Cards</p> <p>3. Stores Receipt and Issue Voucher</p> <p>4. Plant Register</p> <p>5. Vehicle Register</p> <p>6. Log Book and Work Tickets</p>	<p>(iii) Are second hand and unserviceable stores kept in a separate store, in a separate ledger?</p> <p>(b) Tally Cards</p> <p>(i) Are entries in the tally cards initialed by the store keeper?</p> <p>(ii) Are tally cards placed near the related stores to facilitate identification?</p> <p>(iii) Do the tally card balances agree with the ledger balances and actual stock?</p> <p>(c) Stores Receipts and Issues</p> <p>(i) Is the purchasing procedure satisfactory?</p> <p>(ii) Are discounts obtained wherever possible?</p> <p>(iii) Are receipts supported by SRVs and triplicate copies of LPO?</p> <p>(iv) Are issues from the stores made only on stores requisitions? Are stores requisitions signed by a senior officer?</p> <p>(v) How are prices of stores issues fixed?</p> <p>(d) Stock Control</p>		

	<p>(i) Are there maximum, minimum, and re-order levels fixed for each item of stock? Are the levels reviewed regularly to meet prevailing conditions?</p> <p>(ii) Is physical stock-taking ever carried out? If so, how often in a year?</p> <p>(iii) Are discrepancies discovered after physical count of stores properly investigated and accounted for?</p> <p>(iv) How are stock losses arising from evaporation, shrinkage and obsolescence dealt with? If by write-off who authorises write-off after investigation?</p> <p>(v) Are stores well laid out so that each item stocked is easily accessible and material handling and losses reduced to the minimum?</p>		
	<p>(vii) Is storage space adequate in relation to present and future needs?</p> <p>(viii) Are fire precautions adequate? When was the last fire drill?</p> <p>(e) Plant and Vehicle Register</p> <p>(i) Are details of plants and vehicles properly recorded showing dates acquired, engine/ chassis numbers</p> <p>(ii) Are log books and work-tickets well maintained for each plant and vehicle? Have details of spare parts, fuel and oil consumed been recorded? Are the consumption rates satisfactory?</p> <p>(f) Office Equipment and Machines</p> <p>Is there a Master Control for recording all office equipment, typewriters, adding machines, electric fans used in all sections?</p>		

4.0 CONCLUSION

It is concluded that Treasury Inspection Questionnaires are essential internal control tools in managing Government's finances with prudence, probity and accountability diligent implementation of inspection questionnaires are anti-fraud measures. Inspection Questionnaires tend to reveal the exact financial position of an Extra-Ministerial Department, a Ministry or Parastatal.

5.0SUMMARY

In the unit, the summary of treasury internal control questionnaire was discussed. In unit 2 of this module, you will learn of professional pronouncement on Government accounting by the United Nations

6.0TUTOR MARKED ASSIGNMENT

- a) Identify benefits of Treasury Questionnaires and Reports.
- b) Outline detailed internal control checks carried out by the Accountant-General's Office.

7.0REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 3 PROFESSIONAL PRONOUNCEMENTS ON GOVERNMENT ACCOUNTING BY THE UNITED NATIONS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Characteristics of Government Accounting
 - 3.2 Introduction and Pronouncements
 - 3.3 The Objectives of Professional Pronouncements
 - 3.4 Alternative Classifications for Government Accounting
 - 3.5 Government Accounting In Other Countries
 - 3.5.1 United States Of America
 - 3.5.2 United Kingdom
 - 3.6 Observations on Government Accounting System In 'Third World' Countries
 - 3.7 Features of a Good System of Government Accounting
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit of module 4, you will learn of professional pronouncement on Government accounting by the United Nations

2.0 OBJECTIVES

After studying this unit, readers will be able to:

- Identify the characteristics of Government Accounting.
- State the objectives and details of professional pronouncements on Government Accounting,
- Identify the alternative classifications for 'Government Accounting.
- Note Government Accounting in other countries of the world.
- Identify observations on Government Accounting in 'third world' countries made by the United Nations.

3.0 MAIN CONTENT

3.1 Characteristics of Government Accounting

- (a) There are distinct aspects of accounting information, classification and procedures which apply only to transactions made by Government. Examples are the budgeting system and applicable procedures, fiscal policy, accounting methods and sources of revenue. The peculiar nature of Government transactions makes it desirable and indeed mandatory to treat them in accordance with specific, but cohesive and standardized measurement approaches and rules.
- (b) In view of the requirement to obtain legislative approval for Government revenue and expenditure, budgeting largely determines the structure of Public Sector Accounting. The Government sometimes finds it necessary to segregate its resources into specific or special purpose compartments, a set-up of receipts and expenditure known as 'Funds'. The method of accounting adopted in recording and measuring the Funds is referred to as 'fund accounting.'
- (c) Another peculiarity of Government operations is that the accounting system is maintained on "cash basis." Only transactions involving the movement of cash come into reckoning. Although the approach has its inadequacies, the general practice is to adopt the 'cash basis' of accounting. All assets are written off as they are regarded consumed at the point they are paid for. Accordingly, Government's balance sheet does not contain information on fixed assets and neither is depreciation charged in the revenue and expenditure accounts.

3.2 Introduction and Pronouncements

In spite of the obvious importance of Public Sector Accounting in the economic development process, significant attention was not given to it. The development of the private sector depends largely on the activities in the public sector. The fact is that in developing countries as Nigeria, the public sector is not only the biggest actor but the hub of economic activities. Moreover, Government has the responsibility for the efficient management of the environment of commercial transactions, through the maintenance of law and order and enactment of legislations. Political stability is very essential for the growth of the economy and the Government has to provide the enabling environment. It is in the realisation of the above and to bridge the gap between the public and private sectors that many professional pronouncements have been made, as follows:

- (a) A United Nations Survey was conducted and recommendations made for improvements in the Government accounting systems of 'third world' countries, especially in budgeting practices, training, data classifications, methods and accounting procedures.
- (b) In the United States of America, the National Committee on Government

Accounting issued a manual titled "Government Accounting, Auditing and Financial Reporting (GAAFR)." The manual is generally referred to as "The Blue Book." The Blue Book and other pronouncements of the committee set forth the basic accounting and reporting principles covering the following areas, viz:

- (i) Basis of Accounting.
- (ii) Oil Legality.
- (iii) Funds and 'Fund Accounting.
- (iv) Budgetary, Planning and Control.
- (v) Fixed Assets and Depreciation.
- (vi) Terminologies and Accounting/Classifications.
- (vii) Financial Reporting.

The Committee recommended the 'accrual basis' of accounting for public enterprises, capital projects and trust funds; the 'modified accrual basis' for special revenue and debt service funds and that depreciation is not chargeable on fixed assets.

- (c) The International Federation of Accountants (IFAC) issued International Public Sector Accounting Standards, effective from year 2003.
- (d) The Nigerian Public Sector Auditing Standards, effective from December, 1997, were issued by the Auditor-General for the Federation and Auditors-General for the States.
- (e) The American Institute of Certified Public Accountants (AICPA) recommended that the financial statements of each governmental Unit should be prepared in accordance with the generally accepted accounting principles while supplementary schedules should accord with legal compliance.
- (f) The International Organisation of Supreme Audit Institutions (INTOSAI), which is the association of all Auditors-General in the world, meets annually and draws up resolutions on accounting and audit practices and procedures to be followed by member countries.

3.3 The Objectives of Professional Pronouncements

These may be discussed, as follows:

- (a) To develop and harmonise public sector financial reporting, accounting and auditing practices.
- (b) To put into practice the same accounting standards throughout the world, in order to make comparisons possible and meaningful.
- (c) To make guidelines available for practitioners, in order to maintain high reporting standards.

The various pronouncements made so far can be summarised as shown below and compared with the position of Nigeria, in the following vein:

UNITED NATIONS PRESCRIPTIONS	NIGERIA'S ACCOUNTING SYSTEM	REMARKS
(a) Accounting systems should be designed to comply with the constitutional, statutory and other legal requirements of 'third world countries.	Government Accounting system in Nigeria adheres with the Nigerian Constitution; Finance (Control and Management) Act, Cap 144 LFN 1990 (as amended); the Audit Act of 1956; Revenue Allocation Laws; other Federal and State Laws and Regulations: Local Government bye-laws, etc.	Government Accounting System effectively complies with the United Nations Pronouncements. Remark is as in (a) above
(b) Accounting systems should be related to the budget classifications. The budgetary and accounting functions are complementary Elements of financial management. They should therefore be closely integrated.	Accounts are kept on the basis of budgetary classifications at all levels of Government.	
(c) The accounts should be maintained In a way that will clearly identify the objects and purposes for which funds have been received and expended, the executive authorities who responsible for custody and use of funds in programme executions.	The budgetary provisions specify the sources of revenue and the purposes for which funds are provided and expended. The budget documents also show the vote and controllers for both recurrent and are capital expenditure.	Remark is as in (a) above
(d) Accounting systems have to be maintained in a way that facilitate audit by external reviewing authorities, and readily furnishes the information needed for performance appraisal and stewardship.	The Financial Regulations of the Federal and State Government and the Financial Memoranda of Local Government Councils specify the expenditure control measures, payment procedures and the internal control System which are in operation. The 'three-tiers' of Government in Nigeria do comply accordingly.	Remark is as in (a) above
(e) Accounting systems ought to be developed in a manner that will permit effective control of fund operation management and internal audit appraisal.	The Financial Regulation stated in (d) above meet substantially the international requirements	Programme management is however in its infancy under the planning . programming Budgeting System which has been introduced.
(f) The accounts should be developed and prepared so that they would effectively disclose the economic and financial results of programme operations, including the measure-ment of revenues, identification of costs and determination of the operating	The cash basis of accounting adopted does not allow the underlying pronouncement to be incorporated in Nigeria	Nigeria Accounting System partially complies with this. There is national compliance.

results (the surplus or deficit positions) of the Government and its Agencies.

- | | | |
|--|------|---|
| (g) Accounting systems should be capable of serving the basic financial information needs of development, planning and appraisal of performance in physical and financial terms. | -do- | Cash accounting basis seems to constrain the realization of this useful objective. |
| (h) The accounts should be maintained in a manner which will provide financial data useful for economic analysis and re-classification of governmental transactions. | -do- | Planning, Programming and Budgeting System and the accrual accounting basis Need to be firmly implanted for this as well as for the United Nations recipes Under (f) and (g) above. |

3.4 Alternative Classifications for Government Accounting

The conventional classification systems are fashioned along organizational lines. They are concerned mainly with the listing of receipts by the various descriptions and sources, expenditure by objectives (e.g. personal services and supplies). This kind of presentation is referred to as the "object—cumorganizational classification." The mode serves limited purpose. It does not assist in effective managerial and economic analyses, planning and decision-making.

ILLUSTRATION 17-1 OBJECT-CUM-ORGANISATIONAL PRESENTATION OF GOVERNMENT EXPENDITURE DESCRIPTIONS

(a) Personnel Services and Benefits:

- | <i>Item No</i> | <i>Description</i> |
|----------------|-------------------------------|
| 11. | Personnel Compensation |
| 12. | Personnel Benefits |
| 13. | Benefits for Former Personnel |

(b) Contractual Services and Supplies:

- | <i>Item No</i> | <i>Description</i> |
|----------------|-------------------------------------|
| 21. | Travel and Transportation Of Staff. |
| 22. | Transportation of materials. |
| 23. | Rent, Communication and Utilities. |
| 24. | Printing and Reproduction. |
| 25. | Other services. |
| 26. | Supplies and Materials. |

(c) *Acquisition of Capital Assets:*

Item No Description

- 31. Equipment
- 32. Land and Buildings
- 33. Investments and Loans

(d) *Grants and Fixed Charges:*

Item No Description

- 41. Grants, Subsidies and Contributions
- 42. Insurance Claims and Indemnities
- 43. Interests and Dividends
- 44. Refunds.

Sources: A Manual for Government Accounting (United Nations Publication, Sales No. E.70 XVI.31), P71

A better arrangement is one in which Government receipts and disbursements are classified by economic categories, and split by current and capital items (e.g. current expenditure on goods and services, interest payments). Apart from economic classification, services provided should be grouped functionally (e.g. expenditure by community services and social services), as shown below. However, the functions can be further classified into programmes, activities or projects.

ILLUSTRATION 17-2

(a) *General Services:*

Item No Description

- 11. General Administration.
- 12. Defence.
- 13. Justice and Police.

(b) *Community Service:*

Item No Description

- 21. Roads and Waterways.
- 22. Fire Protection, Water Supply and Sanitation.
- 23. Other Community Services.

(c) *Social Services:*

Item No Description

- 31. Education.
- 32. Health.
- 33. Social Security and Special Welfare Services.
- 34. Other Social Services.

(d) *Economic Services:*

<i>Item No</i>	<i>Description</i>
41.	Agriculture and Non-Mineral Resources.
42.	Fuel and Power.
43.	Other Mineral Resources, Manufacturing and Construction.
44.	Transportation, Storage and Communications.
45.	Other Economic Services.

(e) *Disallowable Expenditure:*

<i>Item No</i>	<i>Description</i>
51.	Interest on General Debt.
52.	Subsidies not included elsewhere.
53.	General Transfers to Local Government Councils.
54.	Foreign Economic Aid and other Unallowable Transfers to Abroad.
55.	Others.

Source: A Manual for Economic and Financial Classification of Government Transactions (U.IV. Publication, Sales No. 58 XV12)

Self-assessment exercise

List four characteristics of Government Accounting.

3.5 Government Accounting In Other Countries

It is difficult to report on the accounting practices in all the advanced countries of the world in one book. An attempt is hereby made on a broad summary of the accounting practices in the United States of America which adopts the presidential system of Government, and the United Kingdom from which Nigeria originally derived its accounting system.

3.5.1 United States Of America

The practice of Government Accounting in the United States of America has come a long way through public criticism, research studies backed by public hearings and political evolution. The American Congress has the power of the 'purse,' politically, in consonance with the stipulations of the country's Constitutions.

As far back as 1901, when the American Society was in search of an efficient accounting system, many agencies and public bodies had criticised the existing accounting system.

In that year, for example, the firm of Haskins and Sells, Certified Public Accountants, made an investigation into the affairs of the City of Chicago at the request of the

Merchants' Club and subsequently installed a completely new system of accounting for that City. Revolution in systems of accounting swept through the cities of Newton, Massachusetts and Baltimore. In view of well informed and volatile nature of the society, dynamic reforms had gone on since then.

On 1 July, 1974, the National Council on Government Accounting (NCGA) was formed. The Council conducts and sponsors research, holds public hearing and issues formal statements and interpretations with respect to principles and standards of Government budgeting, accounting, reporting and auditing.

3.5.2 United Kingdom

Government Accounting in the United Kingdom is the same approach adopted by Nigeria, since the colonial era. While, however, the United Kingdom has not stopped research work, Nigeria's system has not experienced radical change. The last comprehensive review made by the country was in 1976.

In 1984, two scholars, Messrs. Andrew Likireman and Peter Vass conducted, in the United Kingdom, a research entitled, "The Structure and Form of Government Expenditure Report: Proposals and Reform." The research effort concluded that Government should continue to adopt the 'cash basis' of accounting.

3.6 Some Observations on Government Accounting System in 'Third World' Countries

Unlike the advanced countries, where research work has been documented and published, the records of general practice in the individual countries in the 'third world' are difficult to obtain.

The general features of Government Accounting system as published by the United Nations are as follows:

- (a) Relatively little has been given to Social Government Accounting and budgetary control system.
- (b) Accounting procedures in Government Departments which reflect complicated systems of checks and balances tend to hamper the efficacy and timeliness of the accounting information and statistics produced.
- (c) Government Accounting is seen mainly as an accountability device for public receipts and expenditure. Efficiency, effectiveness and economy of the operations tend to be neglected.
- (d) Bookkeeping or administrative legal compliance procedures are more common than modern accounting approaches.
- (e) Accounting tends to be identified with expenditure control. The fact is that

- expenditure is subject to multiple checks.
- (f) The amount of paper work is much, but no efficiency, accountability or financial control is achieved.
 - (g) The accounting data upon which Government budgets and plans are based are frequently inaccurate and incomplete.
 - (h) Financial reports are delayed and generally in arrears. They consequently become obsolete at the point of implementation.

Performance budgeting systems and methods need to be installed. Care should be taken in changing from the traditional budgets to performance budgets. It is better to start first with performance budgeting procedures which are geared towards national plans, and graduate into more elaborate areas of Planning, Programming and Budgeting System.

Self-assessment exercise

What are the features of good government system

3.7 Features Of A Good System Of Government Accounting As Contained In A United Nations Manual On Government Accounting

The system must:

- (a) comply with constitutional, statutory and other legal requirements of the relevant country;
- (b) be related to budget classifications. Budgetary financial management must be closely integrated;
- (c) be maintained in a manner that will clearly identify the objects and purposes for which funds have been received and expended, and the executive authorities who are responsible for custody and use of funds in programme / budget implementation;
- (d) maintain records in a way that will facilitate audit by external review authorities and readily furnish the information needed for effective audit;
- (e) be developed in a manner that will permit administrative control of funds;
- (f) be developed so that it effectively discloses the economic and financial results of programme operations, including the sources of revenue, identification of costs and determination of the operating results of government programmes and organisation;
- (g) be maintained in a manner that will provide financial data useful for economic analysis and identification of governmental transactions and also assist in the development of the country's accounts.

4.0 CONCLUSION

In this unit, you learnt that to improve the standard of Government Accounting, the

United Nations carried out research and recommended various ways and approaches. The entity called 'Nigeria will benefit from the ideas of the United Nations.

5.0 SUMMARY

In summary, you learnt of professional pronouncement on Government accounting by the United Nations.

6.0 TUTOR MARKED ASSIGNMENT

- a) Identify the alternative classifications for 'Government Accounting.
- b) Identify observations on Government Accounting in 'third world' countries made by the United Nations.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 4 INVESTMENT APPRAISAL IN THE PUBLIC SECTOR

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Nature Of Investment Decisions
 - 3.2 Investment Appraisal
 - 3.3 Methods Of Investment Appraisal
 - 3.4 Discussion Of The Appraisal Methods
 - 3.4.1 Accounting Rate of Return
 - 3.4.2 Pay-back Period Method
 - 3.4.3 Discounted Cash Flow (DCF) Criteria
 - 3.4.3.1 Net Present Value (NPV)
 - 3.4.3.2 Internal Rate of Return (IRR)
 - 3.5 Profitability Index Technique
 - 3.6 Investment Decisions in Government
 - 3.7 Investment Evaluation Techniques in Government
 - 3.7.1 Cost-Benefit Analysis
 - 3.7.1.1 Procedures for Conducting Cost-Benefit Analysis
 - 3.7.1.2 Cost Benefit Analysis and Commercial Investment Appraisal
 - 3.7.1.3 Similarities between Cost-Benefit Analysis and Commercial Investment Appraisal Methods
 - 3.7.1.4 Dissimilarities between Cost-Benefit Analysis and Commercial Investment Appraisal Methods
 - 3.7.1.5 Cost-Benefit Analysis and Project Evaluation
 - 3.7.2 Cost-Effectiveness Analysis - (CEA)
 - 3.7.2.1 Procedure of Cost Effectiveness Analysis in the Appraisal of a Public Project.
 - 3.7.3 Limitations of Cost-Effectiveness Analysis
 - 3.8 Life Cycle Costing
 - 3.9 Value Analysis/Value Engineering
 - 3.10 Problems of Investment Appraisal Methods
 - 3.11 Risk and Uncertainty in Capital Budgeting/Investment Appraisal
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn of investment appraisal in the public sector. Here investment decisions, different procedures like cost benefit and factors in Capital Budgeting will be discussed.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- Explain the nature of investment decisions.
- Apply the different methods of investment appraisal in the public sector.
- Outline the procedures, advantages and disadvantages of:
 - (i) Cost-Benefit Analysis.
 - (ii) Commercial Investment Appraisal Approaches.
 - (iii) Cost Effectiveness Analysis.
- State Risk and Uncertainty Factors in Capital Budgeting.

3.1 The Nature of Investment Decisions

Resources have to be committed today to achieve gains tomorrow. Though it is easy to determine how much will be committed, there is some difficulty in accurately forecasting the gains from the investment in future. Going into a business therefore involves taking risks. As money becomes available, it has to be put to productive use. A greater part of management effort is therefore in taking investment decisions. The balance sheet merely shows the results of, not the causes or reasons for, undertaking an investment.

3.2 Investment Appraisal

Investment Appraisal is a technique directed at finding out the least possible costs of an investment and the maximum economic benefits which may accrue from the commitment of resources in it.

3.3 Methods of Investment Appraisal

There are many techniques available for the appraisal exercises, which can be classified into discounted cash flow (DCF), non-discounted cash flow (NDCF) and investment decisions in Government - Cost Benefit Analysis, Cost Effectiveness Analysis. However, in this Study Pack, only the following will be examined, thus:

- (a) Accounting Rate of Return (ARR).
- (b) Pay-Back Period (PBP).
- (c) Discounted Cash Flow (DCF).

- (i) Net Present Value
- (ii) Internal Rate of Return
- (d) Profitability Index (PI)
- (e) Cost-Benefit Analysis
- (f) Cost-Effectiveness Analysis
- (g) Life Cycle Costing.
- (h) Value Analysis/Value Engineering.

3.4 Discussion of the Appraisal Methods

The appraisal methods are discussed as follows:

3.4.1 Accounting Rate of Return

1. This is the return on initial outlay or return on average capital. It is computed, using the formula:

$$\text{ARR} = \frac{\text{Average Annual Accounting Profit}}{\text{Average Investment}}$$

Where average investment is:

$$\frac{\text{INITIAL INVESTMENT} + \text{RESIDUAL VALUE}}{2}$$

2. Profit is the accounting profit.' To get this, we will take 'income' and deduct all necessary expenses incurred in earning the revenue. In using the Accounting Rate of Return as an investment appraisal method, the decision rule is to pick the option which gives the highest rate of return.

Advantages of ARR Method These may be stated as follows:

- (a) It considers the profits of a project throughout its useful life.
- (b) It is simple to calculate and understand.
- (c) It facilitates expenditure follow-up due to more readily available data on accounting records.

Disadvantages of ARR

The following are the disadvantages associated with the use of the method:

- (a) It does not take into account the time value of money
- (b) It ignores the fact that profits from different projects may accrue at an uneven rate.
- (c) It fails to cater for risks and uncertainties.

ILLUSTRATION 19-1

Agbede Local Government Council supplied the following information:

Projects:

	'x1'	'x2'	'x3'
Profit Figures-Year 1	1,000	500	5,000
2	2,000	1,500	4,000
3	4,000	2,000	500
4	5,000	2,500	1,000
Initial investment sums	15,000	10,000	15,000
Residual Investment	1,000	1,000	2,000

Using the accounting rate of return as performance measurement, in which project should Agbede Local Government Council invest?

SUGGESTED SOLUTION 19-1

Computation of the Accounting Rate of Return Projects: x1 x2 x3

Profit Figures Year 1	1,000	500	5,000
2	2,000	1,500	4,000
3	4,000	2,000	500
4	5,000	2,500	1,000
Total	12,000	6,500	<u>10,500</u>

Average Annual Accounting Profit:

Projects	x1	x2	x3
	₦	₦	₦
	<u>12 000</u>	<u>\$6,500</u>	<u>10 500</u>
	4	4	4

(a) Average Annual

Accounting Profit = ₦3,000 ₦1,625 ₦2 625

To obtain Average Investment: Investment + Residual Value

2

Projects	x1	x2	x3
Initial Investment	15,000	10,000	15,000
Add Residual Value	1,000	1,000	2,000
	16,000	11,000	17,000

Average Investment : $\frac{\text{N}16,000}{2}$	$\frac{\text{N}11,000}{2}$	$\frac{\text{N}17,000}{2}$
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(b) Average Investment = $\text{N}8,000$	$\text{N}5,500$	$\text{N}8,500$
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(c) Accounting Rate of Return (a/b):=	N3,000	N1,625	N2,625
	N8,000	N5,500	N8,500
	= 0.38	0.30	0.31
	OR	OR	OR
Accounting Rate of Return	= 38%	30%	31%

Agbede Local Government Council should invest in project xl because it has the highest accounting rate of return of 38%.

3.4.2 Pay-back Period Method

The method focuses on the time taken by an investment to recoup the amount of money put into it. The shorter the pay-back period, the more preferable the project is. A project will be undertaken only if the pay-back-period is shorter, or at worst, equal to the maximum set standard period. For a single project, the pay-back period is compared with a set standard. For mutually exclusive projects, they are ranked and the one with the shortest pay off time is selected.

Advantages of Pay-Back Period Method

The following are the advantages of pay-back period:

- (a) It is a useful measure of liquidity, since the method ensures the selection of projects that provide the hope of immediate cash recoupment.
- (b) It may be used as a safeguard against risk, particularly if the latter increases as pay-back period lengthens
- (c) It is simple to calculate and understand.
- (d) The method is popular with public project evaluation where liquidity predominates over profitability.
- (e) It serves as a useful screen to evaluate all projects.
- (f) The approach uses cash flows rather than accounting profits, to appraise.

Disadvantages of the Pay-Back Period: These are highlighted as follows:

- (a) It does not consider the time value of money.

- (b) It ignores variations in the timing of cash inflows within the pay-back period.
- (c) Cash inflows outside the payback period are ignored.
- (d) It does not take into consideration risks and uncertainties.

ILLUSTRATION 19-2

Omidan Local Government Council is considering investing in one of the following three available projects. Using the payback period method advise on which of the projects should be selected.

N3,00	1	2
0	625	625
8,000	5,50	8,50
0.38	0.30	0.31
OR	OR	OR
38%	30%	31%

Projects:		B1	B2	B3
		₦	₦	₦
Initial Investment Outlays		100,000	150,000	180,000
Year		Cash Inflows		
		₦	₦	₦
	1	70,000	10,000	50,000
	2	30,000	20,000	60,000
	3	20,000	10,000	80,000
	4	10,000	40,000	90,000

SUGGESTED SOLUTION 19-2

Omidan Local Government Council Payback period method

Projects:	B1	B2	B3
	₦	₦	₦
Initial Investment	(100,000)	(150,000)	(180,000)
Less Inflow in Year 1	70,000	10,000	50,000
	(30,000)	(140,000)	(130,000)
Less Inflow in Year 2	30,000	20,000	60,000
	NIL	(120,000)	(70,000)
Less Inflow in Year 3		10,000	80,000
		(110,000)	10,000
Less Inflow in Year 4		40,000	90,000
Unrelieved investment cost at the end of the Year		(70,000)	NIL

From the appraisal conducted, project 61 was able to pay off its initial capital injected in year 2. 62 could not generate enough cash inflows for the period of four (4) years. Project 83 made its own in 2.88years approximately. 6115 therefore more profitable than 63, 62 should be dropped completely.

Tutorial:

The pay-back period of 2.88years in above is computed, using mathematical calculation of proportion.

3.4.3 Discounted Cash Flow (DCF) Criteria

There are two discounted cashflow methods of project appraisal, namely: Net Present Value and Internal Rate of Return which are discussed below:

3.4.3.1 Net Present Value (NPV)

This method refers to the equivalents in present value terms of the cash inflows and outflows from a project when discounted at a particular or given cost of capital. The appropriate discount rate chosen is one firm's or Corporation's opportunity cost of capital, which is equal to the required rate of return. The decision criterion is that a project is acceptable if it has a positive NPV, and rejected, if it has a negative NPV. In total, the present value of cash inflows should be greater than that of cash outflows. The positive nature of the net present value pre-supposes the potential increase in consumption made possible by the investment, valued in present day terms. For mutually exclusive projects, they would be ranked. The one with the highest net present value is selected.

The formula for the computation of the net present of value is:

$$NPV = \left\{ \frac{C_1}{(1+K)} + \frac{C_2}{(1+K)^2} + \frac{C_3}{(1+K)^3} + \dots + \frac{C_n}{(1+K)^n} - C_0 \right\}$$

Where C series represent cash inflows, 'K' the opportunity cost of capital, C₀ is the initial cost of the investment and 'n' the project's expected life.

Advantages of Net Present Value (NPV)

The advantages associated with the use of net present value are:

- (a) Timing of cash flows is considered.
- (b) Cash flows on the entire lives of the projects are taken into consideration.

Disadvantages of Net Present Value (NPV)

However, the following disadvantages can be identified:

- (a) There is the obligation for management to determine the appropriate cost of capital to use.

- (b) It is not suitable where capital rationing situation exists.
- (c) There is the assumption that the cash inflows will come as predicted which may not necessarily be so.

ILLUSTRATION 19-3

The following are the information provided by Yabus Local Government Council. Using the net present value method, advise the Local Government Council on which of the projects 'T', 'M', 'X', is the most viable and should be picked.

		Project T	Project M	Project X
		₦	₦	₦
Cost of	Initial Investment	100,000	180,000	150,000
Receipts	from the			
Projects:	Year 1	40,000	10,000	50,000
	2	50,000	30,000	10,000
	3	60,000	50,000	90,000
	4	70,000	70,000	10,000
	5	80,000	120,000	40,000

Assume that the cost of capital is 10%. Use the discount table stated below:

Year	Discount Factor
1	0.9090
2	0.8264
3	0.7513
4	0.6830
5	0.6209

SUGGESTED SOLUTION 19-3

Yaba Local Government Council: Investment Appraisal - Net Present Value method
Project 'T'

Year	Cash Flow	Discount Factor	DCF
	₦	(10%)	₦
0	(100,000)	(1,000)	(100,000)
1	40,000	0,9090	36,360
2	50,000	0.8264	41,320
3	60,000	0.7513	45,078
4	70,000	0.6830	47,810
5	80,000	0.6209	<u>49,672</u>
		NPV	<u>120,240</u>

PROJECT 'M'

Year	Cash Flow	Discount Factor	DCF
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	₦	(10%)	₦
0	(180,000)	(1,000)	(180,000)
1	10,000	0.9090	9,090
2	30,000	0.8264	24,792
3	50,000	0.7513	37,565
4	70,000	0.6830	47,810
5	120,000	0.6209	<u>74,508</u>
		NPV	<u>13,765</u>

PROJECT 'X'

Year	Cash Flow ₦	Discount Factor (10%)	DCF ₦
0	(150,000)	(1,000)	(150,000)
1	50,000	0.9090	45,450
2	10,000	0.8264	8,264
3	90,000	0.7513	67,617
4	10,000	0.6830	6,830
5	40,000	0.6209	<u>24,836</u>
		NPV	<u>2,997</u>

The Local Government Council is advised to invest in project 'T' because it has the highest net present value of 14 120,240. Projects 'M' and 'X' have net present values of 14 13,765 and N 2,997, respectively.

19.4.3.2 Internal Rate of Return (IRR)

The approach is also known as "discounted cash flow yield." The "internal rate of return" is the discount rate, which when applied, gives zero net present value. It can be found by either drawing a "present value profile" or graph, or mathematically through linear interpolation, using the formula stated thus:

$$R1 + \frac{P(R2 - R1)}{P + N}$$

where: R1 is positive rate

R2 is negative rate

P is positive net present value (NPV)

N is negative net present value (NPV)

In using the internal rate of return model, the 'decision rule' is to accept the project appraised where the calculated rate is greater than the company's cost of capital. The project with the highest percentage of internal rate of return is picked where

two or more mutually exclusive investments are being considered.

ILLUSTRATION 19-4

SAB Airways Authority (SAA) is preparing the capital budget for the forthcoming year. Three (3) mutually exclusive projects are being considered. The projected performance of each of the projects is as follows:

Projects:	A	B	C
	₦'000	₦'000	₦'000
Initial Cash Outlays	3,450	3,563	3,938
Inflows of Cash:			
Year 1	1,500	2,250	375
Year 2	1,500	1,125	375
Year 3	1,500	1,125	4,875

The Authority's cost of capital is 10% per annum.

As the Management Accountant of the Airways Authority, advise on the desirability or otherwise of choosing any of the three projects, using the internal rate of return method.

The following discount factor table is applicable for use:

Year	10%	15%
1.	0.91	0.87
2.	0.83	0.76
3.	0.75	0.66
4.	0.68	0.57
5.	0.62	0.50

SUGGESTED SOLUTION 19-4

SAB Aviation Authority

Project A

(i) Using 10% Discount factor (rate)

Year	Cash Flows ₦'000	Discount Factor (10%)	PV ₦'000
0	(3,450)	(1.00)	(3,450)
1	1,500	0.91	1,365
2	1,500	0.83	1,245
3	1,500	0.75	<u>1,125</u>
		NPV	<u>285</u>

Project A Using 15% Discount factor (rate)

Year	Cash Flows ₦'000	Discount Factor (15%)	PV ₦'000
0	(3,450)	(1.00)	(3,450)
1	1,500	0.87	1,305
2	1,500	0.76	1,140
3	1,500	0.66	990
	NPV		(15)

$$IRR = R1 + \frac{P}{P + N} (R2 - R1)$$

Project A

$$= 10 + \frac{285}{285 + 15} (15 - 10)$$

$$= 10 + \left(\frac{285}{300}\right)^5$$

$$= 10 + (0.95)^5$$

$$= 10 + 4.75$$

$$IR = 14.75\%$$

Project B

(i) Using 10% discount rate

Year	Cash Flows N'000	Discount Factor	PV N'000
0	(3,563)	(1.00)	(3,563.00)
1	2,250	0.91	2,047.50
2	1,125	0.83	933.75
3	1,125	0.75	<u>843.75</u>
		NPV N	<u>262.00</u>

(ii) Using 15% discount rate

Year	Cash Flows N'000	Discount Factor	DCF N'000
0	(3,563)	(1.00)	(3,563)
1	2,250	0.87	1,957.50
2	1,125	0.76	855.00
3	1,125	0.66	<u>742.50</u>
		NPV N	<u>(8)</u>

$$IRR = R1 + \frac{P}{P+N} (R2 - R1)$$

$$= 10 + \left(\frac{262}{262+8} \right) (15 - 10)$$

$$= 10 + \left(\frac{262}{270} \right)^5$$

$$= 10 + (0.970)^5$$

$$= 10 + 4.85$$

$$IRR = 14.85\%$$

$$\begin{aligned}
 & \frac{P + N}{P + N} \\
 & = 10 + \frac{7 \cdot 262}{62 + 82} (15 - 10) \\
 & = 10 + \frac{(262)_5}{270} \\
 & = 10 + (0.970)^5 \\
 & = 10 + 4.85 \\
 & IRR = 14.85\%
 \end{aligned}$$

Project C

(i) Using 10% Discount Rate

Year	Cash Flows N'000	Discount Factor	NPV N'000
0	(3,938)	(1.00)	(3,938.00)
1	375	0.91	341.25
2	375	0.83	311.25
3	4,875	0.75	<u>3 656.25</u>
		NPV N	<u>370.75</u>

Project C

(ii) Using 15% Discount Rate

Year	Cash Flows N'000	Discount Factor	DCF N'000
0	(3,938)	(1.00)	(3,938.00)
1	375	0.87	362.25
2	375	0.76	285.00
3	4,875	0.66	<u>3,217.50</u>
		NPV N	<u>(109.25)</u>

$$IRR = RI + \frac{P}{P+N} (R2 - R1)$$

$$= 10 + \left(\frac{370.75}{370.75 + 109.25} \right)^{(15-10)}$$

$$= 10 + \left(\frac{370.75}{480} \right)^5$$

$$= 10 + (0.772)^5$$

$$= 10 + 3.86$$

$$IRR = 13.86\%$$

Based on the above computations, the Airways Authority is advised to pick project 'B' with the highest IRR of 14.85%. The other projects have lower figures of 14.75% and 13.86%, respectively, and should be rejected.

3.3 Profitability Index Technique

This is another investment appraisal technique which compares the present value of cash inflows with the present value of cash outflows in ratio terms. The formula is given as:

$$PI = \frac{\text{Present Value of Cash Inflows}}{\text{Present Value of Cash Outlay}}$$

OR

$$PI = \frac{\text{Net Present Value of Cash Inflows}}{\text{Present Value of Cash Outlay}}$$

The decision rule in Profitability Index is to accept every project whose PI is positive or greater than 1

i.e. Accept Project if $PI = 1$ or > 1
 Reject Project if $PI = 0$ or < 1

ILLUSTRATION

Abejaye Local Government in an effort to boost its revenue base decided to acquire a tractor that will be hired out to farmers at affordable charges. The tractor will cost 4600,000 and will generate an annual net cash inflow of N180,000 for six years. The cost of borrowing to procure the tractor is 10%.

Required:

Using the Profitability Index Technique of Investment Appraisal, advise the chairman of Abejaye Local Government.

Discount Factors to be used are:

Year	Discount Factor
1	0.9091
2	0.8264
3	0.7513
4	0.6830
5	0.6209
6	0.5645

SOLUTION

Year	Cash Flow ₦	Discount Factor @ 10%	Present Value ₦
0	600,000	1.0000	(600,000)
1	180,000	0.9091	163,638
2	180,000	0.8264	148,752
3	180,000	0.7513	135,234
4	180,000	0.6830	122,940
5	180,000	0.6209	111,762
6	180,000	0.5645	<u>101,610</u>
		Net Present Value	<u>183,936</u>
Present Value of Cash Inflows	=	783,936	
Present Value of Cash Outflow	=	600,000	
Profitability Index	=	<u>783,936</u>	
	=	600,000	
	=	1.31 approximately	

Decision: Since $PI > 1$ the project should be accepted for implementation

Advantages of Profitability Index

- (a) It recognises time value of money
- (b) It is a variant of the Net Present Value Method. It therefore requires the same computation as in NPV method.
- (c) It is a relative measure of a project's profitability since the present value of cash inflows is divided by the present value of cash outflows.
- (d) It is generally consistent with the wealth maximisation principle.

Disadvantages of Profitability Index

- (a) It can only be used to choose projects under simple, one period, capital constraint situation.
- (b) It does not work mutually exclusive projects or dependent projects are being considered.
- (c) The technique is not popular in public sector project appraisal.

Self-assessment exercise

3.6 Investment Decisions in Government

Investment is the judicious utilization of resources on viable opportunities, with a view to earning reasonable returns beneficial to the providers of fund or finance. Investments of Government may be financed through:

- (a) internally generated revenue and statutory allocations;
- (b) funds raised through the capital and money markets.

Investment decisions are taken after the feasibility and viability of projects have been considered. Not only the financial benefits but also the societal advantages which will accrue from embarking upon the specified projects will be considered.

Investment decision-making in any organisation is managerial in nature. It focuses on goals. An investment decision addresses choice, and for the latter to qualify as such, there must be a commitment to apply resources. The choice invariably turns out to be an investment.

According to management literature, there are two types of decisions, namely:

- (a) **Non-Programmable Decision:** This is strategic in nature. It deals with critical issues such as how to allocate resources, and managing community relations in

the face of capital rationing. An unprogrammed decision is long-term. It is made for organisational survival.

- (b) **Programmable Decision:** This is a tactical or short-term decision. It is concerned with proffering a solution to a routine problem determined by rules and conventions. A programmed decision is used for uncomplicated issues. By its nature, it limits freedom or initiative, as the organisation decides what is to be done.

Although investments are undertaken in the public sector organisations just as in the private sector, operating environments and the goals pursued are different. While non-profitable projects may be dropped in the private sector, it may be unreasonable to act in this way in the public sector for political, socioeconomic, historical and security reasons.

3.7 Investment Evaluation Techniques In Government

There are many investment evaluation techniques used in Government, Ministries, Extra - Ministerial Departments and Agencies. They are discussed, as follows:

3.7.1 Cost-Benefit Analysis

Cost-Benefit Analysis is defined as an analytical tool in decision-making which enables a systematic comparison to be made between the estimated cost of undertaking a project and the estimated value of benefits, which may be obtained from its execution.

Cost-Benefit Analysis is the most popular technique used for project evaluation in the public sector.

The technique seeks, as a minimum, the point of equilibrium between costs and benefits of a proposed project, initiated by either the Government or demanded by the populace.

It is applied in such areas as transportation, postal services, communication projects, educational projects and road construction. Where it is difficult to estimate the benefits of a project, 'shadow prices' are used. A shadow price is the measure of the maximum contribution foregone, in consequence of the failure to obtain one additional unit of limited capacity in a defined situation. Cost-Benefit Analysis can be used in the allocation of resources among the three-tiers of Governments.

The research and study into the Cost-Benefit Analysis came into prominence in the early 1960's, though it was applied in the USA in the 1930's and UK in the 1950's.

The development of 'Cost-Benefit Analysis' has not only brought about enhanced project appraisal in the public sector but also assisted in investment planning,

commercial policy and the development of policy evaluations.

It considers the following:

- (a) Externalities, which may be either positive or negative. An externality is a consequence of an action not taken into consideration when making a decision, but which has direct or indirect effects on the communities, towns, or society at large. An externality can be beneficial (positive) as well as harmful (negative). An externality represents the cost or benefits to the third parties.
- (b) Income redistribution in the society; It is a technique which aims at assisting decision makers by identifying and measuring the social and other costs and advantages which may accrue. It measures the social costs and benefits of a plan by translating them into monetary values. It quantifies the economic intangibles by assessing the effects of actions taken not only on the decision-maker, but also on the society as a whole.

3.7.1.1 Procedures for Conducting Cost-Benefit Analysis

The steps involved in carrying out a cost benefit analysis are as follows:

- (a) Examine the problem with the proper definition of the objectives of the analysis in focus.
- (b) Consider alternative courses of actions, which would achieve the defined objectives in (a) above.
- (c) Enumerate the costs involved and the benefits, which would accrue from the particular courses of action, to the establishment and the society.
- (d) Evaluate the costs and benefits.
- (e) Draw conclusions as to the economic and social effects of a particular choice.
- (f) Re-examine the problem and the chosen objectives to determine accomplishment.

3.7.1.2 Cost Benefit Analysis and Commercial Investment Appraisal

Consideration of the procedures above may indicate that Cost-Benefit Analysis is synonymous with commercial investment appraisal techniques, thereby suggesting that they may be used interchangeably. Deep examination of the procedures involved however, will clearly highlight the areas of similarities and dissimilarities of the two approaches.

3.7.1.3 Similarities between Cost-Benefit Analysis and Commercial Investment Appraisal Methods

The areas of similarities are:

- (a) They adopt a common approach in basic model formulation.
- (b) Consideration of the effective allocation of costs and benefits to periods in which they occur is the same.
- (c) They both focus on the justification of present investment cost in terms of its future return.
- (d) They apply discounting techniques which take time value of money into consideration.
- (e) They apply decision rules for selecting investments.

3.7.1.4 Dissimilarities between Cost-Benefit Analysis and Commercial Investment Appraisal Methods

- (a) The application of Cost-Benefit Analysis focuses more on the macro-economy and the attendant benefits, while commercial investment appraisals address evaluation on micro-perspective level.
- (b) The Cost-Benefit Analysis considers all factors, including the cost of 'harms' done to the environment, unhealthy competition, the effects on the work force, etc. The only cost relevant in commercial appraisal is that falling directly on the enterprise.
- (c) On the principle of preparedness to pay, Cost Benefit Analysis adopts wider definition to include what can be over or below the commercial price. On the other hand, commercial appraisal considers only the effective demand, i.e. buying more at lower price or less at higher price.

3.7.1.5 Cost-Benefit Analysis and Project Evaluation

The following methods are adopted in the evaluation of projects under Cost-Benefit Analysis:

(a) Benefit/Costs Comparison

This method compares estimated benefits and costs of project to be taken. The decision criterion is that if benefits are greater than the costs of a project, it should be accepted for implementation, otherwise, it should be rejected.

The major weaknesses of this method are:

- (i) It ignores the effect of inflation on values used in the computation.
- (ii) The figures and other details used are not relative.

(b) Benefit/Cost Ratio

This method assesses estimated benefits as a ratio of estimated cost. The decision rule is that if the ratio is greater than one (1) the project should be accepted, otherwise, it

should be rejected.

Advantages of the Benefit/Cost Ratio

- (i) It produces comparable results.
- (ii) The benefits/costs used in the calculations are discounted.

Disadvantages of the Method

The method ignores the time-value of money as in Benefit/ Costs Comparison approach.

Merits and Demerits of Cost-Benefit Analysis

Merits of the Technique

The advantages of the approach are as follows:

- (i) It takes into consideration monopolistic power of Government over vital public projects.
- (ii) It considers not only financial commitments on a project but also favourable and unfavourable impacts of the project on the society. Non-consideration of these impacts may jeopardize the lofty goals of the project despite the size of finance committed.
- (iii) Cost-Benefit Analysis is a viable option for project appraisal in Government, bearing in mind its service-rendering goal.
- (iv) The appraisal technique serves as a check on the excesses of political decisions which most of the time ignore economic and social costs and benefits of a project on the society.
- (v) It is easy to apply.

Demerits of the Approach

These may be appreciated, as follows:

- (i) Dissimilar projects are not, most of the time, evaluated and considered together, e.g. cost-benefit of constructing a road and school will not be considered, but only similar items.
- (ii) Final selection may be based on unjustifiable factors, e.g. political, social, geographical and historical factors.
- (iii) It requires comprehensive and intelligent data collection and analysis for which the public sector is noted to be deficient.
- (iv) Indirect User Benefits: Alternative methods of valuing benefits yield different outcomes. Given the different approaches, there is difficulty in choosing an appropriate monetary measure. One has to contend, therefore, with the problem of whether or not to use the technique as a means of investment appraisal.

- (v) **Spillover Effects:** There is the necessity to distinguish between technological and pecuniary 'spillovers'. The decision maker faces the problem of how to include these effects in the analysis. "Spillover" is a situation where an action or project has a lot of indirect benefits. For example, a raw material supplier may install a modern and efficient machinery for production. Apart from the availability of cheap raw materials, other benefits derivable may include standardised, quality and timely supply always.
- (vi) **Double Counting:** A difficult problem to address is 'double counting'. This is a situation in which the cost may be accounted for twice, in view of the process complication. For example, the cost may be taken into account as raw material and later as finished product.
- (vii) **Rate of Interest Chosen for Discounting:** The problem here is the ability to determine the appropriate interest rate to apply for discounting future costs and benefits. "The market rate" and "the social rate" have to be considered. 'social rate' of interest is that fixed for some other reasons, such as connection, It is lower than the market rate and may be fixed for a group of individuals. The market rate is for the supply and demand of money in the money market. It is the commercial rate which reflects the worth of money.
- (viii) **Uncertainty:** The problem is how to reach decisions in situations where trend analysis affords little or no guidance for the future. Situations of uncertainties, unlike risks, do not offer themselves for mathematical manipulation.
- (ix) **Evaluating the Distributional Effects:** The idea of formal cost benefit analysis does not distinguish between benefits received by 'different individuals' or group of people. It does not take position with regards to who benefits and who bears the cost. There is a misgiving that prevailing fashions and human behaviour may blur the interpretation of the distribution effects.
- (vi) **Subjectivity:** Measuring costs and benefits may involve using subjective indices to draw conclusions.

3.7.2 Cost-Effectiveness Analysis - (CEA)

The Cost Effectiveness Analysis (CEA) is an approach to picking among alternative lines of action in public sector organisations in regard to their effectiveness in attaining specified objectives.

The approach identifies either the least cost method of realising an objective or the maximum output attainable at a given cost.

In contrast to Cost-Benefit Analysis (CBA), the focus is on cost and not so much on the benefit. Cost Effectiveness Analysis does not attempt to supply information on the benefits of achieving goals. Rather, the emphasis is on the least or minimal cost of

achieving the specific objective of a public sector project.

3.7.2.1 Procedure of Cost Effectiveness Analysis in the Appraisal of a Public Project

These are:

- (a) Objective definition is to determine what actual target is. What are the projects?
- (b) Sourcing and assessment of alternatives:
After the public project has been determined, what are the cost alternatives that are available? The information in this regard have to be collated.
- (b) Selection of measure to be adopted:
It has to be determined what types of approaches will enable management to achieve the set objectives within a reasonable period of time.
- (c) Development of cost estimates:
Cost estimates have to be collated, addressing the issues of what to include and how to measure them.
- (d) Having ascertained the adequacy of cost effectiveness measures and relying on the information on cost estimates, the public sector organisation evolves the final decision, based on the principle of least cost.

3.7.3 Limitations of Cost-Effectiveness Analysis

- (a) Procedures are subjective, since they are based on the personal judgment of the decision-maker.
- (b) What is an appropriate measure of effectiveness cannot be easily resolved.
- (c) It may lead to wrong decisions resulting from imperfect information on which costs are based and benefits derived.

3.8 Life Cycle Costing

This is a costing approach which attempts to optimize the use of costs by aggregating the entire original and operation costs of assets over their estimated lives. It is used for evaluating the desirability of acquiring an asset, in preference to others, based on cost minimisation. The concept adopts the discounting technique so as to evaluate assets.

Life cycle costing is the financial arm of terotechnology. The Committee for Terotechnology defines terotechnology as "the combination of management, financial, engineering and other practices applied to physical assets in pursuit of economic ends". The pursuit of economic objectives demands that a company's objective should be to reduce as much as possible, the total life-cycle costs in maintaining physical assets during their economic life-span. In life cycle costing, consideration is given to the following factors:

- (a) Original costs, of physical assets, including the costs of design, specification, acquisition, and installation.
- (b) Operating costs which include those of labour, materials and energy.
- (c) Maintenance costs, relating to materials and labour.
- (d) Lost profits and the cost of recovering lost profits.
- (e) Disposal value. This is the residual value less disposal costs incurred. The annual equivalent cost of a physical asset is computed, using the formula:

$$\frac{\text{Purchase Cost}}{\text{Cumulative PV Factor}}$$

ILLUSTRATION 19-5

You are given the following details in respect of two 300KVA generators:

	Yakoyo	Jeun T
Acquisition and installation	₦'000 <u>50.000</u>	₦'000 <u>40.000</u>
Annual costs: Maintenance	5,000	6,000
Oil and Lubricants	7,000	9,000
Salaries	<u>20.000</u>	<u>26.000</u>
	<u>32.000</u>	<u>41.000</u>
Estimated life	5yrs	4yrs
Real cost of capital	20%	20%
Discount Factors:		
Cost of capital 20%		
Year		
1	0.8333	
2	0.6944	
3	0.5787	
4	0.4823	
5	0.4019	
6	0.3349	
7	<u>0.2791</u>	
8	<u>0.2326</u>	

Calculate the "annual equivalent costs" and "costs in use" and advise on which of the two generators to accept.

Cumulative factor is the addition of discount figure for 5 years.

Year	
1	0.8333

2	0.6944
3	0.5787
4	0.4823
5	<u>0.4019</u>
	2.9910

Cumulative factor is the addition of discount factors for 4 years.

Year	
1	0.8333
2	0.6944
3	0.5787
4	<u>0.4823</u>
	<u>2.5887</u>

SUGGESTED SOLUTION 19-5

				Gen. B	Gen.T
				₦	₦
<i>Costs in use</i>			(see	16,716,817	15,499,98
Annual Equivalent cost				<u>32,000,000</u>	<u>41,000,00</u>
Add: Operating costs				<u>48,716,817</u>	<u>56,449,98</u>

The 'costs in use' of the asset are now compared to evolve a choice. Usually the asset with the least cost is selected. In this case, YAKOYO B generator is picked as it involves lesser 'costs in use' of 448,716,817, as against that of Jeun T of 456,449,981

WORKINGS

		Yakoyo B		Jeun T
		₦'000		₦'000
Annual Equivalent cost				
Purchase cost		50,000		40,000
Cumulative PV factor		2,991		2,589
50.000	=	<u>₦16,716,817</u>	40.000 =	<u>₦1,545,000</u>
2,991			2,589	

ILLUSTRATION 19-6

Assume the same facts as in example 1. However, the estimated life of each generator is now 5 years. The cost of a generator is 1450m. Which of the generators should be accepted?.

SUGGESTED SOLUTION 19-6

	Yakoyo B		Jeun T	
Year(s) 4	DF	PV	DF	PV

	<u>'000</u>	20%	<u>4'000</u>	<u>'000</u>	20%	<u>4'000</u>
0	(50,000)	1,000	(50,000)	(50,000)	1,000	(50,000)
1-5	(32,000)	2,991	<u>(95,712)</u>	(41,000)	2,991	<u>(122,263)</u>
			PV <u>(145,712)</u>			PV <u>(172,631)</u>

The decisions, informed by the computations above, is that Yakoyo B should be chosen, in preference to Jeun T. The cost implication of picking Yakoyo B is 14145,712,000 as against that of Jeun T of 14172,631,000.

3.9 Value Analysis/Value Engineering

Value engineering aims at trying to reduce costs and prevent any unnecessary costs before the product or service is produced. It endeavours to eliminate any costs which will not contribute to the value and performance of the product or service.

Value Analysis is the same process when it is aimed at cost reduction after the product or service has been introduced.

Value engineering involves innovative and critical thinking, it uses a formal procedure which examines the purpose of the product or service, its basic functions and its secondary functions.

3.10 Problems of Investment Appraisal Methods

Some of the problems have been identified, thus:

- (a) Future events are difficult to forecast with complete accuracy.
- (b) Investment decisions are sometimes determined by political factors.
- (c) The choice of an appropriate investment appraisal method is subjective.
- (d) The calculation of the cost of capital to be used is a matter of opinion. There is nothing sacrosanct about any decision.
- (e) The treatment and measurement of risk are not easy tasks.

3.11 Risk and Uncertainty in Capital Budgeting/Investment Appraisal

'Risk' is the quantification or measurement of the extent to which actual cash inflows will vary from the forecast earnings. Such risks which abound in business lives include inflation, drop in market demand and changes in Government policies. The probability of occurrence of such a risk is between 0 and 1.

'Uncertainty', however, is a confused state. Under 'uncertainty' any development can take place. The business development is so unpredictable that no probability of occurrence can be assigned.

Using the Probability Concept to Measure Risk

All the appraisal methods discussed so far assume that the cash inflows forecast will be realized as predicted. This is a situation of certainty which hardly exists in the dynamic world, especially of business, and which is therefore unattainable. In order to provide for the presence of risk, the decision maker will assign reasonable and scientific probability considerations to the forecast (uncertain) cash inflows. The expected values obtained are then used for the appraisal of the investment under review.

ILLUSTRATION 19-7

GBOGBONSE Local Government Council intends to set aside 14100,000 for the production of cassava to boost internally generated revenue and earn foreign currency. The expectation of the Council is that in three (3) years' time all will be well with the outcome of the venture. The following information are available:

The Council's opportunity cost of capital is 10%. Is the project viable?

SUGGESTED SOLUTION 19-7

GBOGBONSE LOCAL GOVERNMENT COUNCIL

Computation of the Expected Net Present Values of the Cassava Production Project

$$\begin{aligned} \text{ENPV} &= \frac{N(100,000)}{1} + \frac{1452,000}{1.10} + \frac{1472,000}{(1.10)^2} + \frac{1457,500}{(1.10)^3} \\ &= (14100,000) + 447,273 + 459,501 + 443,200 \\ &= 1449.974 \end{aligned}$$

Calculation of the Expected Cash inflows

$$\begin{aligned} \text{Year 1:} \quad & 0.20(4100,000) + 0.80(1440,000) \\ &= 14(20,000 + 32,000) \\ &= 1452,000 \end{aligned}$$

$$\begin{aligned} \text{Year 2:} \quad & 0.80(1460,000) + 0.20(120,000) \\ &= 4(48,000 + 24,000) \\ &= 1472.000 \end{aligned}$$

$$\begin{aligned} \text{Year 3:} \quad & 0.25(480,000) + 0.75(450,000) \\ &= (20,000 + 37,500) \\ &= 457 500 \end{aligned}$$

ALTERNATIVE SUGGESTED SOLUTION 19.7 Calculation of the Expected Cash Inflows

Year	Cash Flow	Probability	Expected Value	Total Expected Value
	₦	₦	₦	₦

	100,000	0.2	20,000	
	40,000	<u>0.8</u>	<u>32,000</u>	52,000
2	60,000	0.8	48,000	
	120,000	<u>0.2</u>	<u>24,000</u>	72,000
3	80,000	0.25	20,000	
	50,000	<u>0.75</u>	<u>37,500</u>	57,500

Computation of the expected Net Present Value

Year	Cash flows ₦	Discount factor (10%)	Present Value ₦
0	(100,000)	1.0000	(100,000)
1	52,000	0.9091	47,273
2	72,000	0.8264	59,501
3	57,500	0.7513	<u>43,200</u>
	Net Present Value		<u>+49,974</u>

The project is viable with positive expected net present value of N49,974. It is recommended for implementation.

Self-assessment exercise

4.0 CONCLUSION

The conclusion is that it is essential for an organisation, whether public or private sector, to make investment decisions where the establishment is faced with different alternatives, using different techniques of investment appraisal. In practical life there are challenges in making choices.

Nonetheless, decisions have to be made by organisations. In the public sector, tools such as Cost-Benefit Analysis and Cost Effectiveness Analysis enable a comparison to be made between the estimated cost of undertaking a project and estimated value of the benefits which will accrue from its execution. Cost-Effectiveness Analysis is used in choosing among alternative courses of action.

5.0 SUMMARY

In summary, you learnt of investment appraisal in the public sector and investment decisions, different procedures like cost benefit and factors in Capital Budgeting were discuss.

6.0 TUTOR MARKED ASSIGNMENT

- a) Outline the procedures, advantages and disadvantages of Cost-Benefit Analysis.
- b) State Risk and Uncertainty Factors in Capital Budgeting.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 5 INTERPRETATION OF ACCOUNTS, CASH FLOW AND VALUE ADDED STATEMENTS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Methods in Use
 - 3.2 Cash Flow Statements
 - 3.3 Methods of Preparing Cash Flow Statements
 - 3.4 Value Added Statements
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignemnt
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn of Interpretation of Accounts-defined as the art and science of translating the figures shown in the financial statements in such a way as to reveal the strengths and weaknesses of a business and the attributed causes. Accounts have to be analysed and interpreted for such reasons as the measure of the quality of management and how solid the capital base is.

Interpretation has to be undertaken by those conversant with the language of its expression. The accounts have to be drawn up in a form which enables full appreciation of the facts to be deduced. Any financial statement can be interpreted. Consequently, management accounts, final accounts and interim accounts lend themselves to critical analysis.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- c) Interpret accounts, using the three main methods.
- d) Preparation of Cash Flow Statements
- e) Provide detailed information on the preparation of Value-Added

Statements.

3.0 MAIN CONTENT

3.1 Methods in Use

There are three main methods in use in interpreting accounts. These are:

- (a) 'Straight forward' criticism or analytical review.
- (b) Ratio analysis.
- (c) Cash flow statements.

Accounts will be perused or scrutinised by different interested persons such as the owners (shareholders), creditors, employees, researchers and bank managers.

The interpreter has to consider and form conclusion on matters, such as the firm's

- (a) profitability,
- (b) solvency,
- (c) ownership,
- (d) financial strength,
- (e) trend of economic endeavours, and
- (f) gearing and cover,

3.1.1 Straight Forward Criticism or Analytical Review

Figures in respect of two or more years may be compared and percentage differences obtained. Comparison of figures may be undertaken in any of the following ways:

- (a) Previous years' figures with those of the current year.
- (b) The statistics of a period this year with those of a similar period last year.
- (c) Figures within the year's 1st quarter with those of the fourth quarter of the same year.
- (d) It may be percentage representation within the year. For example, salary expenses may be expressed as a ratio of total expenses.

The above stated methods are popular with public sector organisations.

3.1.2 Ratio Analysis

Ratio analysis involves expressing one figure as a ratio or percentage of another, to bring out the weakness or strength in an organisation's affairs. If one were to take a look at the financial statements of a Government department, Ministry or Corporation, the various figures disclosed would not be sufficiently revealing in terms of the strength or otherwise of the establishment, for well informed judgment to be made. Ratio analysis comes in

handy here, as a useful guide.

Broadly speaking, basic ratios can be grouped into four categories, as follows:

- (a) Profitability ratios,
- (b) Gearing ratios.
- (c) Liquidity ratios,
- (d) Shareholders' investment ratios.

The Federal, State and Local Government Councils use mostly liquidity ratios to measure the ease with which obligations due in the year can be met. The three tiers of Administration operate the cash basis of accounting. However, in Parastatals and Government Companies where some commercial or quasi-commercial events take place the accrual basis of accounting is in use.

In view of the peculiarity of public sector activities, the following relevant ratios only, are considered, viz:

- (i) Current Ratio
The test of liquidity can be obtained from the statement of assets and liabilities and is the ratio of:
Current Assets
Current liabilities

An organisation should have enough current assets that give a promise of cash to meet short-term commitments of paying off current liabilities. As a general rule, a ratio comfortably in excess of 2(two) is expected. However, what is comfortable with a particular Parastatal or Government company may be otherwise with another. In picking the figures of current assets, all intangible assets have to be discountenanced.

- (ii) Quick Ratio or Acid Test
This is the ratio which is more revealing of the solid liquidity position, It is computed thus:

$$\frac{\text{Current Assets less Stock}}{\text{Current Liabilities}}$$

Organisations are not able to convert all their current assets into cash quickly. For an organisation or a Parastatal with a fast stock turnover, a quick assets ratio can be computed. A ratio of 1 (one), may be comfortable without suggesting that there is cash flow problem.

What is important is the trend of current and quick asset ratios. From this it can easily be ascertained whether liquidity is improving or deteriorating. It is the relative position that

is far more important than the absolute figures.

(iii) Debtors' Payment Period

Although this index measures the average length of time it takes a Corporation's debtors to pay, it is only an estimated average payment period. The formula for calculating the payment period is:

$$\frac{\text{Debtors for Goods or Services} \times 365 \text{ days}}{\text{Sales (Credit)}}$$

The earlier debtors are encouraged to pay, the better the cash position of the Board or Corporation. It would be more informative to make this calculation regularly to avoid distortions.

(iv) Creditors' Payment Period

This is a measure of the average length of time it takes the parastatal under focus to pay its creditors. It is calculated as follows.

$$\frac{\text{Trade or Expense Creditors} \times 365 \text{ days}}{\text{Credit Purchases}}$$

(v) Stock Turnover Period

This indicates the average number of days that items of stock are held for sale or in the store. The stock turnover period is calculated as:

$$\frac{\text{Cost of Goods Sold}}{(\text{Opening Stock plus Closing Stock})/2}$$

Average stock is the average of the opening and closing stock figures. The shorter the period, the healthy the situation is in making the best use of funds.

Self-assessment exercise

Quick ratio or.....

3.2 Cash Flow Statements

Neither the profit and loss account nor the balance sheet gives a satisfactory explanation of how a business obtains and uses its cash. The cash flow statement is very revealing of the core operations of a Government, Parastatal or Board on the affordability or otherwise of adequate liquid resources.

3.2.1 Data Required to Prepare Cash Flow Statements

To prepare a cash flow statement, the following accounting documents are required:

- (a) Balance sheets at the beginning and at the end of the year.
- (b) Profit and loss account for the year

3.2.2 Key Terms in Cash Flow Statements

Cash: This comprises cash on hand and demand deposits in the bank. *Cash Equivalents:* Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and which are subject to insignificant risk of changes in value.

Cash Flows: These are inflows and outflows of cash and cash equivalents.

3.2.3 Operating Activities: These are the principal revenue producing activities of the enterprise. They are not investing or financing activities.

Examples of Operating Activities

- (a) Cash received from the sale of goods and rendering of services.
- (b) Receipts from internally generated revenue of government.
- (c) Cash payment
- (c) Cash payments for overhead expenses.
- (b) Payment of personal emoluments.
- (c) Receipts from statutory allocations of Government.

3.2.4 Investing Activities

These are the acquisitions and disposals of long-term assets and other investments not included in cash equivalents.

Examples of Investing Activities

- (a) Cash payments to acquire property, plant and equipment, intangible and other long-term assets.
- (b) Cash received from the sale of property, plant and equipment, intangible and other long-term assets.
- (c) Cash payments to acquire equity or debt instruments of other enterprises and interest in joint ventures.
- (d) Cash received from the sale of equity and debt instruments of other enterprises and interests in joint ventures.
- (e) Cash advances and loans made to other parties, other than advances and loans made by the financial institutions.
- (f) Cash payments to suppliers for goods and services.
- (g) Cash payments to and on behalf of the employees.

- (h) Cash payments for the purchase of motor vehicles.

3.2.5 Financing Activities

These are activities which result in changes in the size and composition of equity capital and borrowing of the enterprise. Examples are:

- (a) Cash proceeds from issuing shares and other equity instruments.
- (b) Cash payments to the owners to acquire or redeem the enterprise's shares.
- (c) Cash proceeds from issuing debentures, loans, bonds, mortgages and other short or long-term borrowing.
- (d) Cash repayments of amount borrowed.
- (e) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.
- (f) Cash dividends.

3.3 Methods of Preparing Cash Flow Statements

The methods used for preparing cashflow statements are:

- (a) The direct method, whereby major classes of gross cash receipts and payments are disclosed.
- (b) The indirect method, whereby net profit or loss is adjusted for the effect of transactions of non-cash nature, depreciation or accruals of past or future operating cash receipts, payments and items of income or expenses associated with investing or financing cash flows.

ILLUSTRATION 20-1 Format of Direct Method

<i>Operating Activities</i>	₦	₦
Cash received from customers		x
Cash paid to suppliers and employees		(x)
Cash generated from operations		
Tax paid		(x)
Cashflows before extra-ordinary items		x
Extraordinary items		<u>x/(x)</u>
Net cash inflows/(outflows) from operating activities		x
 <i>Investing Activities</i>		
Purchase of fixed assets	(x)	
Purchase of investments	(x)	
Proceeds from sale of fixed assets	x	
Proceeds from sale of investment	x	
Interest received	x	

Dividend received	X	
Net cash inflows/(outflows) from investing activities	X	
<i>Financing Activities</i>		
Proceeds from issue of shares	X	
Proceeds from issue of debentures	X	
Redemption of debenture and loan stock	(X)	
Purchase of own shares	(X)	
Dividend paid	(X)	
Interest paid	(X)	
Net cash inflows/(outflows) from financing activities		X
Cash & Cash equivalents at the beginning of the year		X
Cash & cash equivalents at the end of the year		X

ILLUSTRATION 20-2

Format of Indirect Method

Operating Activities:

Operating profit		X
------------------	--	---

Adjustments for non-cash items:

Depreciation	X	
(Profit)/Loss on sale of fixed assets	(X)/X	
Amortisation of intangible assets	X	
Cash flows before working capital changes		X

Working capital changes:

(Increase)/Decrease in stock	(X)/X	
(Increase)/Decrease in debtors	(X)/X	
Increase/(Decrease) in trade creditors	X/(X)	
Cash generated from operations	X	
Tax paid	(X)	
Cashflow before extraordinary item	X	
Extra-ordinary item	<u>X/(X)</u>	
Net cash inflows/outflows from operating activities		X

Investing Activities

Purchase of fixed assets	(X)	
Purchase of investments	(X)	
Proceeds from sale of fixed assets	X	
Proceeds from sale of investments	X	
Interest received	X	

Dividend received

Net cash inflow/(outflow) from investing activities

Financing Activities

Proceeds from the issues of shares Proceeds
from the issue of debentures

Redemption of debenture loan stock	(x)
Purchase of own shares	(x)
Dividend paid	(x)
Interest paid	(x)

Net cash inflows/(outflows) from

Financing activities	x
Cash & cash equivalents at the beginning of the year	x
Cash & cash equivalents at the end of the year	x

Self-assessment exercise

Cash flow consist ofkey activities.

3.4 Value-Added Statements

The Companies and Allied Matters Act, Cap. C20 LFN 2004 and Statement of Accounting Standard No. 2 of 1984 oblige business entities to furnish Value-Added Statements along with their Audited Final Accounts, Cash flow Statements and Historical Summaries.

The desirability of producing Value-Added Statements springs from the necessity of evaluating what value the business itself has contributed or added to the resources introduced in converting them into the final products. The value added represents in monetary terms the net output of an organisation, company or enterprise. It is the difference between the total value of output and the value of inputs of labour, materials and services, which other Parastatals, Boards or companies have supplied. The value added is also appreciated as the combined efforts of capital, employees, shareholders and management. Value-Added Statements give the details of how the net yield is shared between the various factors which offered their services.

3.4.1 Preparation of Value Added Statements

The steps to be taken in the preparation of a Value-Added Statement may be outlined, using the Profit and Loss Account of a year or period, as follows:

- (a) Start with the figure of turnover or gross income from which the cost of financing it, such as the cost of sales, is deducted.
- (b) From the figure of gross profit or surplus, deduct administration expenses, interest on loan, etc.
- (c) Deduct tax on profit/surplus on ordinary activities, from "profit or surplus on ordinary activities before taxation."

- (d) Add the net profit or surplus in the previous year to the current year's profit/surplus,
- (e) List out, one-by-one, all items of appropriations from profit such as "transfer to general reserves". Deduct the total value of appropriations to obtain "retained earnings carried forward."

ILLUSTRATION 20-3

WATER CORPORATION OF DINRIN STATE OF NIGERIA
Income and Expenditure Account for the year Ended 31 December 2008

	₦	₦
Gross Income		20,550,000
<i>Costs Incurred:</i>		
Purchase of Chemicals and Alum	1,800,00	
Lubricants	800,050	
Salaries and Pensions	7,500,00	
Depreciation (Water Treatment Plants, etc.)	1,000,00	
Supply of Water Tanker Service	250,000	
Purchase of Stationery	550,050	
		(11,900,100)
<i>Interests Due:</i>		8,649,900
Local Bank Loan	520,000	
African Union Bank Loan	1,480,00	
		(2,000,000)
Profit/Surplus Realised On Ordinary Operations		6,649,900
Profit/Surplus For Last Year		4,750,100
Surplus Carried Forward To Next Year		311,400,000

You are required to prepare the Value Added Statement of the Corporation, for the year ended 31 December 2008,

SUGGESTED SOLUTION 20-3

WATER CORPORATION OF DINRIN STATE
Value-Added Statement for the Year ended 31 December 2008

Gross Income		20,550,000
Bought in materials and services(See Note 1)		<u>(3,400,100)</u>
Value Added.		₦17,149,900
<i>Applied in the following ways:</i>		
To pay the salaries and pensions of staff		7,500,000
To pay the providers of capital		2,000,000
To provide for the maintenance and expansion of assets:		
Depreciation	1,000,000	
Retained Surplus	6,649,900	
		<u>7,649,900</u>
		N17, 149 900

Note 1:

Bought in materials and services —		
Chemicals and Alum		1,800,000
Supply Expenses Of Water Tanker Service		250,000
Lubricants		800,050
Stationery		550,050
		₦3 400 100

Note 2:

Readers should note that the retained surplus of 46,649,900 shown above is the difference between the surplus figure of 411,400,000 carried forward to next year and that of 44,750,100 in respect of last year, 2007.

ILLUSTRATION 20-4

Odua Manufacturing Outfit, a Quasi-Government concern, had the following summary Profit and Loss Account for the year ended 31 December, 2008:

Turnover		55,000,000
Cost of Sales		(23,500,250)
Gross Profit		31,499,750
Distribution Costs	3,100,250	
Administration Costs	6,000,010	(9,100,260)
		22,399,490
Service charges on loan		(350,000)
Profit before taxation		22,049,490
Company taxation (30%)		(6,614,847)
Profit after taxation		15,434,643
Retained earnings from last		10,200,157

		25,634,800
Transfer to Capital Reserves	2,000,000	
Transfer to General Reserves	3,000,000	
Proposed Ordinary Dividend	10,000,000	
		15,000,000
Retained earnings carried forward to next year		10,634,800

You are supplied with the following additional information:

- (a) Included in the cost of sales are —
- | | |
|---------------------------------|------------|
| (i) Salaries and pensions | 12,000,000 |
| (ii) Depreciation | 3,500,250 |
| (iii) Purchase of Raw Materials | 8,000,000 |
- (b) Distribution and administration costs were incurred on services received from outside the organisation.

Prepare the Value-Added Statement of Odua Manufacturing Government Agency for the year ended 31 December 2008.

SUGGESTED SOLUTION 20-4

ODUA MANUFACTURING GOVERNMENT AGENCY

Statement of Value-Added

For the Year ended 31 December, 2008

	N	N
Turnover		55,000,000
Bought in materials and services(See Note below)		<u>(17,100,260)</u>
VALUE ADDED		37 899 740
<i>Applied in the following ways:</i>		
To pay employees' salaries and pensions		12,000,000
to pay providers of capital:		
Service charges on loan obtained	350,000	
Dividends to shareholders	10 000 000	
		10,350,000
To pay Federal Inland Revenue Service:		
Company Tax		6,614,847
To provide for maintenance and expansion of assets:		
Depreciation	3,500,250	
Retained profits	5,434,643	
		8 934 893
		37,899,740

**NOTE:
(Working)**

Computation of Bought-in Materials and Services

Materials	8,000,000
Distribution Costs	3,100,250
Administration Costs	<u>6,000,010</u>
TOTAL	<u>17 100,260</u>

Tutorial

The readers would appreciate that the retained profits figure of 45,434,643 could be reconciled with what was obtained earlier, as follows:

Undistributed profits carried forward to next year	₦10,634,800
<i>Less</i> Undistributed profits from last year	<u>10,200,157</u>
	434,643

Add Transfers-

Capital Reserves	N2,000,000	
General Reserves	<u>3,000,000</u>	
		5,000 000
		5 434 643

Self-assessment exercise

Value-Added Statements springs from.....

4.0 CONCLUSION

It is concluded that interpretation of financial statements reveals the financial strengths and weaknesses of a business and their causes. A Cash Flow Statement gives the details of all cash received and paid by the organisation, during the year. It is a good reporting statement for cash management. A Value-Added Statement reveals the contribution of each 'key' sector. In the production of the goods and services, both the Cash Flow and Value-Added Statements are required by law to be prepared in addition to the yearly final accounts of a corporate organisation/entity.

5.0 SUMMARY

In summary, you learnt of the interpretation of financial statements, cash flow statement, value added statement and the various procedures thereof.

6.0 TUTOR MARKED ASSIGNMENT

- a) Provide detailed information on the preparation of Value-Added Statements.
- b) Discuss ratio analysis as a tool for interpretation of financial statement using two examples.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

MODULE 5

CONTENTS

Unit 1	Parastatal and Public Enterprise Accounting
Unit 2	Public Finance
Unit 3	Public Debt and its Management in Nigeria
Unit 4	Ethical Issues in Public Sector Accounting and Finance
Unit 5	National Fiscal Responsibility

UNIT 1 PARASTATAL AND PUBLIC ENTERPRISE ACCOUNTING

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Parastatals and Public Companies
3.2	Sources of Income of Parastatals
3.3	Expenditure
3.4	Main Objectives of Setting up Corporations / Parastatals /Public Enterprises
3.5	Accounting in Public Enterprises
3.5.1	Financial Statements
3.6	Classes of Government Enterprises
3.7	Audit
3.8	Accounting Policies of Corporations
3.9	Types of Accounts
3.10	Hospital Accounting
3.11	Sources of Revenue
3.12	Development and Property Corporations
3.12.1	Main sources of income of Corporations
3.12.2	The expenditure incurred by the Corporations include
3.12.3	Development and Property Accounting
4.0	Conclusions
5.0	Summary
6.0	Tutor Marked Assignment
7.0	References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn of parastatal and public enterprise accounting as is practiced in Nigeria and the enabling Act to support as appropriate.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- State the Enabling Act that establishes a Parastatal or a Public Company.
- Identify the objectives of setting up Public Enterprises.
- List the Accounting requirements of Public Enterprises.
- Identify the Sources of income and types of expenditure of Public Enterprises.

3.0 MAIN CONTENT

3.1 Parastatals and Public Companies

Parastatals and public companies are agencies established by Government for specific purposes. Examples are Corporations, Boards and public companies. The characteristics of Parastatals or Corporations are outlined, thus:

- (a) Corporations are special organisations set up by Government with the aim of carrying out certain projects or performing beneficial services to the Nation. Examples are the River Basin Authority which was set up to harness the agricultural benefits of the River Basins, the National Electric Power Authority (NEPA) now Power Holding Company of Nigeria (PHCN) for the generation and supply of electricity to the citizens at subsidized rates, and the Federal Environmental Protection Agency (FEPA) aimed at safeguarding Nigeria's environment. Most of the Corporations are not-for-profit organisations. However, some of them are to recover their operating costs and make some margin or surplus.
- (b) Each Corporation or Parastatal has its own Enabling Act. This is the law setting it up, and will show in detail the following:
 - (i) The name of the Corporation, its functions and objectives.
 - (ii) The Principal Officers of the Board, their functions and mode of appointment.
 - (iii) The Supervising Ministry.

Parastatals or Corporations are usually not governed by the provisions of the Companies and Allied Matters Act, Cap. C20, LFN 2004. Hence, a Corporation's name will not end with the word 'Limited' or 'Public Limited Company.'

- (c) State and Federal Governments are free to set up their own Corporations after due processes. Such Parastatals, Boards or Corporations are quite different from the Ministries. Ministries and Extra-Ministerial Departments have the same accounting system, unlike the Boards and Corporations. Government regulations which apply to the Ministries may not be applicable to Government Agencies. The term 'Parastatal' also refers to a Government Company, Board, Corporation or a Tertiary Institution such as the Lagos State Polytechnic, University of Nigeria, Nsukka or Ahmadu Bello University.
- (d) All Corporations have supervising Ministries. Regulations passed by a Corporation are called 'bye-laws'. The supervising Ministry and Government approve the following for a Corporation, before they become operative:
 - (i) Increases in the prices of goods and services delivered. For example, the Federal Ministry of Aviation would approve any price increase by the Nigeria Airways before it is implemented.
 - (ii) All the bye-laws.
 - (iii) The Corporation's Annual Budget.
 - (iv) Any major foreign agreement.

The supervising Ministry recommends the appointments of the Managing Director or General Manager, Executive Director and Key Officers of the Corporations to the President or National Assembly, for approval.

3.2 Sources of Income of Parastatals

Although Corporations are set up mainly to render social services to the public at the least possible costs and are principally self-financing, the appropriate Government makes funds available to them in form of subventions. The money given to a Corporation by the Government is income to the corporation and is usually classified into recurrent and capital grant or subvention.

3.3 Expenditure

All Corporations incur expenses such as the payment of staff salaries and maintenance of facilities. The expenditure incurred is either revenue or capital in nature. Most Corporations depreciate their assets using appropriate policy.

3.4 Main Objectives of Setting up Corporations / Parastatals / Public Enterprises

The following are the main objectives of setting up Parastatals:

- (a) To bring the means of production under public ownership.
- (b) To avoid high prices of goods normally charged by the private sector.
- (c) To avoid duplication of facilities.
- (d) To ensure close Government control over certain 'key' sectors of the economy.
- (e) To ensure the survival of the Industries.
- (f) To enhance the standard of living of the people.

Self-assessment exercise

Discuss the accounting requirements in a public enterprise.

3.5 Accounting in the Public Enterprises

The nature and structure of accounting in the public enterprises depend largely on the scope and objectives of setting them up.

The accounting structure will thus vary from one enterprise to another. Despite the differences in their structure and objectives, any accounting system set up for a public enterprise should be able to:

- (a) provide detailed financial information adequate for policy formulation;
- (b) facilitate extraction of relevant financial statements which comply not only with the requirements of the enabling law but also the needs of the information users;
- (c) accommodate changes that become necessary; and
- (d) facilitate the work of the auditors appointed to examine the books of the enterprises.

3.5.1 Financial Statements

The financial statements of an enterprise are expected to comply with the normal accounting standards in operation, requirements of the laws regulating the activities of the enterprises, etc. For profit-making public enterprises, the financial statements will include:

- (a) Trading and Profit and Loss Accounts.
- (b) Balance Sheet.
- (c) Value-Added Statements.
- (d) Notes to the Statements.
- (e) Cash Flow Statements.
- (f) 5-year Historical Summary.

However, for the not-for-profit making public enterprises, the financial statements are expected to include:

- (a) Income and Expenditure Accounts.
- (b) General Revenue Accounts.
- (c) Balance Sheet
- (d) Cash Flow Statements.
- (e) Value-Added Statements.
- (f) 5-year Historical Summaries.

3.6 Classes of Government Enterprises

Public enterprises are establishments owned either partially or wholly controlled by Government. They come into existence through the promulgation of appropriate Federal or State laws. Government enterprises may take the following forms:

(a) *Public Utilities.* These are parastatals providing essential services to the citizens either at 'nil' cost or at subsidized rates. This is to bring about proper balance between social and economic objectives.

(b) *Regulatory Agencies:* These are Government Agencies or partially autonomous establishments executing general policies of the Government within specified areas. Examples are National Communication Commission (NCC) and Nigeria Copyright Commission. They may be fully or partially commercial in nature although they still look forward to Government's financial assistance in meeting their obligations.

(c) *Commercial Enterprises:* They are bodies established by Government in line with the appropriate laws of the country, to create competitive environment and make profit from their operations. Government-owned companies are usually in different sectors of the economy, such as mining, banking, insurance, manufacturing, trading and transportation. Such companies are autonomous in structure and operations. They are incorporated and must comply with the existing laws. The laws governing their operations include the Companies and Allied Matters Act, Cap C20, LFN 2004, Insurance Act of 2000 (as amended), the Banks and Other Financial Institutions Act 1990 (as amended) and Bankruptcy Act of 1979 (as updated).

3.7 Audit

The laws setting up most of the Federal Corporations state that:

- (a) An Internal Audit Department should be established. The Department should audit the Corporation and copies of reports forwarded to the Auditor-General for the Federation, for information only.
- (b) The accounts of the Corporation must be verified by an External Auditor yearly.

3.8 Accounting Policies of Corporations

Each Corporation adopts the accounting policy which suits its operations. The most common policies adopted by parastatals are briefly discussed, as follows:

- (a) Most Corporations adopt the principle of accrual accounting. The concept stipulates that the income relating to a particular period should be recognised in that period, whether or not cash has been received. Conversely, expenses have to be charged against profits when they occur, even if they have not been paid for.
- (b) Some corporations prepare Income and Expenditure Accounts while others prepare the Profit and Loss Accounts. From the information available in the books of a Corporation, it is easy to ascertain the type of accounts prepared. For example, where Income and Expenditure Accounts have been prepared the net result is normally described as surplus or deficit. If it is a profit oriented entity Profit and Loss Accounts are prepared at the end of the financial year.
- (c) The capital or proprietorship of the organisation is represented by 'fund account,'
- (d) Parastatals, unlike the three-tiers of Government, show fixed assets with their historical costs, accumulated depreciation to date and net book values.
- (e) Government subventions and grants are stated as the amounts received during the year, on cash basis. However, some Corporations credit their Income and Expenditure Account with the amounts receivable and show the amounts as current

asset in the Balance Sheet (accrual basis).

- (f) Interests receivable on fixed deposit accounts are usually accounted for, on cash basis. However, some Corporations use the accrual method, treating interests receivable as in 'e' above.
- (g) Foreign currency transactions are translated as follows:
 - (i) Income and expenditure items are translated at the average rate of conversion.
 - (ii) Fixed asset translations are made at the historical costs.
 - (iii) Other assets and liabilities are translated at the rate ruling on the Balance Sheet date. Profit or loss on translation is shown in the Profit and Loss Account on a yearly basis.

3.9 Types of Accounts

Some Corporations such as the Federal Airports Authority of Nigeria (FAAN) and Power Holding Company of Nigeria (PHCN) prepare the following accounts:

- (a) Income and Expenditure Accounts, and
- (b) Balance Sheets,

ILLUSTRATION 21-1

A Typical format of Income and Expenditure Account of The Federal Airport Authority of Nigeria for the year ended 31 December, 2008 is shown below:

	2007		2008	
	₦	₦	₦	₦
Income				
Government Subventions	x		x	
Licence Fees	x		x	
Parking Fees	x		x	
FAAN Citizen Tax	x		x	
Staff School Income	x		x	
Guest House Income	x		x	
Sundry Income	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Expenditure				
Salary and Allowances	(x)		(x)	
Postage, Cable and Telephone	(x)		(x)	
Airport Maintenance	(x)		(x)	

Printing and Stationery	(x)		(x)	
Books and Periodicals	(x)		(x)	
Training	<u>(x)</u>	<u>(x)</u>	<u>(x)</u>	<u>(x)</u>
(Deficit)/Surplus for the year		x		x
Add/(Deduct) balance brought forward		x		x
(Deficit)/Surplus carried forward		<u>x</u>		<u>x</u>

ILLUSTRATION 21-2

FEDERAL AIRPORT AUTHORITY OF NIGERIAN A TYPICAL FORMAT OF BALANCE SHEET AS AT 31 DECEMBER 2008

	2007		2008	
	₦	₦	₦	₦
<i>Fired Assets</i>		xx		xx
Current Assets:				
Stocks	x		x	
Debtors & Prepayments	x		x	
Bank	x		x	
Cash	x		x	
<i>Less: Current Liabilities:</i>				
Creditors	(x)		(x)	
Accrued expenses	<u>(x)</u>	<u>x</u>	<u>(x)</u>	<u>x</u>
Total Net Assets		<u>xx</u>		<u>xx</u>
<i>Financed by:</i>				
Capital Fund				
Other Funds				
Reserves				

3.10 Hospital Accounting

Hospitals undertake functions such as treating the sick, conducting research, and teaching. A major purpose of hospital accounting is to assist Hospital Administrators in the efficient and effective management of resources. Government hospital accounting has the following features:

- (a) Fund accounting system is operated.
- (b) The financial activities of hospitals are covered by budgeting and budgetary control procedures.
- (c) Subsidiary and principal books of accounts are kept to facilitate the extraction of information. Such books include ledger accounts, journal and DVEA book.

- (d) An autonomous Government hospital is required to prepare financial statements, to determine proper stewardship in fund disbursements and general resource management, as follows:
- (i) *Income and Expenditure Accounts:* These are prepared to show the surplus or deficit of the organisation during a specified period of time, usually one year. They are extracted showing the comparative figures for the preceding year.
 - (ii) *Balance Sheet:* This is prepared to ascertain the financial strength of the hospital, as at the end of that period. The balance sheet is extracted with the comparative figures for the preceding year.
 - (iii) *Cash Flow Statement:* A cash flow statement is prepared to establish the hospital's sources of cash inflows and directions of outflows, The cashflow statement is very revealing of the liquidity preparedness in meeting short-term obligations. Preceding year's figures are disclosed as well, for comparative analysis.
 - (iv) *Notes to the Accounts:* These are modifiers or amplifiers, accompanying the financial statements. They disclose information such as the hospital's accounting policy and method of depreciation which the final accounts do not supply.
 - (v) *Memorandum Statement of Account of Capital Fund* The statement shows the financial information of all the fixed assets and capital projects in progress as at a particular period. The standard accounting practice is to transfer any portion of the project completed in any financial year to the fixed assets account. 'Capital Work in Progress' is determined based on valuer's certificates.

The Statement of Capital Fund contains only the financial information in respect of capital projects. Funds are transferred to augment the balance available in the Capital Fund.

- (iv) *Memorandum Statement of Account of Recurrent Funds:*The statement highlights the financial information of all the recurrent items. These include unutilized grants for research, stocks, and debtors,

3.11 Sources of Revenue

The hospital generates revenue from various sources which include:

- (a) *Capital Subvention*: This is in the nature of contributions made by Government, at intervals, for the execution of capital projects of the hospital.
- (b) *Recurrent Subvention*: This is the amount contributed by the Government at intervals for meeting recurrent expenditure. Examples are the personnel cost of staff, overhead costs covering repairs of the facilities of the hospital and purchase of drugs.
- (c) *Charges*: These represent fees realized from the services rendered by the hospital. The charges include fees realized from the School of Nursing, X-Ray and laboratory facilities.
- (d) *Miscellaneous Revenue*. These include revenue generated from sundry sources, examples of which are income from investments, reimbursements, disposal of assets, rent on property and donations from philanthropic organisations and individuals.

3.12 Development and Property Corporations

Some Parastatals are established for the following aims and objectives:

- (a) Constructing buildings for sale.
- (b) Upgrading land for sale.
- (c) Property ownership.
- (d) Managing facilities on Government estate.
- (e) Maintenance of industrial estates.

An example of such a Corporation is the Lagos State Property Development Corporation.

3.12.1 Main sources of income of Corporations

These include:

- (a) Sale and rent of houses.
- (b) Sale of land.
- (c) Miscellaneous income (dividends, interests on fixed deposit accounts, etc.).
- (d) Surplus from property management.
- (e) Professional service income, e.g. survey fees for private land.
- (f) Government grants.
- (g) Gifts and donations.

3.12.2 The expenditure incurred by the Corporations include:

- (a) Payment of salaries;
- (b) Cost of construction, e.g. drainage, building.
- (c) Cost of land clearing.
- (d) Interest on loan;
- (e) Compensations made to those who are dispossessed of their landed property.

3.12.3 Development and Property Accounting

Corporations which engage in the development of property prepare the following final accounts:

(a) General Revenue Account. It is in this Account that the expenses relating to general development and estate management as well as transfers to the various reserves are consolidated.

(b) Property and Permanent Works Capital Accounts.

The accounts are meant for transactions relating to capital projects like land and buildings under construction and for ultimate sale to the public.

ILLUSTRATION 21-3

**ILUDUN STATE DEVELOPMENT CORPORATION
Typical Format of General Revenue Account for the Year ended**

Interest on loan	x	Surplus from Gen. Dev. Expenses Account	
Balance cid	x	Surplus from Estate Management Accounts Rent on Properties Other Income	
	xx		xx
Loan Repayment	x	Balance b/d	x
Transfer to Cap. Reserve	x		
Unappropriated Bal. c/f	x		
	<u>xx</u>		<u>xx</u>

ILLUSTRATION 21-4

**ILUDUN STATE DEVELOPMENT CORPORATION
TYPICAL FORMAT OF PROPERTY AND PERMANENT
WORKS CAPITAL ACCOUNTS
for the year ended 31 December, 2008**

		Expenditure	Income
--	--	-------------	--------

	Details 1	B.F 2	Additions 3	Total 4	B/F 5	Additions 6	Total 7
1 2 3	Land Development	x	x	x	x	x	x
	Construction of Drainage	x	x	x	x	x	x
	Construction of Nursery/ Primary Schools	x	x	x	x	x	x
		x	x	x	x	x	x

(c) Capital Works-in-Progress Account

The Account shows the projects of the Corporation which are under construction and as valued by the professionals.

(d) General Development Expenses Account

The account records the levies made on capital works carried out on the Agency's project executed by the Corporation or as agent of Government to cover overheads incurred. On the expenditure side of the account are recorded such items as "net expenditure from General Income and Expenditure Account" and "Repayment of General Purpose Loan." Whatever balance is left in this account is transferred to "General Revenue Account."

ILLUSTRATION 21-5

ILUDUN STATE DEVELOPMENT
Typical Format of General Development Expenses
Account for the Year ended 31 December 2008

Expenditure	N Income	N
Repayment of general purpose loan	xx Charges on Capital Works	xx
Net Expenditure from General Income and Expenditure Account chargeable.	xx	x
Balance transferred to General Revenue Account	xx	
	<u>xx</u>	<u>xx</u>

(e) General Income and Expenditure Account

This Account shows the surplus or deficit from development and administration, architects' and surveyors' services, fees, and such other income accruing from housing property sale ground rent, improvements for sale and other sources of income.

The Account is classified into two, namely:

- (i) Estate Management Account.

(ii) Services on Capital Works Account.

The Estate Management Account is to accommodate all relevant and incidental expenses. The second account is for services rendered on capital works for which general development expenses are charged. The general revenue expenditure, after the direct charges to the relevant capital projects, is apportioned between the General Development Expenses and Income and Expenditure Accounts. Other direct expenses are allocated to the two accounts. With these, the profitability of each of the projects can be determined. Revenue items are treated on the same basis.

The items identified in the Income and Expenditure Account are:

- (i) Net rent income receivable (that is, rents and service charges, less bad or doubtful debts).
- (ii) Housing grants from Government.
- (iii) Investment income.
 - (iv) Amounts appropriated to the Grant Redemption Fund.
 - (v) Gross surplus or deficit for the period, before grants receivable and taxation.
 - (vi) Net surplus after taxation and deficit grants.
 - (vii) Transfers to, or from, reserves.

Notes to the accounts have to reveal additional information on items such as depreciation, and taxation.

ILLUSTRATION 21-6

**ILUDUN STATE DEVELOPMENT CORPORATION
Format of Recurrent Expenditure for the
Year ended 31 December, 2008**

Details		Total	Chargeable to Capital Works	Chargeable to Estate Mgt.
		₦	₦	₦
(i)	Staff Expenses	x	x	x
(ii)	Office	x	x	X
(iii)	Quarters	x	x	X
(iv)	Office	x	x	X
(v)	Transport	x	x	X
(vi)	Miscellaneous	x	x	X
(vii)	Interest on	x	x	X
(viii)	Preliminary	<u>x</u>	<u>x</u>	<u>X</u>
		x	x	X

Format of Recurrent Income for the year ended 31 December, 2008

Details		Total	Chargeable to Capital Works	Chargeable to Estate Mgt.
		₦	₦	₦
(i)	General Rent	x	x	x
(ii)	Int. On Invest.	<u>x</u>	<u>x</u>	<u>x</u>
(iii)	Fees	<u>x</u>	<u>x</u>	<u>x</u>

Net Expenditure
Carried to General
Dev. Exp. And Estate
Mgt. Account

	<u>x</u>	<u>x</u>	<u>x</u>
	<u>x</u>	<u>x</u>	<u>x</u>

- (f) Property Management Account
The account records rent generated from operations, miscellaneous income received and expenses incurred.

ILLUSTRATION 21-7

1LUDUN DEVELOPMENT CORPORATION Typical Format of Property Management Accounts for the year ended 31 December 2008

Income:	Total	Scheme	Scheme	Miscellaneous
	₦	₦	₦	₦
Rent on property items	x	x	x	x
Cost recovered	x	x	x	x
Reduction in provision for irrecoverable rent	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Total income (a)	<u>xx</u>	<u>xx</u>	<u>xx</u>	<u>xx</u>
Expenditure:				
Estate Mgt. Expenses	₦	₦	₦	₦
Rent and Rates Interest	x	x	x	x
on Loan Repairs	x	x	x	x
Insurance	x	x	x	x
Legal Charges	x	x	x	x
(Loss of rent on unoccupied flats)	x	x	x	x
Depreciation	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Total Expenditure (b)	<u>xx</u>	<u>xx</u>	<u>xx</u>	<u>xx</u>
Net rental income transferred to Gen. Rev. Account (c)	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u> <u>x</u>
[That is, (a) — (b)]				

(g) Balance Sheet

This shows the financial strength of the Corporation as at a particular date. It reports all items which are unique to the property and development sector, with corresponding figures of the preceding year. A Property Development Corporation's Balance Sheet should disclose the following items:

- (i) Movements on the Grant Redemption Fund,
- (ii) Deficit grants receivable.
- (iii) Particulars of investments held.
- (iv) Information on loans granted.
- (v) Information on loans made to the members of the management committee.

ILLUSTRATION 21-8

1LUDUN DEVELOPMENT CORPORATION Typical Format of Balance Sheet as at 31 December 2008

<i>Capital</i>		<i>Fixed Assets</i>		
	N		N	N
Capital Revenue	x	Plants and Machinery	x	
General Reserve	x	Motor Vehicles	x	
Long term Liability	<u>x</u>	Factory Building	<u>x</u>	<u>x</u>
Property & Investments				
Permanent Works:				
Capital Income	x	Treasury Bills	x	
Others	x	Fed Govt. Stocks	x	x
Deposits for Plot	x	Property & Permanent Works		
		Capital Account		
		Capital Work-In-Progress		
		Current Liabilities		
Current Assets				
Sundry Creditors	x	Stock	x	
Prepaid Rents	x	Debtors	x	
	—	Bank	x	<u>x</u>
	<u>xx</u>			<u>xx</u>

Self-assessment exercise

List the expenditure incurred by the Corporations.

4.0 CONCLUSION

In this unit, you learn of parastatal and public enterprise accounting as is practiced in Nigeria and concluded that their operation depend on the enabling Act.

5.0 SUMMARY

This unit discussed the establishment of different types of corporations, the accounting policies, income receivable, expenditure incurred and the peculiar reporting system.

6.0 TUTOR-MARKED ASSIGNMENT

- What are the objectives of setting up Public Enterprises in Nigeria?

b) List the sources of income and types of expenditure of Public Enterprises.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 2 PUBLIC FINANCE

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Scope of Public Finance
 - 3.2 The Theory of Revenue
 - 3.3 The Financial Administration
 - 3.4 The Theory of Public Revenue
 - 3.5 Revenue Allocation in a Federal System of Government
 - 3.6 Causes of Revenue Allocation Problems in Nigeria
 - 3.7 Nigeria's Experience in Revenue Allocation
 - 3.8 The National Revenue Mobilisation Allocation and Fiscal Commission (NRMAFC)
 - 3.9 The Principles of Revenue Allocation
 - 3.9.1 Reforms Suggested For Revenue Allocation in Nigeria
 - 3.10 The Theory of Public Expenditure
 - 3.11 Reasons for Increase in Government Expenditure
 - 3.12 The Effects of Public Expenditure
 - 3.12.1 Standard Expenditure Decisions
 - 3.13 Price Stability
 - 3.14 Full Employment
 - 3.15 Economic Growth
 - 3.16 Economic Development
 - 3.17 Balance of Payments Equilibrium
 - 3.18 Equitable Distribution of Income
 - 3.19 Reasons for Government Intervention in the Economy
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn that Government participation in economic activities varies according to the philosophy of the State. The proportion of total output produced through Government budget and total income collected in taxes are dependent on the economic doctrine of the State. Besides, the budgetary functions and other ways by which Government actions affect the course of economic activities include monetary, regulatory and other devices.

Public enterprises play a significant role in some States whereas they are of less importance in others. Public sector is that segment of an economy whose activities are under the control and direction of the State. The Nation owns all the resources and uses them for either the well being of the ruling class or that of the society as a whole.

Private sector, on the other hand, refers to that segment of the economy whose activities are under the control and direction of non-governmental organisations. Members of the society own the resources in this sector and use them for the maximisation of their goals. Since the public and private sectors interact, both of them should be given consideration. The effects of public tax and expenditure measures are dependent on the reactions of the private sector. Also, the need for fiscal measures is determined by how the private sector will perform.

Musgrave stated that the complexity of financial problems which operate through the revenue and expenditure processes of Government is traditionally referred to as 'Public Finance.' Prof. Dalton postulates that Public Finance is that which is concerned with the income and expenditure measures of public authorities. Therefore, Public Finance could be defined as the *financial operations of the public sector and the implications thereof* It analyses the effects of government taxation and other revenue sources and state expenditure on the economic situations of individuals, institutions and the whole economy. According to Taylor, Public Finance deals with the finance of the public as an organized group under the institution of government.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Apply the theory of Public Finance, public expenditure, revenue allocation, reasons for increase in Government expenditure, price stability, full employment.
- State and discuss the principles of taxation.

3.0 MAIN CONTENT

3.1 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 categorised into four, as follows:

- (a) Allocation of resources.
- (b) Adjustment in the distribution of incomes and wealth.
- (c) Stabilization of prices and employment, and
- (d) 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 knowledge 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.

3.2 The Theory of Revenue

This deals with the various sources through which Government generates funds to finance its activities. Such sources include taxation, borrowing, fines, fees, and income from public undertakings, rent and royalties. It also deals with the comparative advantages and disadvantages of each of these sources of revenue. Special attention should be paid to the treatment of taxation and public debt as sources of revenue.

3.3 The Financial Administration

Financial administration deals with Government budget, the implementation and evaluation of the various objectives set out in it.

3.4 The Theory of Public Revenue

Public revenue could be defined as the funds 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 Prof. Dalton, 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 emphasised in the 1979 Constitution of the Federal Republic of Nigeria in which Section 149 refers to 'revenue' and Section 74(1) refers to 'other moneys'.

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, licences, 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 favour of the latter. It is the oil revenue that now contributes the lion share 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.

Self-assessment exercise

In your own words, define Public Finance.

3.5 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 centres 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 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.

3.6 Causes of Revenue Allocation Problems in Nigeria

The factors causing perennial revenue allocation problems in Nigeria include:

(a) **Political and Economic Instability**

The political and economic instability in Nigeria has 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.

(b) **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 call for constitution review. This is one of the key issues which the National Assembly is now grappling with.

(c) **Financial Weakness:**

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.

(d) **Insincerity.**

There is an observation 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.

3.7 Nigeria's Experience in Revenue Allocation

Successive governments realised 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 formular for revenue distribution among the component parts of Nigeria. Notable revenue allocation Commissions are:

(a) **The Philipson Commission - 1946**

The constitutional change to be 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), licences, 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.

(b) The Hicks-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.

(c) The Chick Commission - 1953

The Constitutional conference of 1953 gave an opportunity for the review of the previous allocation scheme. 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.

(d) The 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.

(a) The B1nns 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.

(b) The 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.

(c) Dina Interim 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 had to be passed through the distributable pool account, except 20% of the 'onshore' mining rents and royalties due to the State of origin, on the basis of the principle of derivation.

(d) 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%

The Committee created a special grants account (3% from the Federal Government's share) to be administered by the Federal Military Government to the benefit of mineral producing States and other areas in need of rehabilitation from

emergencies and disasters. The principle for sharing among the States was built into five-factor formula, as follows:

- (a) Equality of access to development opportunities.
- (b) National minimum standards.
- (c) Absorptive capacity.
- (d) Independent revenue and tax effort.
- (e) Fiscal efficiency.

(e) The Okigbo Commission - 1979 was inaugurated on 23 November, 1979, to devise a method of allocation that would be understood and equitable. For this reason, the Commission deliberated on the meaning of "revenue" in Sections 149(1) and 149(6) of the 1979 Constitution and concluded that receipts from repayment of loans, sales of Government capital assets and reimbursements cannot be regarded as revenue and therefore should not form part of the Federation Account or the total revenue of the Federal Government,

The 1979 Constitution accorded the Federal Capital Territory, Abuja, the status of a State as from 1st October, 1979, participating with other States in the share of money from the Federation Account. Section 149 of the 1979 Constitution also provided that all revenue collected by the Federal Government should be paid into the Federation Account, except for the proceeds of personal income tax of the Armed Forces personnel, the Nigerian Police personnel, the Ministry of External Affairs and the residents of the Federal Capital Territory, Abuja.

The Commission recommended that the proceeds of the Federation Account should be shared among the Federal, State and the Local Governments, as listed hereunder:

- | | |
|------------------------|-----|
| (a) Federal Government | 53% |
| (b) State Government | 30% |
| (c) Local Government | 10% |
| (d) Special Fund | 7% |

The 7% Special Fund was to be applied as follows:

- | | |
|---|------|
| (a) Initial development of the Federal Capital Territory | 2.5% |
| (b) Special problems of mineral producing areas | 2.0% |
| (c) Ecological and similar problems: Flood, erosion, etc. | 1.0% |
| (d) Revenue Equalization Fund | 1.5% |

The Commission further recommended the use of four-factor formula

for allocation to the State Governments, using the following weights:

a)	Minimum responsibility of government		40%
b)	Population		40%
c)	Social development factor:		
	Direct primary school enrolment	11.25%	
	Inverse primary school enrolment	<u>3.75%</u>	15%
d)	Internal revenue effort		<u>5%</u>
			<u>100%</u>

The 3-tiers of Government prior to and mid-way into Ibrahim Babangida's regime, shared the proceeds of the Federation Account, thus:

(a)	Federal Government	55%
(b)	State Government	35%
(c)	Local Government	10%

The 35% accruing to the States which was paid into "States Joint Local Government Account" was in turn shared thus:

(a)	Direct to the States	30.5%
(b)	Mineral producing areas on derivation basis	2.0%
(c)	Amelioration of ecological problems	1.0%
(d)	Development of oil producing areas	1.5%

The respective shares of the various Governments out of the Federation Account are known as "Statutory Allocation." In his speech on the eve of his fourth year in office, Ibrahim Babangida announced a new revenue allocation formula approved by the Armed Forces Ruling Council (AFRC), as follows:

(a)	Federal Government	50%
(b)	State Governments	30%
(c)	Local Governments	15%
(d)	Special Funds	5%

The Armed Forces Ruling Council also decided that any surplus arising from the sale of gas should be separately accounted for and lodged in the Federation Account.

3.8 The National Revenue Mobilization Allocation and Fiscal Commission (NRMAFC)

The Commission headed by Lt. Gen. T. Y. Danjuma (Rtd) was established in 1989 as a permanent revenue allocation body. It was charged with the regular review of allocation formula.

The Commission applied the following basis, viz:

(a) Federal Government	48.5%
(b) State Government	24.0%
(c) Local Government	20.0%
(d) Special Funds	7.5%

The 7.5% of the special funds is utilized, thus:

(a) Ecological problems	2.0%
(b) Emergency problems	2.5%
(c) Mineral producing areas	3.0%

3.9 The Principles of Revenue Allocation

The various principles of revenue allocation which have been suggested and/or adopted over the years are summarised below:

- a) Derivation: The principle was mainly applied to the proceeds of exports and taxes on agricultural products. It asserts that the State from which the bulk of revenue is obtained should receive an extra share above what other States receive. This principle is hinged on the need to be just.
- b) Even Development The goal of Government is that the Federation itself should grow and develop at an optimal rate and that each constituent State should develop at that benchmark (but necessarily equally) rate. The principle requires that growth and development be spread so that serious inequalities or imbalances are reduced in the Federation. These may be achieved by sacrificing efficiency in the form of reduced overall growth.
- c) Need: The rate of development which a State is able to achieve depends on the revenue it can generate. The States require financial as well as other resources to maintain existing facilities and develop additional capacities. Given a set of these other resources, a State requires funds to enable it realise its potentials. When the needs of a State are put against those of others, it may require transfer of financial resources from one State to another.
- d) National Interest: This principle is used residually by the highest level of

Government to intervene and transfer funds to lower levels or Units to serve various considerations. It lies therefore in the sphere of discretionary grants to be administered by the highest tier, the Central Government of the Federation.

- e) Independent Revenue: The principle is that each level of Government should be able to raise and keep some revenue for its use. The bulk of the revenue of a State comes from what is raised and collected by the Federal Government. The main sources left to the State Governments are those on personal income taxes, capital gains tax from individuals, withholding tax and stamp duties, all of which should be exploited.
- (f) Continuity of Government Services: The principle suggests that each level of Government has certain minimum responsibility and that the level of services provided should not be allowed to fall below that minimum.
- (g) Equality of State: All men are created equal, but are endowed differently. Similarly, States are created equally but they emerge at creation and through passage of time, with different endowments of economic, financial and political power. The principle asserts that revenue sharing among the States should be done on equal basis.
- (h) Equality of Access to Development Opportunities: This principle was introduced to correct unequal endowments of the States. The principle asserts that preferential treatment should be given to those States which by some measure of development, lag behind others or fall below certain norms.
- (i) Absorptive Capacity It represents the capacity of a State to make proper use of funds. That means that funds should be released to those States which could best make use of them.
- (j) Population: The principle asserts that since Government is about people, development is about people and that the purpose of Government is the welfare of the people. Therefore, States with larger population should receive extra share over and above others with smaller population.
- (k) Tax Effort: The principle applied in most Federations, is designed to encourage States to exploit their tax capacities. The realization of a State's potential in respect of tax revenues will widen its development possibilities.
- (l) Fiscal Efficiency: This principle asserts that States would minimize the cost of fiscal administration or obtain the maximum revenue from a given cost. Fiscal efficiency reflects not only on the ability to raise taxes and collect them, but the

structure of tax base itself and the overall administrative machinery of government.

3.9.1 Reforms Suggested For Revenue Allocation In Nigeria

In spite of the large number of revenue allocation commissions which were set up and the number of amendments introduced into the allocation formula, revenue allocation issue has continued to generate wide spread controversy. It is on this premise that some notable experts have suggested the following reforms, with a view to address the problem of revenue allocation formula:

- (a) Increase the share of oil producing states.
- (b) De - emphasise the population criterion in revenue allocation.
- (c) The need for Local Government shares to pass through the State.

3.10 The Theory of Public Expenditure

Public expenditure refers to the expenses which Government incurs in the performance of its operations. With increasing State activities, it may be difficult to judge what portion of public expenditure can be ascribed to the maintenance of Government itself and what portion to the benefit of the society and the economy as a whole. In spite of the fact that public expenditure has increased rapidly over the years, and in spite of its growing role and importance in the national economy, the area of public expenditure remains relatively unexplored. Studies have generally been concentrated on taxation and the effects of public expenditure on employment and prices. Two notable theories of public expenditure are examined, viz:

- (a) *"The Law of Increasing State Activities"*: A German Economist- Adolph Wagner in 1890 postulated this theory. According to him, there are inherent tendencies for the activities of Government to grow, both intensively and extensively. He added that there exists a functional relationship between the growth of an economy and that of Government activities, and that the Governmental sector grows faster than the economy. All categories of Governments, irrespective of their levels, intentions and sizes, had exhibited the same kind of tendencies of increased expenditure.
- (b) *"The Displacement Theory"*
Jack Wiseman and Allan T. Peacock put forth the theory in 1961. Their main argument was that public expenditure does not increase in a straight or continuous manner, but in "Jack or Stepwise" fashion. At times, some social or other disturbances occur which show the need for increase in public expenditure, which the existing level of revenue cannot meet. Therefore, public expenditure increases will make the inadequacy of the existing level of revenue clear to everyone. The movement from the initial and low level of expenditure and taxation to a new and

higher level is known as the "displacement effect," while the inadequacy of the revenue as compared with the required expenditure creates the "inspection effect." Both Government and the people would attain a new level of "tax tolerance" by reviewing the revenue position and finding solution to the problem of inadequate finance. Since each major disturbance always leads Government to assume a larger proportion of the national economic activities, the net result is the 'concentration effect'. Therefore, 'concentration effect' is the tendency for Government activities to grow faster than the economy.

3.11 Reasons for Increase in Government Expenditure

A number of factors have been identified as inevitably leading to growth in Government spending in many countries over time. Some of these factors are general, and apply to all countries, while others are specific to some developing countries, such as Nigeria. The major reasons include the following:

- (a) The traditional functions of Government such as defence, maintenance of law and order, are becoming extensive and cumbersome. Defence is becoming expensive more than ever before. The country's administrative set up is increasing both in coverage and intensity. For example, Government machinery has to be manned by experts in their respective fields. In addition, various complexities of economic and social measures develop which make efficient administration complex and expensive.
- (b) Apart from the traditional functions of the State, there is the growing awareness of additional responsibilities. Government is expanding its activities in various areas which include the need to enrich the cultural life of the society and those designed to provide social securities to the people, such as pensions and old peoples' homes.
- (c) Increasing population is also a determinant of public expenditure growth. The scale of various public goods and services has to rise in conformity with the growth of the population. The need for more schools, hospitals, security etc cannot be over-emphasized in the light of increasing population.
- (d) It has been suggested that urbanisation and the resulting congestion have increased the need for more infrastructure, public goods and services. Moreover, quite a number of incidental services as those connected with traffic, roads, pedestrian bridge have to be provided.
- (e) The tendency for prices to go up has equally contributed to the growth of public expenditure. The increase in the prices of inputs and other goods purchased by

the public has resulted in an increase in public expenditure. It is the responsibility of Government to protect the citizenry against the evils of price mechanism. Consequently, anti-cyclical and other regulatory measures are put in place. Efforts are made to reduce income and wealth inequalities and bring about social and economic justice.

- (f) Increasing public expenditure can also be explained in terms of increasing cost of debt servicing. Since States are related to one another through various economic transactions, there are tendencies to run into debts which have to be settled.
- (g) Efforts of Government to reduce income and wealth inequalities, bring about social and economic justice and protect the economy from market failures entail the adoption of anti-cyclical and other regulatory measures which invariably increase public expenditure.
- (h) Subsidies and other avoidable commitments also contribute to increase in public expenditure.
- (h) In view of the size and nature of public services increasing specializations are required. Improved quality services and higher qualified administrators, engineers, technicians, teachers, medical personnel, etc, imply higher cost of public services which will also bring about increased public expenditure.

Self-assessment exercise

List the Principles of Revenue Allocation

3.12 The Effects of Public Expenditure

These may be appreciated, thus:

(a) Public Expenditure and Economic Stabilisation:

The philosophy of laissez faire leaves much to be desired in terms of economic results. The more advanced and free the market, the more the economy is prone to the vagaries of income, employment and price fluctuations. Public expenditure as an anti-cyclical tool can be devised in such a manner as to create effective demand, thereby stimulating investment activities. It may be emphasised that the total demand need to be regulated so that the demand flows match the supply flows, otherwise the stimulating effect would result in inflationary pressure.

(b) Public Expenditure and Production:

Public expenditure can help the economy to attain a higher level of production. Through stimulation of investments, it can create conditions favourable for

market forces to push up production. It can be used to create human skills through education and training and maintenance of social overheads. Public sector investment can be specifically directed towards the creation of particular supplies and facilities, which may form an important and necessary input for other industries. Through research and development, new and effective methods of production can be found whereby local resources are used.

(c) Public Expenditure and Economic Growth:

In a developed economy, through economic stabilisation and stimulation of investment activities, public expenditure helps to maintain a smooth growth rate. In an under-developed economy, public expenditure has an important role to play in reducing regional disparities, developing social overheads, creation of infrastructure for economic growth in terms of communication and transportation facilities, education and training, growth of capital goods industries, research and development. When expenditure is incurred, it may be directed towards a particular investment or used to bring about reallocation of investible resources in the private sector of the economy. An important way in which expenditure can accelerate the rate of economic activities is by reducing the divergence between the social and marginal productivity of certain investments.

(d) Public Expenditure and Distribution:

A serious havoc of market mechanism is the inequalities of income and wealth which arise and get widened through the institution of private property and inheritance. Such income and wealth disparities not only result in social and economic injustice but also distort production and employment patterns. Low level income and wealth inequalities contribute towards economic instability. Welfare consideration favours an equitable distribution of income and wealth since the purpose of economic policy is to attain the maximum level of social benefits possible. A shift towards equality may be achieved through various forms of public expenditure, especially those that are meant to help the poorer sector of the society. Items of common consumption may be subsidised while the production of those which are in short supply can be taken up by the public sector.

In the face of market mechanism the supply of merit goods may not be possible. Public expenditure through direct purchase, production or subsidies can ensure that their supply is augmented to the desired level. Similarly, public expenditure through appropriate subsidies and other purchase and store policies can boost labour intensive technology of production, thereby reducing unemployment and improving income and wealth distribution.

3.12.1 Standard Expenditure Decisions

Expenditure decisions should be guided by the following standards, among others:

- (a) **Economy:** The nation's resources are scarce, compared with the needs of the society. It is therefore important that no wastage is allowed in public expenditure. The process of public spending should not involve the use of more resources than are actually necessary. Wasteful usage of public fund must be avoided. Scientific approach towards assessment of required expenditure must be adopted. Budgeting techniques such as Planning and Programming Budgeting System and Zero-Base Budgeting System could be adopted.
- (b) **Benefit:** Every public expenditure should be viewed against the benefits that will accrue therefrom. It should be incurred only if it is beneficial to the society.
- (c) **Surplus:** Government should avoid persistent deficit budgeting. It should be consistently prudent and aim at meeting its current expenditure needs out of current revenue. Government should not over-spend and eventually run into debt. Moderate surpluses over some years will take care of any unavoidable deficit during any other year.
- (d) **Sanction:** All public expenditure should be subjected to legal appropriations and authorisations. Any contravention of expenditure procedure and due process should be sanctioned. As required by law all unspent appropriations should be returned to the Treasury at the financial year end.

3.13 Price Stability

Price stability refers to a situation where the general price level of goods and services changes very little or experiences no change at all. Price level stability exists where the annual rate of increase in prices, measured by the appropriate indices, is less than 2%. Common measures of price stability are:

- (a) Consumer price index.
- (b) Wholesale price index.
- (c) National product deflator.

3.14 Full Employment

Full employment is a concept that cannot be precisely defined. Full employment does not mean that everyone has a job. This is because there will always be people such as babies, and very old people who cannot work, even if they are willing to do so. This situation makes every Government to define its full employment level. For example, in the United States of America full employment level is 97%, In Canada it is 96%. The balances of 3% and 4% respectively are the unemployment rates. In Nigeria, however, full employment policy has not been given a place of prominence and specific target has

not been a consideration. Unemployment is a 'welfare loss' to the society in terms of total output that is being forgone. It is equally a 'welfare burden' borne by the individuals.

3.15 Economic Growth

Economic growth can be defined as an increase in a country's physical output over a long period of time. A country is said to have experienced economic growth when the real output of goods and services is increasing at a faster rate than the rate of growth of its population. Countries pursue economic growth in order to enjoy the benefit of a greater output, thus improving the standard of living of their citizens.

3.16 Economic Development

Economic development can be defined as the elimination or reduction in poverty, inequality and unemployment within the context of a growing economy; there may be growth without economic development.

3.17 Balance Of Payments (Bop) Equilibrium

Balance Of Payments (BOP) equilibrium is a record of a country's transactions with the rest of the world, over a period of time, in respect of visible and invisible items. The balance of payments index provides an indicator of a country's international economic position. Because of the importance of the above index, balance of payments equilibrium becomes an important objective of economic stabilization policy.

3.18 Equitable Distribution of Income

This has to do with how income is being distributed in the economy. Normal expectation is a fair and equitable distribution. Unfortunately, in less developed countries the income distribution pattern is asymmetrical, i.e. it is not evenly distributed. This accounts for the widespread poverty in such countries.

The policy instruments used to achieve the above macro-economic objective include:

- (a) Monetary Policies.
- (b) Fiscal Policies.
- (c) Income Policy.

The monetary policy is a measure designed to influence cost, allocation and distribution of credit in order to change the level of money supply in the economy.

A fiscal policy refers to the deliberate action which Government takes in the areas of spending and/or levying taxes, with the objective of achieving macroeconomic variable.

The income policy, on the other hand, relates to the regulation of the rewards that go to the factors of production such as labour (minimum wage legislation). It also includes the regulation of product prices (minimum and maximum price legislation).

3.19 Reasons for Government Intervention in Economy

Many arguments have been put forward to justify Government intervention in / or existence in the economy. These arguments include:

(a) The problem of economic instability

It has been observed that price mechanism creates the problem of economic instability such as inflation, unemployment and trade imbalance. The only way by which the problem can be minimized is to allow Government to exist in an economy.

(b) The problem of market imperfection

In an economy where there are problems of market imperfection such as the existence of monopoly, it is not appropriate to allow price mechanism to allocate resources. Consequently, as a way of solving the problem, Government needs to exist in the economy, so as to provide social or public goods, such as education, healthcare services, defence and electricity. The only way to guarantee the provision of these services cheaply to the society is for Government to monopolize their production and distribution.

(c) The rationale for planning

Government intervention permits the economy to be well planned for the purpose of accelerating economic growth and development. It also permits the establishment of strategic industries such as iron and steel.

(d) Government exists in an economy for redistribution reasons. In the absence of Government intervention, the prevailing state of income distribution depends on factor endowments and their rewards in the market. The distribution of income may not be in line with what the society considers as fair or just, hence the need for Government intervention.

(e) The divergences between private benefit and social costs and between social benefit and private costs dictate the need for Government's presence.

Self-assessment exercise

Discuss the effect of public expenditure in Nigeria.

4.0 CONCLUSION

In this unit it was concluded that Public Finance is also concerned with how Government allocates costs or benefits when externality occurs. The income distribution aspect of Public Finance is concerned with how income is distributed in an economy. Public Finance is therefore, concerned with those policies aimed at ensuring a just and fair distribution of income.

5.0 SUMMARY

Public Finance deals with the features and methods of funding Government expenditure and the keeping of adequate records for money raised and spent. Essentially, Public Finance deals with acquiring, spending and accounting for money which passes through the Government. It is a branch of economics which is concerned with the finance and economic activities of the public sector.

Most of the early writers on the subject focused on different areas. Adam Smith focused on taxation. *David Richard* and J. S. Mill laid emphasis on revenue, expenditure and public debt. A.C. Pigou in his own contribution dealt with taxation principles which are based on the theory of 'economic welfare'. He stated that taxes are levied in such a way that the overall marginal sacrifice of taxation is equal to the overall marginal benefit of public expenditure. This implies that the benefit obtained from an additional unit of expenditure is equal to the sacrifice that has to be made when an additional unit of tax is levied.

The theory of Public Finance as propounded by the above-named economists, can be grouped into two (2), namely:

- (a) The Principle of Public Expenditure.
- (b) The Principle of Taxation.

In recent years, Public Finance has tended to shift from the traditional taxation and expenditure approach to that of stabilisation and general application of macro-economic models.

Economists such as Musgrave and Prese focused on resource allocation, income distribution and stabilisation aspects. In respect of resource allocation, Government plays a paramount role in the economy because of market failure.

The stabilization aspect of Public Finance is concerned with achieving macro-economic objectives such as:

- (a) Economic growth and development.
- (b) Price stability.
- (c) Balance of payment equilibrium
- (d) Equitable distribution of income.
- (e) Full employment.

6.0 TUTOR-MARKED ASSIGNMENT

- a) Discuss the theory of Public Finance.

- b) State and discuss the principle of Taxation

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 3 PUBLIC DEBT AND ITS MANAGEMENT IN NIGERIA

CONTENTS

- 1.0 Introduction to 'Public Debt'
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Internal or Domestic Debt
 - 3.1.1 Instruments of Domestic Borrowing
 - 3.1.2 Causes of Domestic Debt
 - 3.1.3 Management of Internal or Domestic Debt
 - 3.1.4 Economic Indicators of Domestic Debt
 - 3.2 External or Foreign Debt
 - 3.2.1 Causes of Increased External Debt Burden
 - 3.2.2 External Debt Management
 - 3.2.3 New Guidelines on Borrowing as enunciated by the Fiscal Responsibility Act,
 - 3.2.3.1 Borrowing is interpreted to mean any financial obligation arising from:
 - 3.2.3.2 Conditions for Borrowing
 - 3.2.4 Foreign Aid
 - 3.3 General Causes of Public Debt
 - 3.4 Consequences of Public Debt
 - 3.5 Approaches to Solving Debt Problems in Nigeria
 - 3.6 Causes of Nigeria's Debt Crisis
 - 3.7 Getting Out Of External Debt Trap
 - 3.8 Reasons for Borrowing
 - 3.9 Disadvantages of Borrowing
 - 3.10 Debt Conversion Programme
 - 3.11 Objectives of Debt Equity Swap or Debt Conversion Programme
 - 3.12 Categories of Eligible Transactions for Debt Conversion
 - 3.13 Priorities within Eligible Transaction Categories
 - 3.14 Problems of Debt Conversion Programme
 - 3.15 Minimizing the Problems of Debt Conversion Programme
 - 3.16 General Obligation Bonds
 - 3.17 Special Assessment Bond
 - 3.18 Documentation for State Government Debt Instrument Project -Tied Debt
 - 3.19 Problems Facing State Government in Financing Projects through the Capital Market
 - 3.20 Special Requirements for Revenue Bonds

- 3.21 Debt Ratio
- 3.22 Paris Club
- 3.23 The Principles of Paris Club Rescheduling
 - 3.23.1 The Principle of Imminent Default
 - 3.23.2 The Principle of Burden Sharing
 - 3.23.3 The Principle of Conditionality
- 3.24 Funded and Unfunded Debt (Loan)
 - 3.24.1 Funded Debt
 - 3.24.2 Unfunded Debt
- 3.25 Floating Debts
- 3.26 Marketable Loan
- 3.27 Non-Marketable Loans
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION TO 'PUBLIC DEBT'

In this unit, you will learn that 'Debt' arises when income falls short of expenditure. 'Public debt' is therefore that part of money owed by the Government to various creditors, institutions, other governments and individuals resident in and outside Nigeria. The Debt Management Office in the Presidency manages the Nation's public debt. Debts can be either marketable or non-marketable. Marketable debts are those which can be bought and sold in the financial market. In Nigeria marketable debts include Treasury Bills (short term debts traded in the money market) and Government stocks (long term debts traded on the Stock Exchange). Non-marketable debts are those which have been issued in favour of specified debt holders and cannot be sold to others. They cannot be traded either in the money market or the stock exchange.

One of the functions of the Central Bank is to oversee the finances and accounts of the Nation. Its other functions include raising money from internal and external sources for the execution of Government programmes. The money so raised remains a debt owed by the Nation until it is repaid. This debt is commonly referred to as 'public debt'.

There are different types of debts. They include:

- (a) Trade debts. They arise when Nigeria trades with other countries and is unable to pay either partly or wholly for the goods and services received. The overall trading position (classified into current and capital accounts) constitutes the balance of payments position which may be favourable, when it is a surplus or unfavourable when it is a deficit.
- (b) Balance of payments support loans. They are obtained to address a persistent

unfavourable balance of payments position, often referred to as "balance of payments disequilibrium."

- (c) Project-tied loan investments with good prospects of accelerating economic growth and development. As implied, this type of debt is expected to be self-liquidating, all things being equal. In some cases, the provision of socio-economic needs such as utilities and social services of the people may necessitate borrowing by Government to finance such needs, the components of public debt carry different maturities. The debt components may be of short, medium or long-term maturity. The classification indicates the maturity pattern of the original debt. Short-term debts have maturity period of a year. Medium-term debts may mature for payment in two or three years. Long-term debts have maturity of five years and more. The structure of the maturity pattern of the debts of a country determines the relative ease with which interest and principal re-payments are made.

Debts contracted before 1978 were the concessional types which carried longer repayment periods and low interest rates. However, from 1978 onwards, due to the oil glut which exerted considerable pressure on Government finances, it became expedient to borrow for balance of payments support and project financing. This led to the promulgation of Decree 30 of 1978, authorising the Federal Government to raise external loans up to a maximum of N5billion. The spate of borrowings however increased as State Governments entered into the borrowing picture. The portion of bilateral loans declined, while borrowing from the private sources at stiffer rates, increased. By 1982, the total external debt stock was \$13.1billion. By 1988, the total external debt stock rose to \$27.3billion. This figure grew to \$33.4billion in 1991.

Debt management has become a major responsibility of the Debt Management Office in the Presidency in recent times. It was a major responsibility of the Central Bank of Nigeria, to undertake the function in conjunction with the Ministry of Finance Incorporated (MOH) in the Office of the Accountant-General of the Federation. Debt management refers to how the Central Government deals with the public debt stock without bringing about adverse economic effects. In recent times, the level of debt accumulated by developing economies reached an alarming proportion that the need simultaneously arose for proper and diligent management. Numerous factors have contributed to the size of Nigeria's public debt (domestic and external) which by end of 1991, stood at US \$33.2 billion. They include the:

- (a) Rapid growth of public expenditure.
- (b) Decline in oil earnings.
- (c) Emergence of Trade Arrears.
- (d) Severe inflationary pressure.

The issue of public debt can be examined from two perspectives, namely:

Internal/Domestic Debt and External/Foreign Debt.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Provide detailed causes of internal (domestic) and external (foreign) debts.
- Discuss external debt management.
- State general causes of public debt and consequences.
- Identify causes of Nigeria's debt crisis.
- Explain relief for Nigeria's debt situation.
- State reasons for and disadvantages of borrowing.

3.0 MAIN CONTENT

3.1 Internal or Domestic Debt

Nigeria has contracted a number of domestic debt obligations, which can be classified into two major groups, discussed as follows:

- (a) Internal debts contracted through financial instruments. This type of internal public debt is contracted through the financial instruments of the Central Bank of Nigeria, from the Commercial and Merchant Banks and the non-bank public. The debts are normally contracted through financial instruments such as Treasury Bills, Treasury Certificates and Government Development Stocks. The Central Bank of Nigeria underwrites the instruments on behalf of the Federal Government and takes up unsubscribed parts of the loans.
- (b) "Trade-related" debts owed directly to contractors and suppliers. Government borrows from the economy for the purpose of financing certain expenditure that will alter the position of economic variables like consumption, saving and investment, employment, price level and output of goods and services. This arises when payments to contractors and suppliers are delayed or remain unpaid by Government due to lack of fund.

The increase in the domestic debts reflected the rapidity with which debt procurement was carried out to finance projects. The increase also reflected the rapid changes in the indices of the macro-economic environment. Mature debts were often liquidated by re-issuing new debt instruments, hence the contention that Government does not repay debt arising from the issue of Treasury Bills. Currently, Treasury Bills constitute the largest source of domestic debts while the Central Bank of Nigeria is the largest holder of short-term domestic debts,

reflecting its outstanding attribute of underwriting role.

3.1.1 Instruments of Domestic Borrowing

Government projects are usually financed through the issuance of debt instruments such as Treasury Bills, Treasury Certificates, Government Development Stocks, General Obligation Bonds, Revenue Bonds, and Special Assessment Bonds. The most frequently used of the instruments are discussed as follows:

- (a) *Treasury Bills (TBs)*- These are highly liquid financial obligations of the Federal Government issued by the Central Bank of Nigeria, in multiples of 41,000 every week, with 91 days maturity. They are principal instruments of open market operations in Nigeria.
- (b) *Treasury Certificates* - They are financial instruments just as Treasury bills, with maturity ranging from one to two years. The Treasury Certificate interest rates are usually higher than those of Treasury Bills. The major investors in Treasury Certificates are the discount houses, commercial and merchant banks.
- (c) *Government Development Stocks* - Development stocks are capital market instruments. They are either medium or longterm, issued to finance development projects or plans. The longer the maturity the higher the yield. The principal investors in development stocks are the insurance companies, commercial banks, Central Bank of Nigeria and other types of institutions like mortgage banks. Federal Government Stocks are debts raised by the country. The issuance procedure is usually handled and managed by the Central Bank of Nigeria, which files its application with the Securities and Exchange Commission. The security is approved for listing on the Stock Exchange.
- (d) *Revenue Bonds* - Revenue Bonds are issued by the State and Local Government Councils. They are backed up by the pledge of revenue to be generated from the project being financed. They are municipal bonds issued on the promise that principal and interest will be repaid from the revenue generated from the facilities to be constructed with the proceeds of the issue.

3.1.2 Causes of Domestic Debt

The rapid increase in the stock of domestic debts is caused primarily by the need to:

- (a) Finance ever-rising Government expenditure.
- (b) Finance Government budget deficit
- (c) React positively to increased socio-economic responsibilities.
- (d) Finance high domestic and international inflation rates, resulting in increased cost of Government administration and development programmes.
- (e) Cope with the sharp decline in Government revenue, following the collapse of the international market.

3.1.3 Management of Internal or Domestic Debt

The management of domestic debt by the Federal Government is a statutory obligation of the Central Bank of Nigeria, but which is now handled by the Debt Management Office in the Presidency. It is the Central Bank which is entrusted with the issue and management of Federal Government loans publicly issued in Nigeria, upon such terms and conditions as may be agreed between the Federal Government the banks and the contractors. The management of domestic debt involves:

- (a) Advising on the timing of flotation of debt instruments and terms of issue.
- (b) Advertising for public subscriptions to the issue.
- (c) Collecting the proceeds of issue by the Central Bank of Nigeria on behalf of the Government and maintaining proper books of accounts in respect of receipts and disbursements.
- (d) Supervising the issue of certificates and warrants to the lenders.
- (e) Paying of interest and principal on the due dates.
- (f) Managing the 'sinking fund' set up to facilitate debt redemption.
- (g) Providing information on regular basis and advising Government about the position and implications of domestic debt.

3.1.4 Economic Indicators of Domestic Debt

Some economic indicators of domestic debt burden are the ratios of debt stock and the fiscal deficit to the Nation's gross domestic product. The ratios were 5% and 6.9% in 1970 and 1974, respectively.

By the middle and late 1970's, when domestic debt instruments became veritable sources of financing the budget deficit of the Government, the domestic debt stock as a ratio of the gross domestic product rose rapidly from 8% in 1975 to 21% in 1980. Thereafter, the ratio rose even more sharply, registering 39% and 41% in 1985 and 1991, respectively. Similarly, the annual budget deficit as a percentage of the gross domestic product rose significantly, fluctuating between 4% and 10% during 1980 and 1986, and standing at 12.4% at the end of 1991.

The lower the ratio of debt to the gross domestic product, the less harsh the debt repayment and service terms.

3.2 External or Foreign Debt

Securing external loan is inevitable for a Government when the economy faces financial crisis. There is no doubt that Nigeria, like other developing countries, is facing serious debt crisis. It has therefore emphasised the use of external loans for financing public expenditure. External loans can be received from the Government of another country, and

from international financial institutions like the World Bank and International Monetary Fund (IMF).

The origin of external debt dates back to 1958 when US\$28million was contracted for the Nigerian Railway project. Note that this was a time the Nigerian pound was worth more than one US dollar. However, the debt has now been fully repaid. The external loan sources are the:

- (a) Paris Club of Creditors, representing official Government creditors such as:
 - (i) United States of America.
 - (ii) United Kingdom.
 - (iii) Federal Republic of Germany.
 - (iv) France.
 - (v) Canada.

Out of the \$30bn dollars owed the Paris Club, a total of \$12.4 bn was repaid in 2006 while the balance was written off in form of debt relief. The repayment was part of the economic reform strategies of Obasanjo regime.

- (b) London Club of Creditors, representing -
 - (i) Commercial banks spread all over the world.
 - (ii) Multilateral creditors as the World Bank, International Monetary Fund. (IMF), African Development Bank (ADB) and European Investment Bank (EIB),
 - (iii) Promissory Note holders (creditors in respect of refinanced debts).
 - (iv) Other bilateral creditors.

3.2.1 Causes of Increased External Debt Burden

The rapid increase in external debt stock is due to:

- (a) Substantial growth in imports. The ability to settle import bills became seriously constrained as reflected in the rapid build-up of trade arrears which rose sharply.
- (b) Drastic reduction in export earnings, following the oil crisis which made it difficult to meet debt obligations which fell due.
- (c) Financing of domestic projects which could not pay their way. Instability of the exchange rate also increased the hardship.

3.2.2 External Debt Management

External debt management is a conscious and carefully planned schedule of the acquisition, deployment and retirement of loans acquired, for either development purposes or to support the balance of payments position. It incorporates the estimates of foreign exchange earnings, sources of financing the project returns from the investment

and the repayment schedule. It also includes an assessment of the country's capability to service the existing debts and judgment of the desirability of contracting further loans.

Nigeria's external debt management strategies have varied from time to time since the early 1980's when the debt crisis became pronounced. However, a more pragmatic, articulate and all-embracing plan was set on in 1988, with the following policy objectives:

- (a) To outline strategies for increased foreign exchange earnings, thereby reducing the need for external borrowing.
- (b) To set out the criteria for borrowing from external sources and determining the type of projects for which external loans may be obtained.
- (c) To outline the mechanism for servicing external debts of the public and private sectors.
- (d) To outline the roles and responsibilities of the various organs of the Federal and State Governments as well as those of the private sector, in the management of external debt.

Consequently, the following policy guidelines were issued as regards Government borrowing:

- (a) Economic sector projects should have positive internal rate of return as high as the cost of borrowing.
- (b) Social services or infrastructural endeavours would be ranked on the basis of their cost/benefit ratios.
- (c) Projects to be financed with external loans should be supported with feasibility studies, including loan acquisition, deployment and retirement plan schedule.
- (d) External loan for private and public sector projects of quick yielding nature can be sourced from concessional financing institutions.
- (e) Borrowing State Governments, Parastatals and private agencies should obtain the advance approval of the Federal Government. This requirement is to ensure that the borrowing conforms with the national objectives.
- (f) State Government borrowing proposals should be submitted to the Federal Ministry of Finance and Economic Development and the Central Bank of Nigeria for consideration, before they are incorporated in the final public sector borrowing in the annual budget.
- (g) State Governments and their agencies as well as the Federal Government Parastatals should service their debt through the Foreign Exchange Market, and inform the Federal Ministry of Finance and Economic Development for record purposes. Failure of the State Governments to service their debts will result in the naira equivalent being deducted at source before the balance of their statutory allocations are released.
- (h) On 'loan on-lent by the Federal Government to the State Government, the Federal

Ministry of Finance and Economic Development would make due payment and deduct the full amount at source from the statutory allocations of the borrowing States.

- (i) The private sector industries which are export-oriented should service their debts from their export earnings while others should utilize the foreign exchange market facilities.

3.2.3 New Guidelines on Borrowing as enunciated by the Fiscal Responsibility Act, 2007

3.2.3.1 Borrowing is interpreted to mean any financial obligation arising from:

- (a) any loan, including principal, interest and fees on such loan;
- (b) deferred payment for property, goods or services;
- (c) bonds, debentures, notes or similar instruments;
- (d) letters of credit and reimbursement obligations in respect thereto;
- (e) trade or bankers' acceptance;
- (f) capitalised amount of obligations under leases entered into primarily as a method of raising financing or of financing the acquisition of the asset leased;
- (g) agreements providing for swaps, ceiling rates, ceiling and floor rates, contingent participation or other hedging mechanisms with respect to the payment of interest or the convertibility of currency; and
- (h) conditional sale agreements, capital leases or other title retention agreement.

3.2.3.2 Conditions for Borrowing

- (a) Any Government in the Federation or its agency and Corporations which intend to borrow, should specify the purpose for which the borrowing is intended and present a cost-benefit analysis, detailing the economic and social benefits of the purpose to which the intended borrowing is to be applied.
- (b) Government at all tiers shall borrow only for capital expenditure and human development, and such borrowing shall be on concessional terms with low interest rate and with a reasonable long amortization period.
- (c) Each borrowing shall be subject to:
 - (i) The existence of prior authorisation in the Appropriation or other Act or Law for the purpose for which the borrowing is to be utilised.
 - (ii) The proceeds of the borrowing being applied solely towards long-term capital expenditure.
- (d) Level of public debt as a proportion of national income should be held at a sustainable level as prescribed by the National Assembly.
- (e) Federal Government may borrow from the Capital Market.
- (f) The Fiscal Responsibility Commission shall verify compliance with the limits

and conditions for borrowing by each Government in the Federation on quarterly basis.

- (g) The Debt Management Office shall maintain comprehensive, reliable and current electronic data base of internal and external public debts, guaranteeing public access to the information.
- (h) Servicing of external debts will be the direct responsibility of the Government that incurred the debt.
- (i) The cost of servicing Federal Government guaranteed loans shall be deducted at source from the share of the debtor Government from the Federation Account.
- (j) Violators of the limits set by the Constitution and relevant Act shall:
 - (i) be prohibited from borrowing either internally or externally;
 - (ii) bring the debt within the established limit by restricting funding commitments.
- (k) All banks and financial institutions shall request and obtain proof of compliance with the provisions of the relevant sections of the Fiscal Responsibility Act before lending to any Government in the Federation.

3.2.4 Foreign Aid

Foreign aid has not been flowing in as expected. Foreign aid to poor countries has declined from what it used to be in the past. International transfer of public funds had closed the gap or had replaced or solved the problem of shortage of foreign aid.

From either bilateral or multilateral source, the positive effect of aid to a receiver country is considered too marginal to the adverse repercussion, which it usually creates. Many adverse repercussions have been advanced in the economic literature.

3.3 General Causes of Public Debt

At independence, African Governments had little choice but to increase expenditure, even if they had to borrow, for survival and developmental projects. The following reasons justified the need to borrow so heavily, as at that time, viz.:

- (a) Increased population, with the attendant responsibility to cater for the welfare of the people.
- (b) Need to provide infrastructural amenities in cities and villages.
- (c) The problem of urbanisation.
- (d) The pace of industrialisation.
- (e) Expansion of Governmental activities and facilities such as the creation of Ministries, Government Departments and Local Government Councils.
- (f) Provision of social security, state security, health, education, etc.
- (g) Inability to collect revenue efficiently.
- (h) Need to provide employment, improve the standard of living and general

economic well being of the citizens.

3.4 Consequences of Public Debt

- (a) Funding excessive interest rate on public debt is in hard currency which poses a serious burden on the Government and the society at large.
- (b) Capital repayment presents serious imposition on the economy, since Government must find the means to repay.
- (c) Borrowing makes the Government to have more cash to fund its various expenditure. A direct effect of this are rising costs and prices.
- (d) Stiff borrowing conditions from the international financial institutions carry grave repercussions such as expenditure reduction, trade liberalization and economic disorder. These demand highly technical approach to economy, which developing Nations lack and which result in economic hardship to the people.
- (e) The problem of committing short and medium-term loans to long term projects. A good number of projects were hardly completed before amortisation was due, thus aggravating the debt servicing problem.
- (f) Several economies are characterised by heavy dependence on one or a few agricultural and mineral products. The manufacturing sector at the infant stage relied heavily on imported inputs hence, the vulnerability to external debt portfolios.
- (g) Dwindling foreign exchange receipts and decline procurement in development assistance and other concessional loans led to procurement of loans at high costs and stiff conditionalities which ultimately caused aggregate external debt to increase considerably.
- (h) Borrowed funds were not used to finance economically viable projects. They were diverted to prestigious projects which had little or no economic benefits. Besides, there was the Nation's inability to generate enough foreign exchange with which to repay the externally borrowed funds.
- (i) Occurrence of natural disasters such as persistent drought, desertification and decimation of crops. Apart from reducing the level of exports, those disasters had also led to increase in the food import bills. Such imports were either financed with borrowed funds or they contributed to the build-up in the payment arrears.

3.5 Approaches to Solving Debt Problems in Nigeria

As part of the efforts to reduce the burden of external debt in Nigeria, the following measures have been taken in recent years:

- (a) Placement of embargo on new loans to prevent additional debt burden and fixing the maximum level of debt commitment for Federal and State Governments.
- (b) Reduction of importation of non-essential items.

3.6 Causes of Nigeria's Debt Crisis

There are factors which led Nigeria and other developing countries into the debt crises. The major causes include the following:

- (a) Change in the economic fortune in the oil sector. Nigeria enjoyed oil boom in the 70's and what followed was excessive supply of crude petroleum, leading to oil glut in the world market and sharp drop in revenue.
- (b) Nature of Nigeria's Economy. Nigeria's economy is heavily dependent on one or a few agricultural or mineral commodities. The manufacturing sector is mostly at the infant stage and relies heavily on imported inputs. Nigeria equally depends on the advanced countries for the supply of other imports and finance needed for economic development.
- (c) The shift from official to private sources of credit. For a private loan, interest would be higher and the period of maturity very short, while the reverse is the case in respect of an official loan.
- (d) The problem of satisfying the International Monetary Fund's conditionalities has made developing countries, including Nigeria, to accept expensive loans from private money lenders, the effect of which is the problem of debt service.
- (e) The low level of savings and high propensity to consume foreign goods.
- (f) Gross mismanagement, compounded by inappropriate monetary, fiscal and exchange rate policies.

3.7 Getting Out Of External Debt Trap

Having identified the various causes of Nigeria's debt problems, the following methods appear to offer reliefs from the seeming debt trap:

- (a) Debt rescheduling.
- (b) Debt-equity conversions.
- (c) Introduction of counter trade.
- (d) Ban on external loans.
- (e) Reliance on foreign aid or assistance.
- (f) Debt forgiveness / relief.
- (g) Debt repudiation.
- (h) Economic restructuring programme (This is a long-term solution).

The recipes highlighted above are hereby discussed in more detail:

- (a) Debt Rescheduling

This involves the re-arrangement of the repayment terms of debt by adjusting the interest rate, the grace period, the principal sum to be liquidated and maturity date. The strategy does not lead to any reduction in the stock of debt. Rather, it facilitates the management of the debts by providing some relief. For instance, Nigeria negotiated series of rescheduling arrangements with the Paris Club of Creditors, between 1986 and 1991. However, the use of this method has been criticised because it merely postpones the 'evil day' for the debtor Nation.

(b) Debt-Equity Conversion

Nigerian Government is currently applying debt-equity swap. It is an idea of converting foreign debt into equity shares in local companies. The benefits associated with this approach are:

- (i) It will make the economic environment attractive for foreign investment.
- (ii) It will reduce the outstanding stock of the nation's external debts, a situation that is likely to reduce debt service burden.
- (iii) It will encourage the creation and development of export-oriented industries, thereby diversifying the export base of Nigeria's economy.
- (iv) It is likely to increase access to the appropriate technology, external market and other benefits associated with foreign investment.

However, there are possible demerits of this option. They are:

- (i) Large increase in money supply that will accompany debt-equity conversion may complicate the problems of inflation.
- (ii) The likely foreign domination in terms of ownership of assets, may not favour the country's economic growth and development and political freedom.

(c) Counter-Trade

Counter-trade represents a trade arrangement between two countries under which one Nation makes its major export available to another country, in exchange for a major import. In the past Nigeria considered counter trade as a viable medium of international trade, due to the country's deteriorating 'balance of payments' position. Nigeria used this method to obtain raw materials for the development of the petrochemical industries and Ajaokuta Steel Industry. Algeria and Brazil entered into counter trade agreement with Nigeria in 1984.

(d) Ban on External Borrowing

This was a temporary measure designed to stop the Government from further borrowing.

(e) Reliance on Foreign Aid or Assistance

The word 'foreign' represents international transfer of public fund in form of grants, either directly from one Government to another (bilateral assistance) or

through the vehicle of institutions such as the World Bank (multilateral assistance).

(f) Debt Repudiation

This involves disowning the debt completely. This approach had been advocated by many economists. Fidel Castro, in his own contribution, did not see any sense in developing countries paying back the debt in view of past colonisation and neo-colonisation experiences. African countries had more than paid for the debts, according to Fidel Castro of Cuba. However, there is the possibility of the imposition of sanctions by the International Monetary Fund and World Bank, if Nigeria should illegally repudiate its indebtedness.

(g) Debt Forgiveness! Relief

This arises where a creditor Nation decides to forget or write off the liabilities of a debtor nation. The option has been taken by Paris Club in favour of some debtors. In 2006, Paris Club of Creditors granted Nigeria a debt relief of about \$18bn. This translated to about 442.43trillion at an average exchange rate of 4130 to \$1.

(h) Economic Restructuring Programme

The idea is a long-term solution. It is believed that the poor performance of the economy led to the debt crisis, hence the adoption of Structural Adjustment Programme in 1986. The objectives which informed the initiative were as follows:

- (i) To restructure and diversify the productive base of the economy, in order to reduce dependence on the oil sector and imports.
- (ii) To reduce the debt burden and attract the net inflows of foreign capital.
- (iii) The adoption of a realistic exchange rate policy,
- (iv) Privatisation and commercialisation of public enterprises so as to ensure their efficiency and effectiveness.
- (v) Reduction of complex administration control.

3.8 Reasons for Borrowing

The following reasons have been advanced for borrowing:

- (a) Countries borrow to finance assets, particularly those whose benefits spread over several years. An example is the damming of River Niger at Kanji for the generation of electricity.
- (b) To finance public sector enterprises like the airport and the seaport.
- (c) To finance recurrent expenditure, e.g salaries of public servants and maintenance of public utilities.

- (d) To meet emergencies, such as war, flood and drought.
- (e) To finance budget deficit.
- (f) To achieve the goal of economic stabilisation.
- (g) Governments borrow because of the limitation surrounding the printing of the Nation's currency.
- (h) Governments borrow when it is difficult to increase taxes to generate additional revenue.

3.9 Disadvantages of Borrowing

They include:

- (a) It increases the cost of financing Government activities as interest has to be paid on the debts.
- (b) It imposes future obligations on the tax payers, particularly if the debt is not used to finance projects with long-term benefits.
- (c) Borrowing creates wealth illusion. When Government borrows there is the tendency to spend recklessly, as the taxpayers do not bear the burden of the money borrowed in the immediate period. For this reason, the public may decide to fold hands without challenging the frivolous spending of the Government.
- (d) It is an ineffective way of controlling inflation.
- (e) Borrowing goes along with unbearable conditionalities of the International Monetary Fund, like trade liberalisation, withdrawal of subsidies from petroleum products, non-increase of salary of public servants and allowing economic forces to dictate 'fair salary' and demand.

3.10 Debt Conversion Programme

This may be in form of:

- (a) debt for equity
- (b) debt for cash
- (c) debt for debt swap
- (d) debt for export swap.

- (a) Debt for Equity-Swap
This is the most popular option. The swap involves investment of the naira proceeds of the converted debts in local companies or firms, in the debtor-country. The creditor therefore becomes a shareholder in the debtor country's companies or firms.
- (b) Debt for Cash
It involves the conversion of the foreign loans to local currency. The proceeds of the conversion will be used by the recipient country to meet its working capital

needs.

(c) Debt- For- Debt Swap

This method allows a country's external debt to be re-denominated in the local currency of the debtor Nation.

In this way, the payment procedure is eased and redemption can be used by an investing multinational to inject money into its subsidiary.

(d) Debt-for-Export-Swap

It involves the settlement of debt with export proceeds. The creditors accept goods and write off that portion of the debts covered by the value of the goods.

This arrangement can be targeted at specific export commodity which Government wishes to promote as a move to diversify the economy.

3.11 Objectives of Debt Equity Swap or Debt Conversion Programme

The Debt Conversion Programme (DCP) was introduced in July, 1988, with the following objectives:

(a) Reduction of Nigeria's external debt by reducing foreign currency denominated debt, in order to alleviate the debt service burden. As at December, 1977, a total of US\$77.8 million was redeemed through the Debt Conversion Programme.

(b) Improvement of economic environment in order to attract foreign investment.

(c) Serving as additional incentive to prevent capital flight.

(d) Stimulating employment opportunities and investment in areas which are of significance to the local industries.

(e) Encouragement of the creation and development of export oriented industries, thereby diversifying the export base of the economy.

(f) Increasing the access to appropriate technology, external market and other benefits associated with foreign investments.

3.12 Categories of Eligible Transactions for Debt Conversion

These may be briefly highlighted, thus:

(a) Conversion to cash for the purpose of making gifts or grants to Nigerian entities.

(b) Conversion for project expansion, for recapitalisation of investments project or for privatization of public enterprises.

(c) Conversion for investments in completely new projects.

The above are three categories of applications which could be entertained by the debt conversion committee.

3.13 Priorities within Eligible Transaction Categories

Within the categories of eligible transactions stated above, the following economic

activities are given priority:

- (a) Investment in the production process which utilises at least 80% of local raw materials, especially in the development of agricultural and agro-allied industries.
- (b) Investment with high labour employment content.
- (c) Investment for extraction, exploitation and commercialization of Nigeria's mineral, forestry and other natural resources.
- (d) Investment that will improve or use existing inventions and discoveries in Nigeria in terms of to new machinery, products or processes, or with technology component appropriate to the Nigerian situation.

3.14 Problems of Debt Conversion Programme

The Problems identified include:

- (a) Because most debt conversion transactions involve the release of local currency, there could be unplanned increase in money supply, thus leading to inflation and exchange rate pressure.
- (b) Debt Conversion Programmes offer opportunities for 'round tripping'. It involves the commission of a part or all of the redemption proceeds in the foreign exchange in the parallel or official market, for exportation immediately or at a later date. This style has ominous implication for the exchange rate stability.
- (c) Debt Conversion Programme tends to increase fears about the possibility of radical change in the structure of business ownership in favour of foreigners.

3.15 Minimising the Problems of Debt Conversion Programme

Attempts to minimise the problems rest on the following:

- (a) Setting limits on the amount and types of debts to be converted.
- (b) Minimal use of debts-for-cash redemption and maximum utilisation for productive investment.
- (c) Blocking the redemption proceeds in an account with the Central Bank of Nigeria from which disbursements would be made over time, according to the cash requirements of the projects.

3.16 General Obligation Bonds

Such bonds are issued by a State Government. They are backed up by the full fledged credit and tax generating power of the issuing Government. Where a State Government issues general obligation bonds, the rating of the bonds is limited to the economic resources of the local tax payers and the State's share of revenue from the Federation

Account. The bonds are frequently used to pay for the construction of roads, schools and other public buildings.

3.17 Special Assessment Bond

They are financial instruments backed up by the proceeds from a special tax or assessment levied against those who are expected to benefit from the services or the envisaged improvement.

3.18 Documentation for State Government Debt Instrument Project -Tied Debt

The documentation is highlighted as follows:

- (a) Profile of the State, showing its population, major industries, their locations and other major projects embarked upon. The information has to be submitted with an application to the Securities and Exchange Commission.
- (b) A profile of the assets and liabilities of the State in the last five years in addition to a 5 year projection.
- (c) Sources of revenue for the past 5 years, indicating the percentage contribution of each to the total revenue.
- (d) The law of the State authorising it or its agency to borrow from the capital market.
- (e) A feasibility report of the project to be financed.
- (f) A draft of the Trust Deed in respect of the proposed issue.
- (g) The consent of the Federal Ministry of Finance to the State's request to borrow from the capital market.
- (h) Letter of authority from the State Government to the Central Bank of Nigeria or the Accountant-General of the Federation, to permit the Customs and Excise to seek direct recovery of loans and interest from the affected Government's statutory allocation, in case of default.

3.19 Problems Facing State Government In Financing Projects Through Capital Market

The problems include:

- (a) Poor situation of accounting on the part of a State Government.
- (b) Lack of qualified personnel to effectively evaluate, appraise and monitor projects.
- (c) Poor performance of existing State Government projects which act as disincentive to potential investors.
- (d) Inability of Government to package and market viable projects to the investing

- public.
- (e) Lack of awareness of the potential of the investing public.
- (f) Preference for short-term investments by the public.

3.20 Special Requirements for Revenue Bonds

The special requirements are:

- (a) Identification of Government's authority to borrow and the types of activities to which the enabling legislation applies.
- (b) General grant of power to acquire, construct, improve or extend the special improvement to issue revenue bonds and pledge same for the payment of these bonds.
- (c) Requirement that the issuing body should establish sufficient charges or rates to operate and maintain the projects and meet principal and interest payments as scheduled.
- (d) Guarantee that the revenue bonds have all the qualities of a negotiable instrument under the appropriate law of the State.
- (e) Provisional design to secure the successful operation of the project.
- (f) Remedies to be initiated where there is default.

3.21 Debt Ratio

This is the relationship between a nation's stock of debt plus its fiscal deficit and its gross domestic product. High ratio means an enormous debt burden. Foreign countries will need this ratio to evaluate a country's application for loan. The applicant country itself requires the ratio to justify its application for bilateral and multilateral loans and the conditions attached thereto.

- a) 50%
- b) 30%
- c) 20%

The extent of indebtedness of any nation can be determined by the above ratios. The ratios above are the 'cut-off' points.

3.22 Paris Club

The Paris Club is a cartel of nineteen (19) creditor countries which came into existence in 1956, when a number of European countries agreed to meet in Paris to find a mutually acceptable basis for rescheduling the outstanding balances in their bilateral accounts with Argentina.

Since this period, the Paris Club has become a major informal forum where countries experiencing difficulties in paying their official debts meet with debtors for rescheduling of their obligations. Paris Club is an informal group with no permanent members and it operates under the principle of consensus. The Club brings together as many of the creditors as are willing to participate. It holds meetings under informal arrangements. Those meetings are chaired by a senior official of the French Treasury which also provides small staff to act as the club secretariat. The 'key players' or traditional participants who should be present during any rescheduling meeting are as follows:

- (a) Organisation for Economic Co-operation and Development (OECD)
- (b) European Economic Community (EEC)
- (c) IMF - International Monetary Fund
- (d) IBRD - The World Bank
- (e) The United Nations Conference on Trade and Development
- (f) The debtor countries with their financial and legal consultants.

In 1986, there were 24 rescheduling arrangements with 12 debtor countries. Nigeria approached the Paris Club in 1986, 1989 and 1996 for debt rescheduling arrangement. The existing Paris Club has brought some hope of resolving the debt problem of the severely indebted Third World countries.

3.23 The Principles of Paris Club Rescheduling

The following are the principles:

- (a) The principle of imminent default.
- (b) The principle of burden sharing.
- (c) The principle of conditionality.

3.23.1 The Principle of Imminent Default

This principle applies to the debtor countries and requires them to prove that they are unable to meet their external debt service obligations unless relief is granted. This inability is usually established through the building up of arrears. The International Monetary Fund balance of payment projections of the country are considered as they provide an indication of the country's economic position.

The requirement is very important as a debtor country will usually not be allowed into the rescheduling process without the Club being satisfied that this condition has been fulfilled.

3.23.2 The Principle of Burden Sharing

The principle applies to creditor countries. It requires the creditor to be prepared to share fairly and equitably the burden of the rescheduling in the proportion of its individual exposure to the debtor country. In effect, the creditor country has to agree to provide the debtor country with relief which is commensurate with its exposure or liability.

3.23.3 The Principle of Conditionality

The principle which is generally regarded as the golden rule of the Paris Club also applies to debtor nations. It requires the debtor country to have fund supported adjustment programmes before approaching the Paris Club for rescheduling process.

The rationale for the principle of conditionality is based on the creditor's wish to ensure that debtor countries have in place economic environment that would make them pay their debts. This requirement has been largely responsible for the inability of some debtor countries to seek or have further Paris Club rescheduling of debts.

3.24 Funded and Unfunded Debt (Loan)

The classical prescription for debt management has been that sound debt policy requires funding on more or less long-term basis. Short-term debts are said to leave the Government at the mercy of impatient lenders. For this reason, legitimate borrowing in peace time should be long-term. In time, war debt, if not issued long in the first place, should be converted in the post war period.

A 'funded debt' is one which matures after more than one year. Provision for its repayment is made from the first year of enjoying the benefit of the loan, so that the working capital position of the debtor nation would not be perturbed.

3.24.1 Funded Debt

A funded debt has the additional advantage of simplicity and certainty. It gives room for orderly plan for debt retirement. The major argument for long-term debt is that of the protection which it affords the Treasury against sudden insistence by lenders that debt be paid off; leaving the Treasury tottering around on the verge of bankruptcy.

3.24.2 Unfunded Debt

An unfunded debt, on the other hand, matures within one year. In view of the obligation to make repayment within twelve calendar months, the debt may impact seriously on the working capital position of the country.

3.25 Floating Debts

Floating debts are those which may not have specific maturity dates, but part of which may be repayable, subject to various terms and conditions.

3.26 Marketable Loan

It is a loan that can be sold by the existing holders.

3.27 Non-Marketable Loans

These are loans which have been issued in favour of particular debt holders only, and cannot be sold to others.

4.0 CONCLUSION

In conclusion, you learnt that Public Debt is total money raised or borrowed by the Government. The Debt Management Office in the Presidency manages the Nation's Public Debt which has escalated to unprecedented level in recent years. However, some light had been shed in the tunnel recently with the creditor Nations graciously writing off about eighteen billion United State dollars (U.S. \$18,000,000,000) of Nigeria's external debt.

5.0 SUMMARY

In summary, you learnt that 'Debt' arises when income falls short of expenditure. 'Public debt as part of money owed by the Government to various creditors, institutions, other governments and individuals resident in and outside Nigeria is managed by the Debt Management Office in the Presidency in Nigeria.

6.0 TUTOR-MARKED ASSIGNMENT

- a) Discuss external debt management in Nigeria.
- b) State general causes of public debt and consequences.

7.0 REFERENCES/FURTHER READING

ICAN Study Pack

UNIT 4 ETHICAL ISSUES IN PUBLIC SECTOR ACCOUNTING AND FINANCE

CONTENTS

- 1.0 Introduction
- 2.0 Learning objectives
- 3.0 Main Content
 - 3.1 Economic and Financial Crimes Commission (EFCC)
 - 3.1.1 Composition
 - 3.1.2 Duties
 - 3.1.3 Powers
 - 3.1.4 Offences and Convictions
 - 3.2 The Corrupt Practices and Other Related Offences Act, 2000
 - 3.2.1 Composition of the Commission
 - 3.2.2 Appointment of Members
 - 3.2.3 Removal of Members
 - 3.2.4 Immunities
 - 3.2.5 Duties of the Commission
 - 3.2.6 Offences and Penalties
 - 3.3 Code of Conduct for Public Officers
 - 3.3.1 Restrictions on Specified Officers
 - 3.3.2 Prohibition of Foreign Accounts
 - 3.3.3 Retired Public Officers/Certain Retired Public Officers
 - 3.3.4 Gifts or Benefits In-Kind
 - 3.3.5 Bribery of Public Officers
 - 3.3.6 Abuse of Powers
 - 3.3.7 Membership of Societies
 - 3.4 Paragraph 11 of the Fifth Schedule, Part 1,
 - 3.5 Code of Conduct Bureau
 - 3.5.1 Composition
 - 3.6 Code of Conduct Tribunal
 - 3.6.1 Punishments Imposed by the Tribunal
 - 3.7 General Rule
- 4.0 Conclusions
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 Reference/Further Reading

1.0 INTRODUCTION

In this unit, you will learn that in order to stamp out the rising cases of corruption, fraud, greed and avarice which are pervasive in the society and in view of the need to overhaul

the image of the country before 'accountability organs' such as Transparency International, the Federal Government of Nigeria introduced various regulatory laws and measurers.

2.0 OBJECTIVES

After studying this unit should be able to:

- State the composition, powers, duties and responsibilities of the following 'rocky foundations of ethical considerations in Government and its Agencies, viz:
 - i. Economic and Financial Crimes Commission.
 - ii. Independent Corrupt Practices and other Related Offences Commission.
 - iii. Code of conduct Bureau.
 - iv. Due Process Office in the Presidency.
- Identify the offences and appropriate sanctions to be imposed.

3.0 MAIN CONTENT

3.1 Economic and Financial Crimes Commission (EFCC)

The EFCC was established by Act No. 5 of 2002, effective from 14 December, to combat economic and financial crimes in Nigeria. The Commission is empowered to prevent, investigate, prosecute and sanction economic and financial crimes and is charged with the responsibility of enforcing the provisions of other laws and regulations relating to economic and financial crimes such as The Money Laundering Act 1995, The Advance Fee Fraud and Other Related Offences Act 1995, The Failed Banks (Financial Malpractices in Banks) Act 1994 and the Banks and Other Financial Institutions Act 1991, and Miscellaneous Offences Act

3.1.1 Composition

The Commission shall consist of the following members:

- (a) (i) A Chairman, who shall be the Chief Executive and Accounting Officer of the Commission.
- (ii) A serving or retired member of any Government security or law enforcement agency.
- (b) A Director-General who shall be the Head of Administration.
- (c) The Governor of the Central Bank or his representative.
- (d) A representative each of the following Federal Ministries, not below the rank of a Director-
 - (i) Foreign Affairs,
 - (ii) Finance,

- (iii) Justice.
- (e) The Chairman, National Drug Law Enforcement Agency.
- (f) The Director-General, The National Intelligence Agency.
- (g) The Director-General, The Department of State Security Service.
- (h) The Director-General, Securities and Exchange Commission.
- (i) The Commissioner for Insurance.
- (j) The Postmaster-General, Nigerian Postal Services.
- (k) The Chairman, Nigerian Communications Commission.
- (l) The Comptroller-General, Nigeria Custom Services
- (m) The Comptroller-General, Nigeria Immigration Services.
- (n) A representative of the Nigeria Police Force, not below the rank, of Assistant Inspector-General.
- (o) Four eminent Nigerians with cognate experience in finance, banking or accounting.

3.1.2 Duties

According to Part II of the Act, the Commission is responsible for:

- (a) The enforcement and the due administration of the provisions of the Act.
- (b) The investigation of all financial crimes which include advance fee fraud, money laundering, counterfeiting, illegal charge transfers, futures market fraud, fraudulent encashment of negotiable instruments, computer credit card fraud, contract scam, etc.
- (c) The co-ordination and enforcement of all economic and financial crime laws and enforcement functions conferred on any other person or authority.
- (d) The adoption of measures to eradicate the commission of economic and financial crimes.
- (e) The adoption of measures to identify, trace, freeze, confiscate or seize proceeds derived from terrorist activities, economic and financial crime related offences or the properties, the value of which corresponds to such proceeds.
- (f) The adoption of measures which include coordinated preventive and regulatory actions, introduction and maintenance of investigative and control techniques on the prevention of economic and financial related crimes.
- (g) The facilitation of rapid exchange of scientific and technical information and the conduct of joint operations geared towards the eradication of economic and financial crimes.
- (h) The examination and investigation of all reported cases of economic and financial crimes with a view to identifying individuals, corporate bodies or groups involved.
- (i) The determination of the extent of financial loss and such other losses by Government, private individuals or organisations.
- (j) Collaboration with Government bodies both within and outside Nigeria, carrying on functions wholly or in part analogous with those of the commission concerning

- (i) The identification, determination, of the whereabouts and activities of persons suspected of being involved in economic and financial crimes.
- (ii) The movement of proceeds or properties derived from the commission of economic and financial and other related crimes.
- (iii) The exchange of personnel or other experts.
- (iv) The establishment and maintenance of a system for monitoring international economic and financial crimes in order to identify suspicious transactions and persons involved.
- (v) Maintaining data, statistics, records and reports on persons, organisations, proceeds, properties, documents or other items or assets involved in economic and financial crimes.
- (vi) Undertaking research and similar works with a view to determining the manifestation, extent, magnitude and effects of economic and financial crimes and advising Government on appropriate intervention measures for combating same.
- (k) Taking charge of, supervising, controlling, coordinating all the responsibilities, functions, activities relating to the current investigation and prosecution of all offences connected with or relating to economic and financial crimes, in consultation with the Attorney-General of the Federation
- (I) Carrying out such other activities as are necessary or expedient for the full discharge of all or any of the functions conferred on the Commission under the Act.

3.1.3 Powers

Under paragraph 6 of the Act, the Commission has power to:

- (a) cause investigations to be conducted as to whether any person has committed an offence under the Act.
- (b) cause investigations to be conducted into the properties of any person, if it appears to the Commission that the person's lifestyle and extent of his properties are not justified by his source of income.
- (c) enforce the provisions of:
 - (i) The Money Laundering Act 1995.
 - (ii) The Advance Fee Fraud and Other Related Offences Act 1995,
 - (iii) The Failed Banks (Recovery of Debts) Financial Malpractices in Banks, Act 1994(as amended).
 - (iv) The Banks and Other Financial Institutions Act 1991 (as amended).
 - (v) Miscellaneous Offences Act, and
 - (vi) Any other law or regulations relating to economic and financial crimes.

3.1.4 Offences and Convictions

A summary of the various offences committed and the penalties stipulated under part IV,

of the ACT is:

- (a) Offences which relate to financial malpractices5 years imprisonment or a fine of fifty thousand naira (1450,000) or both imprisonment and fine.
- (b) Offences associated with terrorismImprisonment for life.
- (c) Offences committed by public officersBetween 15 and 25 years imprisonment.
- (d) Retaining the proceeds of a criminal conductNot less than 5 years imprisonment or to a fine equivalent to 5 times the value of the proceeds of the criminal conduct or to both fine and imprisonment.
- (e) Offences in relation to economic and financial crimesImprisonment for a term not less than 15 years and not exceeding 25 years.

Paragraph 20 of the Act says 'for the avoidance of doubt and without any further assurance than this Act, all the properties of a person convicted of an offence under this Act and shows to be derived or acquired from such illegal act and already the subject of an interim order shall be forfeited to the Federal Government.'

Self-assessment exercise

List three members the compose Economic and Financial Crimes Commission

3.2 The Corrupt Practices and Other Related Offences Act, 2000

The Corrupt Practices And other Related Offences Act, 2000, gave birth to the Independent Corrupt Practices and other Related Offences Commission. The Commission is a body corporate, endowed with perpetual succession. It has a common seal and is juristic (that is, may sue and be sued in its corporate name).

3.2.1 Composition of the Commission

The Commission shall consist of a Chairman and twelve (12) other members, two of whom shall come from each of the six geo-political zones, thus:

- (a) A retired Police Officer not below the rank of Commissioner of Police.
- (b) A legal practitioner with at least 10 years post call experience.
- (c) A retired Judge of a superior court of record.
- (d) A retired Public Servant not below the rank of a Director.
- (e) A woman.
- (f) A youth not being less than 21 or more than 30 years of age at the time of his or her appointment.
- (g) A Chartered Accountant.

The Chairman shall be a person who has held or is qualified to hold office as a Judge of a superior court of record in Nigeria.

3.2.2 Appointment of Members

The Chairman and members of the Commission who must be persons of proven integrity shall be appointed by the President upon confirmation by the Senate and shall not begin to discharge the duties of their offices until they have declared their assets and liabilities as prescribed in the Constitution of the Federal Republic of Nigeria. The Chairman shall hold office for a period of five (5) years and may be re-appointed for another term of (5) years. Other members hold office for (4) years and can be re-appointed for another four (4) years.

3.2.3 Removal of Members

The Chairman or any member can be removed from office by the President acting on an address supported by two-thirds ($2/3^{1d}$) majority of the Senate. The Commission shall have a Secretary appointed by the President who under the general direction of the Chairman shall be responsible for keeping the records of the Commission and the general administration and control of the staff of the Commission.

3.2.4 Immunities

An Officer of the Commission when investigating or prosecuting a case of corruption, shall have all the powers and immunities of a Police Officer under the Police Act and any other laws conferring power on the Police or empowering and protecting law enforcement agents.

3.2.5 Duties of the Commission

- (a) Where reasonable ground exists for suspecting that any person has conspired to commit or has attempted to commit or has committed an offence under the Act or any other law prohibiting corruption, to receive and investigate any report of the conspiracy to commit, attempt to commit or the commission of such offence and, in appropriate cases the offenders.
- (b) To examine the practices, systems and procedures of public bodies and where, in the opinion of the Commission, such practices, systems or procedures aid or facilitate fraud or corruption, to direct and supervise a review of them.
- (c) To instruct, advise and assist any officer, agency or parastatals on ways by which fraud or corruption may be eliminated or minimized by such officer, agency or parastatal.
- (d) To advise Heads of Public Bodies of changes in practices, systems or procedures compatible with the effective discharge of the duties of the public bodies as the Commission thinks fit to reduce the likelihood or incidence of bribery, corruption and related offences.
- (e) To enlist and foster public support in combating corruption.

3.2.6 Offences and Penalties

- (a) **Offence of accepting gratification:** Any person who corruptly asks for, receives or obtains any property or benefit of any kind for himself or for any other person or agrees or attempts to receive or obtain any property or benefit of any kind for himself or for any other person, is liable to imprisonment for seven (7) years.
- (b) **Offence of giving or accepting gratification through agent:** On conviction, shall be liable to imprisonment for seven (7) years.
- (c) **Acceptor or giver of gratification to be guilty, notwithstanding that, the purpose was not carried out or matter not in relation to principal's affairs or business:** On conviction shall be liable to imprisonment for (seven) 7 years.
- (d) **Fraudulent acquisition of property:** Any person found guilty, shall on conviction, be liable to imprisonment for seven (7) years.
- (e) **Fraudulent receipt of property:** Any person who receives anything which has been obtained by means of act constituting a felony or misdemeanour inside or outside Nigeria, which if it had been done in Nigeria would have constituted a felony or misdemeanour and which is an offence under the laws in force in the place where it was done, knowing the same to have been so obtained, is guilty of a felony and the offender shall, on conviction be liable to imprisonment for seven (7) years.
- (f) **Penalty for offences committed through postal system:** If the offence by means of which the thing was obtained is a felony, the offender shall on conviction be liable to imprisonment for three (3) years, except the thing so obtained was postal matter, or any chattel, money or valuable security contained therein, in which case the offender shall on conviction be liable to imprisonment for seven (7) years.
- (g) **Deliberate frustration of investigation being conducted by the Commission:** Any person who, with intent to defraud or conceal a crime or frustrate the Commission in its investigation of any suspected crime of corruption under the Act or any other law destroys, alters, etc any document shall on conviction be liable to seven (7) years imprisonment.

- (h) **Making false statements or returns** Any person who knowingly furnishes any false statement or return in respect of any money or property received by him or entrusted to his care, or of any balance of money or property in his possession or under his control, is guilty of an offence and shall on conviction be liable to seven (7) years imprisonment.
- (i) **Gratification by and through agents:** Any person who corruptly accepts, obtains, gives or agrees to give or knowingly gives to any agent, any gift or consideration as an inducement or reward for doing, forbearing to do any act or thing, shall on conviction be liable to five (5) years imprisonment.
- (j) **Bribery of public officer: Any person who offers to any public officer,** or being a public officer solicits, counsels or accepts any gratification as an inducement or a reward, in the course of official duties shall on conviction be liable to five (5) years imprisonment with hard labour.
- (k) **Using office or position for gratification Any public officer who** uses his office or position to gratify or confer any corrupt or unfair advantage upon himself or any relation or associate shall be guilty of an offence and shall on conviction be liable to imprisonment for five (5) years without option of fine.
- (l) **Any public officer who in the course of official duties, inflates the price of any good or service above prevailing market price or professional standards** shall be guilty of an offence under this Act and liable on conviction for a term of seven (7) years and a fine of one million naira (N1,000,000.00).

3.3 Code of Conduct for Public Officers

The Fifth schedule, Part 1, of the 1999 Constitution states that "a public officer shall not put himself in a position where his personal interest conflicts with his duties and responsibilities."

3.3.1 Restrictions on Specified Officers

A public officer shall not receive or be paid the emoluments of any public office just as he receives or is paid the emoluments of any other public office, except where he is not on full time basis, or does not engage in the running of any private business. However, no public officer shall be prevented from engaging in farming.

3.3.2 Prohibition of Foreign Accounts

The President, Vice-President, Governors, Deputy Governors, Ministers of the Government of the Federation, State Commissioners, Members of the National Assembly and of the Houses of Assembly of the States and such other public officers or

persons as the National Assembly may by law prescribe shall not maintain or operate a bank account in any country outside Nigeria.

3.3.3 Retired Public Officers/Certain Retired Public Officers

No public officer shall, after retirement from public service and while taking pension from public funds, accept more than one remunerative position as Chairman, Director or Staff of a company controlled by the Government or any public authority. A retired public servant shall not receive any other remuneration from public funds additionally to his pension and the emolument of such one remunerative position. The holders of the offices of President, Vice-President, Chief Justice of Nigeria, Governor and Deputy Governor of a State are prohibited from service or employment in foreign companies or foreign enterprises.

3.3.4 Gifts or Benefits In-Kind

A public officer shall not ask for or accept any gift or benefit for himself or any other person, in the discharge of his duties. However, he may accept personal gifts or benefits from relatives or friends as recognised by custom only.

3.3.5 Bribery of Public Officers

A public officer should not receive any property, gift or benefit of any kind as a bribe for granting a favour in the performance of his duties.

3.3.6 Abuse of Powers

A public officer shall not do or cause to be done, in abuse of his position, any arbitrary thing which prejudices the rights of others.

3.3.7 Membership of Societies

A public officer shall not belong to a society, the membership of which runs incompatible with the dignity of his office.

3.4 Paragraph 11 of the Fifth Schedule, Part I

States that every public officer shall within three months after the coming into force of this Code of Conduct or immediately after taking office and thereafter:

- (a) at the end of every four years, and
- (b) at the end of his term of office,

3.4.1 Submit to the Code of Conduct Bureau a written declaration of all his properties, assets and liabilities and those of his unmarried children under the age of eighteen years.

3.4.2 Any statement in such declaration that is found to be false by any authority or person authorized in that behalf to verify it shall be deemed to be a breach of this Code.

3.4.3 Any property or assets acquired by a public officer after any declaration required under this Constitution and which is not fairly attributable to income, gift or loan approved by this Code shall be deemed to have been acquired in breach of this Code unless the contrary is proved.

3.5 Code of Conduct Bureau

Part I of the Third Schedule of the 1999 Constitution established the Code of Conduct Bureau:

3.5.1 Composition

Code of Conduct Bureau shall consist:

- (a) a Chairman; and
- (b) nine (9) other members, each of whom at the time of appointment, shall not be less than fifty years of age and vacate his office on attaining the age of seventy years.

3.5.2 The Bureau shall establish such offices in each State of the Federation as it may require for the discharge of its functions under the Constitution.

3.5.3 Powers of the Code of Conduct Bureau

The Code of Conduct Bureau was set up to:

- (a) receive declarations by the public officers made under paragraph 12 of Part 1 of the Fifth Schedule of the 1999 Constitution;
- (b) examine the declarations in accordance with the requirements of the Code of

- Conduct or any law;
- (c) retain custody of such declarations and make them available for inspection by any citizen of Nigeria on such terms and conditions as the National Assembly may prescribe;
- (d) ensure compliance with and, where appropriate, enforce the provisions of the Code of Conduct or any law relating thereto;
- (e) receive complaints about non-compliance with or breach of the provisions of the Code of Conduct or any law in relation thereto, investigate the complaint and, where appropriate, refer such matters to the Code of Conduct Tribunal.;
- (f) carry out any other functions as may be conferred upon it by the National Assembly.;

3.6 Code of Conduct Tribunal

It is made up of a Chairman and two other persons.

3.6.1 Punishments Imposed by the Tribunal

The following are the punishments, which the Code of Conduct Tribunal shall impose if it finds a public officer guilty of contravention of any of the provisions of the Code of Conduct for Public Officers, viz:

- (a) Vacation of office or seat in any Legislative House.
- (b) Disqualification from membership of a Legislative House and from holding any public office for a period not exceeding ten years.
- (c) Seizure and forfeiture to the State any property acquired in abuse or corruption of office.
- (d) Penalties that may be imposed by any law where the conduct is also a criminal offence.
- (e) Prosecution of the Public Officer punished in a court of law.

3.7 General Rule

- (a) Any officer found guilty of contravention of any of the provisions of the Code of Conduct shall appeal to the Court of Appeal.
- (b) Prerogative of mercy shall not apply to any punishment imposed by the Tribunal.

Self-assessment exercise

State the power of Code of Conduct Bureau

4.0 CONCLUSION

In this unit, you learnt that the Nigerian Government is striving to eradicate or at least

reduce drastically corruption, cases of fraud and greed within the society. The Government has therefore set in place Agencies to propagate the virtues of morality and in the long run, punish offenders as deterrents to others in the society.

5.0SUMMARY

In summary, you learnt of the composition, powers, duties and responsibilities of the following 'rocky foundations of ethical considerations in Government and its Agencies like the Economic and Financial Crimes Commission, Independent Corrupt Practices and other Related Offences Commission, Code of conduct Bureau and Due Process Office in the Presidency.

6.0TUTOR-MARKED ASSIGNMENT

- a) State the composition, powers, duties and responsibilities of the Economic and Financial Crimes Commission.
- b) Identify the offences and appropriate sanctions to be imposed.

7.0 REFERENCES/FURTHER READING

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UNIT 5 TOWARDS NATONAL FISCAL RESPONSIBILITY

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Fiscal Responsibility Commission
 - 3.2 Composition of the Commission
 - 3.3 Powers of the Fiscal Responsibility Commission
 - 3.4 Medium Term Expenditure Framework
 - 3.5 Content of the Medium-term Expenditure Framework
 - 3.6 Preparation of the Medium-term Expenditure Framework
 - 3.7 Aggregate Expenditure Ceiling
 - 3.8 Application of the Act to the States and Local Governments
 - 3.9 Annual Budget and the Medium-term Expenditure Framework
 - 3.9.1 The annual budget must be accompanied by:
 - 3.10 Budgetary Execution and Achievement of Targets
 - 3.10.1 Annual Cash Plan
 - 3.10.2 Disbursement Schedule
 - 3.10.3 Appropriation Act
 - 3.10.4 Virement Approval
 - 3.11 Monitoring Budget Implementation
 - 3.12 Public Revenue
 - 3.13 Public Expenditure
 - 3.13.1 Conditions for Increasing Government Expenditure
 - 3.14 Debt and Indebtedness
 - 3.15 Interpretation of Borrowing
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, you will learn that in order to strengthen the Nigerian economy, fast track the tempo of socioeconomic development and ensure value for all resources deployed into physical and intrinsic development, the Nigerian Government has been enacting various laws and setting up various legally backed commissions. The Federation Account Allocation Committee, the Economic and Financial Crimes Commission, the Independent Corrupt Practices and Other Related Offences Commission, and the National Commission on Public Procurement are a few of Government agencies established to ensure that its objective of improving the living standard of Nigerians is achieved. The

Nation has gone a step further by enacting the Fiscal Responsibility Act, 2007 which is aimed at providing for prudent management of the Nation's resources, ensure long-term macro-economic stability of the national economy and secure greater accountability and transparency.

2.0 OBJECTIVES

After studying this unit, you will be able to:

- Explain the purpose of the Fiscal Responsibility Act.
- List the functions and powers of the Fiscal Responsibility Commission.
- Preparation, consider the Medium-Term Expenditure Framework.
- Explain the contents of the Medium-Term Expenditure Framework.
- State the basis for the preparation of the Annual Budget.
- Illustrate the process of budgetary execution and target achievement.
- Explain the framework for debt management.

3.0 MAIN CONTENT

3.1 Fiscal Responsibility Commission

This Commission was established by the Fiscal Responsibility Act, 2007 to carry out the following functions, among others:

- (a) monitoring and enforcing the provisions of the Act, thereby promoting the economic objectives of the Nation.
- (b) disseminating standard national and international practices that will ensure greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters.
- (c) undertaking fiscal and financial studies, analysis and diagnosis and disseminating the result to the general public.

3.2 Composition of the Commission

The commission is to consist of:

- (a) a chairman who will be the Chief Executive Officer and Accounting Officer of the Commission.
- (b) One member representing;
 - (i) organized private sector;
 - (ii) civil society engaged in causes relating to probity, transparency and good governance;
 - (iii) organised labour;

- (c) a representative of the Federal Ministry of Finance not below the rank of a Director;
- (d) one member to represent each of the six geo-political zones;

All the members of the Commission shall be persons of proven integrity.

3.3 Powers of the Fiscal Responsibility Commission

The Act empowers the Commission to, among other matters,

- (a) formulate and provide general policy guidelines for the discharge of the Commission's functions;
- (b) superintend the implementation of such policy guidelines;
- (c) appoint employees to ensure proper and efficient performance of its functions; and
- (d) determine the conditions of service of employees and fix their remuneration allowances and benefits.

Self-assessment exercise

List the functions of the Fiscal Responsibility Commission.

3.4 Medium-Term Expenditure Framework

The Federal Government in consultation with the States would:

- (a) prepare and submit to the National Assembly a medium-term expenditure framework for the next three financial years on which the National Assembly will deliberate. This would have to be done not later than six months from the commencement of the Act.
- (b) subsequently, not later than four months before the next financial year, commences a Medium-Term Expenditure Framework for the next three financial years will be prepared for the National Assembly's consideration.

3.5 Content of the Medium-Term Expenditure Framework

- (a) a macro-economic framework setting out the three financial years, the underlying assumptions and an evaluation and analysis of the macro-economic projection for the preceding three financial years.
- (b) fiscal strategy document setting out:
 - (i) Federal Government's medium-term financial objectives;
 - (ii) the policies of the Federal Government for the Medium Term relating to taxation, recurrent expenditure borrowings, lending and investment and other liabilities;
 - (iii) the strategies, economic, social and developmental priorities of government for the next three financial years;

- (iv) an explanation of the financed objectives, strategic, economic, social and developmental priorities and fiscal measures;
- (c) An expenditure and revenue framework which will set out:
 - (i) estimates of aggregate revenue for the Federation for each financial year, based on the pre-determined commodity Reference Price adopted and tax revenue projections;
 - (ii) aggregate expenditure for each of the next three financial years;
 - (iii) minimum capital expenditure projection for the Federation for each of the next three financial years;
 - (iv) aggregate tax expenditure projection for the Federation for each of the next three financial years.
- (d) a consolidated Debt Statement indicating and describing the fiscal significance of the debt liability and measures to reduce the liability;
- (e) a statement on the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallization of such liabilities;

The estimates and expenditure in (c) (i — iv) above should be:

- (i) based on reliable and consistent data;
- (ii) targeted at achieving the macro-economic projection;
- (iii) consistent with and derive from the underlying assumptions contained in the fiscal strategy document.

3.6 Preparation of the Medium-Term Expenditure Framework

The Minister will be responsible for preparing the Medium-Term Expenditure Framework. In doing this he may hold public consultations on:

- (i) The macro-economic framework.
- (ii) Fiscal Strategy Document.
- (iii) The strategic, economic, social and developmental priorities of Government.
- (iv) Such other matters as he may deem necessary.

The consultation should be open to the public, the press, the citizens, organizations, group of citizens, etc.

The Minister shall seek inputs from the following organizations:

- (i) National Planning Commission.
- (ii) Joint Planning Commission.
- (iii) National Commission on Development Planning.
- (iv) National Economic Commission.
- (v) National Assembly.

- (vi) Central Bank of Nigeria.
- (vii) National Bureau of Statistics.
- (viii) Revenue Mobilization Allocation and Fiscal Commission.

3.7 Aggregate Expenditure Ceiling

The estimates of aggregate expenditure and the aggregate amount appropriated by the National Assembly for each financial year shall not be more than the estimated aggregate revenue plus a deficit which must not be more than 3% (three percent) of the Estimated Gross Domestic Product or any sustainable percentage as may be determined by the National Assembly for each financial year.

Aggregate expenditure for a financial year may exceed the ceiling indicated above if in the opinion of the President there is clear and present threat to national security or sovereignty of the Federal Republic of Nigeria.

3.8 Application of the Act to the States and Local Governments

States and Local Governments which desire shall be assisted by the Federal Government to manage their fiscal affairs within the medium-term framework.

3.9 Annual Budget and the Medium-Term Expenditure Framework

The Medium-Term Expenditure Framework shall be the basis for the preparation of the estimates of revenue and expenditure to be presented to the National Assembly.

3.9.1 The annual budget must be accompanied by:

- (a) a copy of the underlying revenue and expenditure profile for the next two years;
- (b) a report setting out actual and budgeted revenue and expenditure with a detailed analysis of the performance of the budget for the 18 months up to June of the preceding financial year;
- (c) a fiscal target broken down into monthly collection targets;
- (d) measures of cost, cost control and evaluation of result of programmes financed with budgetary resources;
- (e) a fiscal target document derived from the underlying Medium - Term Expenditure Framework setting out the following targets for the relevant financial year:
 - (i) target inflation rate
 - (ii) target fiscal account balances
 - (iii) any other development target deemed appropriate.
- (f) a Fiscal Risk document evaluating the fiscal and other related risks to the annual budget and specifying measures to be taken to offset the occurrence of such risks.

3.10 Budgetary Execution and Achievement of Targets

Matters to which attention should be focused here include;

3.10.1 Annual Cash Plan

The Accountant-General of the Federation shall draw up an Annual Cash Plan in each financial year, setting out projected monthly cash flows. This shall be revised periodically to reflect actual cash flows.

3.10.2 Disbursement Schedule

The Minister shall, within 30 days of the enactment of the Appropriation Act, prepare and publish a disbursement schedule from the Annual Appropriation Act.

3.10.3 Appropriation Act

Use of Appropriation: Sums appropriated for specific purposes shall be used solely for those purposes specified in the Appropriation Act.

3.10.4 Virement Approval

The Ministry may, in exceptional circumstances and in the overall public interest, recommend to the National Assembly for its approval, virements from one sub-head account to another within the same Head and without exceeding the amount appropriated to such head of account.

3.11 Monitoring Budget Implementation

The Minister of Finance, through the Budget Office of the Federation, shall monitor and evaluate the implementation of the Annual Budget, assess the attainment of fiscal targets and report to the Fiscal Responsibility Commission and the Joint Finance Committee of the National Assembly. In implementing their annual budgets, State and Local Governments may adopt those provisions.

3.12 Public Revenue

- (a) Estimated revenue shall be broken down by the Executive Arm of Government into monthly collection targets, indicating measures to combat tax fraud and evasion.
- (b) The Executive Arm of Government shall at least 30 days before the deadline for the submission of its budget proposals, place at the disposal of the National Assembly, the revenue estimates for the following year.
- (c) Any fund due to the Federation from any tier of government may be set off by the Federation in or towards payment or remittance of any sum due to that tier of government

from the Federation.

3.13 Public Expenditure

Public Sector Resources Management requires that Government annual expenditure be kept below its revenue level or, at worst, at par with the annual revenue from all sources so as to avoid the need to get involved in deficit financing. Sometimes, however, the need to provide a higher level of and high quality socio-economic services to the people may demand increased expenditure. Under this Act, conditions under which this can occur are given hereunder.

3.13.1 Conditions for Increasing Government Expenditure

- (a) Any action of Government which results in increase in expenditure should be backed up by:
 - (i) an estimate of the budgetary or financial impact in the year it becomes effective and in the two subsequent years;
 - (ii) a statement by the person requesting for the expenditure, stating that the increase is consistent with the Appropriations Act and the Medium-Term Expenditure Framework;
- (b) Prior budgetary allocation should have been done before granting any advantage or increase of remuneration, creation of posts or allocation of career structures and admission of personnel.
- (c) All contracts in relation to annual budget execution should comply with the rules and guidelines on:
 - (i) procurement and award of contracts
 - (ii) due process and certification of contract.

3.14 Debt and Indebtedness

- (a) All tiers of a Government shall borrow only for capital expenditure and human development. Such borrowing should also be on concessional terms with low interest rate and reasonable long amortization period subject to the approval of appropriate legislative body.
- (b) The public debt as a proportion of natural income shall be held at a sustainable level as prescribed by the National Assembly
- (c) Government may borrow from the capital market.

3.15 Interpretation of Borrowing

Borrowing means any financial obligation arising from:

- (i) any loan including principal interest and fees on such loan
- (ii) the deferred payment for property, goods or services
- (iii) bonds, debentures, notes or similar instruments.

- (iv) letters of credit and reimbursement obligations with respect thereto
- (v) guarantees
- (vi) trade or banker's acceptances
- (vii) capitalized amount of obligations under leases
- (viii) agreements providing for swap, ceiling rates, ceiling and floor rates contingent participation or other hedging mechanism with respect to the payment of interest or the convertibility of currency.
- (ix) conditional sale agreements, capital leases or other retention agreement.

Self-assessment exercise

State the basis for the preparation of the Annual Budget.

4.0 CONCLUSION

This unit dealt with Government's commendable move to ensure fiscal responsibility at all levels of public administration and in consonance with the yearnings of the people. It discussed such fiscal issues like the powers and duties of the Fiscal Responsibility Commission, Medium Term Expenditure Framework, Preparation and Implementation of the Annual Budget and acceptable conditions for borrowing by any tier of government.

5.0 SUMMARY

In this unit, you learnt of government of Nigeria moving towards national fiscal responsibility emphasizing on annual budget procedure.

6.0 TUTOR-MARKED ASSIGNMENT

- a) Explain the purpose of the Fiscal Responsibility Act.
- b) Explain the framework for debt management.

8.0 REFERENCES/FURTHER READING

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